

AWC Bhd

BOOST FROM A NEW SUBSIDIARY ON BOARD

COMPANY UPDATE

BUY

Current Price RM 0.87
Target Price RM 1.15
Consensus Price RM 1.22

Key Statistics

Bloomberg Ticker	AWC MK
Masa Ticker / Stock Code	AWC/7579
Shares Issued (m)	281
Market Capitalisation (RM'm)	244.8
52 Week Hi/Lo Price (RM)	1.09/0.60
3 Mths Avg Vol (Shares)	2,118,7567
Est Free Float (m)	132.5
YTD Returns (%)	-1.12
Beta (x)	0.98

Major Shareholders (%)

Dato Ahmad Kabeer	33.7
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We maintain BUY with a new target price of RM1.22, based on Sum-Of-Parts, representing a an upside of 50% excluding dividend. We like AWC for its 1) Earnings visibility 2) an attractive PER valuation versus its peers 3) Net cash position. Potential downside risks are 1) revision of concession contracts; 2) project delays.

The acquisition of 60% equity of Trackwork & Supplies Sdn Bhd is expected boost PATAMI growth to circa~23% and pave the way for potential inroads into rail asset management projects and engineering services. The acquisition is tagged with a profit guarantee of RM20m in FY18-FY19 (Sept FYE). Trackwork's current net profit stood at RM7.7m as of the first 9 months FPE. The acquisition cost of RM43.5m (through a combination of cash of RM20m and issuance of new AWC shares) represents a purchase value of PER 7.25x. Trackwork has an order book of RM70m of the supply of track materials/machineries and fittings, and a tender book of RM900m. We have raised our FY19 and FY20 PATAMI estimates to RM38.2m and RM39.3m from RM32.8m and RM33.6m respectively.

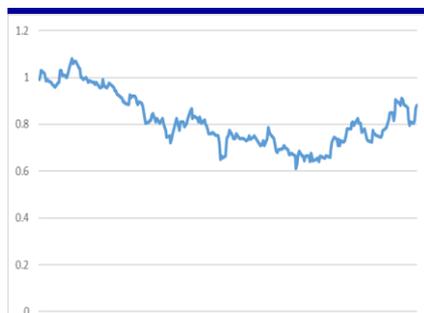
Furthermore, AWC and Trackniaga (previously the main shareholder of Trackwork) have entered into a call and put option. 1) a Call Option was granted by Trackniaga to AWC that can require Trackniaga to dispose of the remaining minority shareholdings, any time from the expiry of the cumulative profit guarantee period up to the 5th anniversary of the call option period 2) a put Option granted AWC to Trackwork that may require AWC to acquire the remaining option shares at any time during a period of 6 months, commencing from the expiry of the call option period.

Table 1 :Investment Highlights & Earnings Forecasts

FYE 30th Jun	FY16	FY17	FY18	FY19(F)	FY20(F)
Revenue (m)	249.3	296.1	304.0	351.7	380.8
PBT (m)	30.4	39.5	33.4	49.9	35.5
PAT (m)	23.8	30.9	26.5	38.2	39.3
PATAMI (m)	17.1	21.6	21.4	28.2	29.5
CORE EPS (sen)	6.1	7.7	7.6	10.0	10.5
EBITDA (m)	32.89	43.13	32.72	52.72	38.34
Earnings Growth (%)	111.9%	26.1%	-1.0%	31.7%	4.9%
EBITDA Margin (%)	13.2%	14.6%	10.8%	15.0%	10.1%
PER (x)	14.3	11.3	11.4	8.7	8.3
DPS (sen)	2.5	1.0	0.5	2.0	2.0
Dividend Yield (%)	2.9%	1.1%	0.6%	2.3%	2.3%
ROE (%)	14%	15%	13%	14%	13%
ROA (%)	10.2%	12.2%	9.5%	11.5%	10.7%
Net Gearing Ratio (%)	NET CASH				
Price/Book Ratio (x)	2.05	1.74	1.49	1.24	1.11

Source: Company, Interpac

1-Year Share Price Performance



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Option price = (A X 7.25) X B

A = PAT (excludes any unusual/non-recurring or exceptional items) based on the latest audited financial statements of Trackwork.

B = The percentage of the option shares in the equity of Trackwork

AWC has released RM14.35m out of the RM20m cash consideration to Trackniaga due to a letter of demand issued from Fajarbaru where Trackwork is not liable for the damages claim. A letter of undertaking and indemnity from Gemac accepting that it is solely responsible for the settlement sum covers this payment. The final settlement sum of RM5.64m shall only be released to the Trackniaga solicitors within 7 business days upon receipt of the Payment Confirmation from Fajarbaru for the payment of the Final Settlement Sum.

AWC has in the meantime on 27th Sep 2018, proposed an issuance of up to 61.6m free warrants on the basis of 1 warrant for everything 5 existing AWC shares. Based on the indicative exercise price of RM0.77 per Warrant and in the event the in-the-money Warrants are fully exercised, AWC can be expected to raise gross proceeds of up to RM47.45 m which is expected to be utilised to fund the future working capital requirements or partly finance the Option Price in the event the Proposed Call/Put Options is exercised.

Table 2 :Sum Of Parts Valuation

Sum of parts		RM mill	RM(sen)
Concession	FY19 PER 15x	182.7	0.62
Engineering	FY19 PER 9x	31.8	0.11
Environmental (51% owned subsidiary)	FY19 PER 9x	48.2	0.16
Trackwork (60% owned subsidiary)	FY19 PER 7.5x	90.0	0.32
No. of shares	293	352.68	
SOP per AWC share			1.22

(1) After adjustment of share issuance in relation to Trackwork acquisition in accordance with the Circular.

Source: Inter-Pacific

Table 3: Valuation Comparison with Peers as of 16/10/2018

Company	Market Capitalisation (RM b)	Price (RM)	Trailing PER (x)	1 YR FWD PER (x)	Dividend Yield (%)
UEM Edgenta	2245.3	2.7	17.0	17.0	4.5
GFM	188.6	0.4	18.7	NA	2.1
AWC	229.3	0.8	10.7	9.2	1.2

Source: Inter-Pacific, Bloomberg

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Signed



Pong Teng Siew
Director
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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Published and Printed by:

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