

06 October 2017 | Corporate Update

Gabungan AQRS Berhad

Achieved A Landmark Award

INVESTMENT HIGHLIGHTS

- **Achieved a landmark award for LRT3 Package GS04**
- **Orderbook swelled to RM2.13bn**
- **Revenue and earnings estimates for FYE18/FYE19 increased**
- **Altogether, we upgrade our TP to RM2.08 per share**

Achieved another landmark award. AQRS's wholly owned subsidiary Gabungan Strategik Sdn. Bhd. has received letter of award from Prasarana Malaysia Berhad with MRCB George Kent Sdn. Bhd. for the construction of Package GS04 Temasya to Stadium amounting to RM1.13bn (ex GST).

Orderbook swelled to RM2.13bn. The scope of the estimated 4-km project includes construction of elevated guideways, 3 elevated stations inclusive of park and ride facilities for duration of 38-months. The elevated viaducts are reinforced concrete structures comprising substructure (pile/pile caps) and superstructure (girder-box), while the elevated stations include concourses and platforms. We assess that the AQRS's cost per k/m of c.RM226m is more cost-efficient to manage project margins compared to Sunway Construction's cost per km of RM236.9m.


Forging stronger track record. The project is a landmark award as the sheer scale of the project amounts to +97.4% increased from its previous unbilled orderbook of RM1.67bn. As a result, the current orderbook swelled to RM2.81bn. We view this as a positive sign indicating the competitiveness of pricing and efficiency of AQRS as a contractor. This award lifts AQRS's track record as a main contractor for rail transport infrastructure. In future, the experience of managing the awarded project would be useful to tender for other rail-related projects or packages especially ECRL and KL Singapore High-Speed Railway (HSR).

Revenue and earnings estimates for FYE18/FYE19. Revenue forecasts for FYE18/FYE19 is adjusted higher by +37.8% and +28% respectively. That's said, backed by an estimated margin of 8.5% we upgrade the FYE18/FYE19 earnings estimates by +8%/+12% in tandem with the project timeline. We maintain certainty equivalent of 45% for the package as we believe that risks emanating from cost overrun and construction program delays are mitigated with the location of the package which requires less mobilization period due to; (i) proximity of Shah Alam-Glenmarie and (ii) minor relocation of utilities line.

Maintain BUY
Upgrade Target Price (TP): RM2.08
(From RM1.62)

RETURN STATS	
Price (05 Oct 2017)	RM1.71
Target Price	RM2.08
Expected Share Price Return	+21.6%
Expected Dividend Yield	+0.0%
Expected Total Return	+21.6%

STOCK INFO	
KLCI	1759.9
Bursa / Bloomberg	5226/ AQRS MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	429
Par Value (RM)	1.00
Market cap. (RM'm)	734
Price over NA	0.92
52-wk price Range	RM0.81– RM1.74
Beta (against KLCI)	0.619x
3-mth Avg Daily Vol	1.55m
3-mth Avg Daily Value	RM2.52m
Major Shareholders (%)	
Ganjaran Gembira	12.1
Ow Chee Cheoon	7.6
KWAP	4.7
Kenanga Unit Trust B	4.2

Recommendation. As a result of our earnings upgrade, we adjust our TP to RM2.08 implying +17.0% upside per share based on DCF valuation and changes to our earnings forecast and terminal value. (WACC of 6.2%, risk adjusted cash flow assumptions at 45% and 10-year cash flow forecasts). 

INVESTMENT STATISTICS

	2014	2015	2016	2017E	2018E	2019E
Revenue (RM'm)	534.16	272.51	450.00	512.80	820.00	888.30
Op/Inc (RM'm)	110.46	0.87	41.28	62.96	100.00	120.00
PATAMI (RM'm)	52.95	-9.67	33.30	46.70	69.70	75.51
EPS (Sen)	0.14	-0.02	0.08	0.10	0.15	0.17
EPS (Growth)	20%	-117%	409%	34%	49%	8%
PER (x)	7.07	-49.5	12.38	13.6	9.1	8.4

Source: Bloomberg, MIDF

DCF VALUATION

	Base year	1	2	3	4	5	6	7	8	9	10	Terminal year
Revenue growth rate		16%	16%	16%	16%	16%	13%	11%	8%	5%	3%	3%
Revenues	RM 450.00	RM 652.00	RM 820.00	RM 888.33	RM 1,030.46	RM 1,195.34	RM 1,354.91	RM 1,499.89	RM 1,620.63	RM 1,708.15	RM 1,755.12	RM 1,803.39
EBIT (Operating) margin	9%	10%	10%	11%	11%	12%	12%	13%	13%	14%	14%	14%
EBIT (Operating income)	RM 412.8	RM 62.96	RM 83.14	RM 94.35	RM 114.42	RM 138.50	RM 163.53	RM 188.27	RM 211.24	RM 230.90	RM 245.72	RM 252.47
Tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
EBIT(1-t)	RM 30.96	RM 62.96	RM 83.14	RM 94.35	RM 114.42	RM 138.50	RM 163.53	RM 188.27	RM 211.24	RM 176.57	RM 184.29	RM 189.36
- Reinvestment		RM 155.38	RM 129.23	RM 52.56	RM 109.33	RM 126.83	RM 122.75	RM 111.52	RM 92.88	RM 67.32	RM 36.13	RM 65.09
FCFF		-RM 92.43	-RM 46.09	RM 41.79	RM 5.09	RM 11.67	RM 40.78	RM 76.75	RM 118.37	RM 109.25	RM 148.15	RM 124.26
NOL	RM 1,070.00	RM 1,007.04	RM 923.91	RM 829.55	RM 715.13	RM 576.63	RM 413.10	RM 224.84	RM 13.59	RM 0.00	RM 0.00	RM 0.00
Cost of capital		RM 0.06	RM 0.06	RM 0.06	RM 0.06	RM 0.06	RM 0.06	RM 0.07	RM 0.07	RM 0.08	RM 0.08	RM 0.08
Cumulated discount factor		RM 0.94	RM 0.89	RM 0.84	RM 0.79	RM 0.74	RM 0.70	RM 0.65	RM 0.61	RM 0.57	RM 0.52	
PV(FCFF)		-RM 87.11	-RM 40.95	RM 34.99	RM 4.02	RM 8.68	RM 28.48	RM 50.16	RM 72.15	RM 61.88	RM 77.69	

	(M YR'm)
Terminal cash flow	RM 124.26
Terminal cost of capital	8.00%
Terminal value	RM 2,366.94
PV(Terminal value)	RM 1,241.24
PV (CF over next 10 years)	RM 209.99
Sum of PV	RM 1,451.22
Probability of failure =	45.00%
Proceeds if firm fails =	RM 725.61
Value of operating assets :	RM 1,124.70
- Debt	RM 408.00
- Minority interests	RM 3.48
+ Cash	RM 100.00
+ Non-operating assets	RM 0.00
Value of equity	RM 813.22
- Value of options	RM 0.00
Value of equity in common	RM 813.22
Number of shares	390.4
Estimated value /share (P/	RM 2.08
Price (P/Share) (sen)	RM 0.93
Price as % of value	123.98%

Source: Bloomberg, MIDF

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.