AWC Berhad

A Wise Choice

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	Rating	Fair Value
Last Price	-	RM0.645
Kenanga	Trading Buy	RM0.850
Consensus	-	-

INVESTMENT MERIT

Trading Buy, FV RM0.850. We like AWC's asset management business model for its; (i) earnings stability backed by RM1.1b outstanding order-book and long-term contracts, (ii) reputable clientele with a high chance of securing future tenders, and (iii) potential margin upsides. Despite minimal earnings growth, valuations are attractive at 8x PER currently (-1.5SD) while we are pegging a conservative 10x PER to FY19E EPS.

Sustainable recurring income. AWC is a total asset management services company, providing integrated facilities management and engineering services, with a stable earnings outlook backed by RM1.1b outstanding order-book which includes contracts lasting up to 7-8 years. Note that contract sizes secured each year can be very lumpy. In FY17, the Group was able to secure RM55m worth of contracts, while FY18 recorded RM160m new contracts as at 9M18. Based on FY17A accounts, the earnings was driven by its facilities segment (46% of PATMI), followed by environment (37% of PATMI) and engineering (17% of PATMI). Going forward, we believe AWC can easily maintain a conservative replenishment rate of RM100m p.a. (mainly driven by facilities) in FY18-19, which we estimate is c.10% hit rate to their tender book size.

Reputable clientele. AWC's clientele include a host of reputable names with solid track record and credibility such as the Singapore government, Changi Airport Group, Al Raha Beach, CapitaLand, Ministry of Health Singapore, Evergreen Group, Malaysia Airports, Samsung C&T at KL118, Malaysian Public Works Department, and CIQ. This is a testament to AWC's quality deliveries and technical capabilities that stand them in good stead for future transparent competitive bidding *(refer overleaf).*

Stable margins in the near term, with the potential for margin upsides. Going forward, we expect AWC's operating profit and PBT margins to remain stable at 12% each in FY18-19. However, we believe there is a strong potential for long-term margin improvements should the Group secure more environment-related contracts, which command significantly higher margins (31% operating profit margins) while we estimate net margins are at c.20% vs. facilities (5% operating profit margins) and engineering (11% operating margins). Note that AWC's PBT margins are close to its peer GFM (14%) and above EDGENTA (8%).

FY18-19E CNP of RM22-24m is driven by its stable order-book recognition via long-term concessions for the facilities segment, as well as c.2-3 year recognition for the engineering and environment segment. We also like AWC for its healthy balance sheet, which is currently net cash, but we expect dividends of 1.2-1.3 sen in FY18-19, implying 1.9-2.0% yield on a reasonable 15% payout ratio as AWC has no formal dividend policy (vs. 37-24% dividend payout ratio in FY16-17A).

Trading Buy with a fair value of RM0.850. We like AWC for its attractive valuations at current levels of 8x PER (-1.5SD based on the 2 year average) as share price has declined 27% YTD despite fundamentals remaining intact. We are comfortable with our Trading Buy call as our **applied Fwd PER of 10.0x on FY19E EPS of 8.5 sen** is conservative vs. direct peers, GFM (24x PER based on FY17A), EDGENTA (13x based on Bloomberg's 1-year Fwd. estimate), and is marginally below the FBMSC's 1-year FWD PER of 11x which we believe is prudent given AWC's stable business model and healthy balance sheet. **Note that our valuations are on a base case scenario and have not factored in potential upsides from the acquisition of 60% of Trackwork and Supplies Sdn Bhd, which has yet to be finalised.**

Stock Information

Shariah Compliant	Yes
Stock Name	AWC BERHAD
CAT Code	7579
Industry	Commercial Services
Industry Sub-sector	Building-Maint&Service
YTD stock price chg	-27.53%
Market Cap (RM'm)	173.79
Shares Outstanding (m)	269.45
52-week range (Hi)	1.17
52-week range (Low)	0.6
3-mth avg daily vol:	537,226
Free Float	46.2%
Beta	0.84
Altman's Z-score	4.68

Major Shareholders

K-Capital Sdn Bhd	30.71%
Employees Provident Fund Board	5.77%
Tan Keng Hee	4.14%

Financials

FYE Jun (RM'm)	2017A	2018E	2019E
Revenue	**296**	**297**	**327**
PBT	39	35	39
Net Profit (NP)	22	22	24
FD EPS (sen)	7.9	8.0	8.5
FD BV/Share (RM)	0.51	0.58	0.65
FD PER	8.1	8.1	7.6
FD Price/BV (x)	1.27	1.12	0.99
NDPS (sen)	2.0	1.2	1.3
Dividend Yield (%)	3.0%	1.9%	2.0%

Quarterly Financial Data (RM'm)	1Q18	2Q18	3Q18
Revenue	66.2	68.4	75.3
Revenue Growth	-23%	3%	10%
PBT	8.1	7.0	11.2
PBT Margin	12%	10%	15%
Net Profit	5.1	5.1	6.9
EPS (sen)	**1.91**	**1.88**	**2.54**
EPS Growth	-15%	-2%	35%

Peers Comparisons	PER (1-year forward)	Div. Yld (%)	Mkt Cap (RM'm)
EDGENTA	12.6	5.9	1621.7
GFM	n.a.	n.a.	246.8
Average	12.6	5.9	934.3
AWC	8.1	1.9	173.8
FBMSC	11	0.0	13951.0

Reputable clientele. AWC's clientele include a host of reputable names with solid track record and credibility. Environment segment clientele include the likes of the Singapore Government, Changi Airport Group, Al Raha Beach, CapitaLand, Ministry of Health Singapore, Evergreen Group, etc. while locally, it includes household names such as Malaysia Airports, KLCC Property Holdings, Sime Darby, Mah Sing Group, Samsung C&T at KL118, Ministry of Transport, and Putrajaya Holdings. Facilities segment clientele include the Malaysian Public Works Department, CIQ, Shah Alam Hospital, Prime Minister Office, KL Tower, National Museum and other prominent buildings (ex; Menara Celcom, Menara Felda, Pharmaniaga).

Peer comparison. AWC's payout ratio is below its peers EDGENTA (75% payout ratio, 70% dividend policy) and GFM (50% payout ratio, 40% dividend policy), with EDGENTA is commanding c.6-11% dividend yield over the past two years, and GFM with 2% dividend yield during the same period. AWC's two-year historical ROE of 14% is slightly below its peers of 17-18%.

Daily Charting – AWC Berhad

Comment: Chart-wise, AWC has been in a downtrend since mid-last year. Current technical picture has still yet to turnaround, with the share leading all key SMAs downwards, while indicators are remaining weak. Immediate support at RM0.600, where keen investors could opt to see if this support is able to hold before timing their entry.

About the stock:

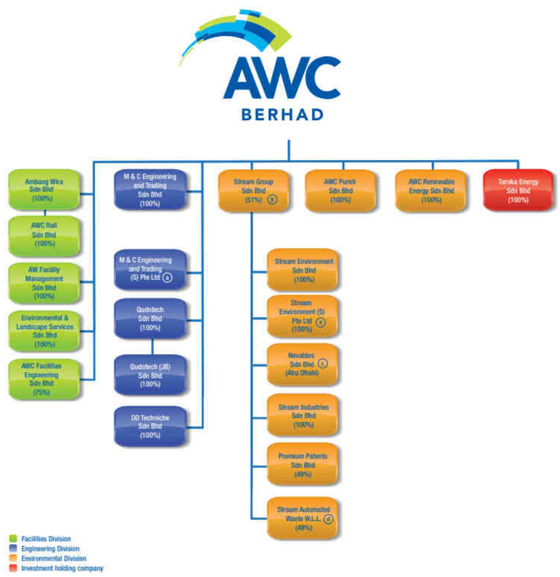
Name	:	AWC Berhad
Bursa Code	:	AWC
CAT Code	:	7579

Key Support & Resistance level

Resistance	:	RM0.740 (R1)	RM0.820 (R2)
Support	:	RM0.600 (S1)	
Outlook	:	Near-term bearish	

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

AWC is total asset management services company that provides integrated facilities management (IFM) and engineering services to building owners. The company also has an environment segment in which it is an international leader in the design and supply of automated pneumatic waste collection system (AWCS) with an established track record domestically, in Singapore and the Middle East.

BUSINESS SEGMENTS

AWC operates in three main business segment;

1) Facilities management (46% of PATMI on FY17A)
2) Engineering (17% of PATMI on FY17A)
3) Environment (37% of PATMI on FY17A)

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