

## AME Elite Consortium Berhad

### Better days ahead

#### Summary

- AME Elite Consortium Bhd's 2QFY21 net profit fell 45.7% YoY to RM11.4m, as there was a one-off fair value gain on investment properties of RM7.3m recognised in the previous corresponding quarter. Adjusted to the normalised net profit for the previous corresponding quarter, the reported figure would only fall 13.9% YoY. Revenue for the quarter, however, gained 47.8% YoY to RM120.9m. For 6MFY21, cumulative net profit fell 51.0% YoY to RM16.7m. Revenue for the period declined 0.3% YoY to RM175.6m.
- The reported earnings came below our expectation, amounting to 26.2% of our estimates at RM63.9m and 32.5% of consensus forecast of RM51.5m. Meanwhile, the reported revenue came slightly below expectations, at 45.2% of our estimated revenue of RM388.3m and 46.8% of consensus forecast at RM375.3m.
- In 2QFY21, only the property development segment delivered improvement on the bottom line with EBIT surging 306.6% YoY to RM10.0m, due to the higher billing from work completed. Despite that, the move was offset by the margins compression from the construction and engineering services segment amid the higher fixed overhead cost.
- As of 2QFY21, AME is equipped with an unbilled construction orderbook of approximately RM200.0m, representing unbilled orderbook-to-cover ratio at 1.1x against FY20 construction revenue of RM185.2m that will provide earnings visibility over the next two years. We also opine that the recent acquisition of 169.8-ac land in Johor bodes well for landbanking replenishment activities.
- Moving forward, we believe that AME will be able to capitalise on the initiative delivered under Budget 2021 which entails RM100.0m for the maintenance of infrastructure of industrial parks and RM42.0m under JENDELA to improve internet connectivity in 25 industrial parks. Manufacturers of pharmaceutical products will enjoy 0-10% tax rate for 10 years for investment in Malaysia which may attract foreign investors to re-locate or expand their facilities also bodes well for AME.

Quarterly performance								
FYE Mar (RM m)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	6MFY20	6MFY21	YoY (%)
Revenue	81.8	54.7	120.9	120.9	47.8	176.2	175.6	(0.3)
EBITDA	29.1	7.7	18.2	135.4	(37.6)	52.0	25.9	(50.2)
PBT	28.8	6.6	17.7	167.7	(38.5)	47.9	24.3	(49.1)
PAT	23.3	6.0	12.6	108.6	(46.1)	37.8	18.6	(50.9)
Core PATMI	21.0	5.3	11.4	114.0	(45.7)	34.1	16.7	(51.0)
Reported PATMI	21.0	5.3	11.4	114.0	(45.7)	34.1	16.7	(51.0)
Core EPS (sen)	4.9	1.2	2.7	114.0	(45.7)	8.0	3.9	(51.0)
EBITDA margin (%)	35.6	14.1	15.0			29.5	14.7	
PBT margin (%)	35.2	12.1	14.7			27.2	13.9	
Core PATMI margin (%)	25.6	9.7	9.4			19.4	9.5	

#### Results Note – 2QFY21

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#### HOLD

Share price	RM2.28
Target price	RM2.21
Previous TP	RM2.29
Capital upside	-3.1%
Dividend return	1.3%
Total return	-1.8%

#### Company profile

Primarily involved in construction of customised large manufacturing plants and design, build and development of industrial parks

#### Stock information

Bursa Code	5216
Bloomberg ticker	AME MK
Listing market	Main
Share issued (m)	427.1
Market Cap (m)	963.8
52W High/Low	2.35/1.01
Est. Free float	30.0%
Beta (x)	0.3
3-mth avg vol ('000)	844.3
Shariah compliant	Yes

#### Major shareholders

	%
Lim Yook Kim	20.0
Lee Chai	19.7
Kang Ah Chee	19.6

#### Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	11.8	26.7	20.9
Absolute	4.6	23.3	18.3
Relative			

#### Earnings summary

FYE (Mar)	FY20	FY20f	FY21f
PATMI (m)	67.9	49.7	67.3
EPS (sen)	15.9	11.6	15.8
P/E (x)	14.3	19.6	14.5

#### Relative performance chart



## Valuation & Recommendation

- With the reported earnings coming below our forecast, we trimmed our earnings forecast by 22.2% and 10.3% to RM49.7m and RM67.3m for FY21f and FY22f respectively to account for the weaker margins from the construction and engineering services segment. Consequently we downgrade our recommendation on AME to **HOLD** (from BUY) with a lower target price of RM2.21 (from RM2.29) following the recent rise in share price that has reflected its fundamentals value.
- Our target price is derived by ascribing a higher target PER of 14.0x (from 13.0x) to its revised FY22f EPS of 15.8 sen. The revised target PER is due to the higher valuation of the construction sector as of late that reflects the optimism surrounding Budget 2021. A re-rating is in the cards, should margins recovery come above expectations in subsequent quarters.
- Risks to our recommendation and target price include dependence on the foreign direct investment in Malaysia. A change in government policy that is unfavorable to foreign investors will hinder the sales of their units in the industrial park. Failure to meet targeted orderbook replenishment may derail the prospect of earnings growth.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYEMar (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYEMar (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	341.3	339.0	380.3	388.3	450.1	Cash	109.8	102.5	191.8	158.4	169.1
EBITDA	95.8	82.0	99.8	78.4	102.9	Receivables	78.4	94.4	86.2	90.4	98.6
EBIT	90.2	76.6	93.3	71.5	95.1	Inventories	231.6	234.1	357.8	386.6	391.5
Net finance income/ (cost)	(0.4)	(3.4)	(10.0)	(10.4)	(11.4)	PPE	77.3	95.4	100.6	105.3	111.1
Associates & JV	5.5	(0.6)	5.3	5.8	6.8	Others	360.4	367.0	417.5	455.9	501.9
Profit before tax	95.2	72.6	88.7	66.9	90.5	Assets	857.5	893.4	1,153.9	1,196.7	1,272.2
Tax	(17.0)	(21.6)	(20.0)	(16.7)	(22.6)	Debts	219.7	215.8	283.2	305.7	329.8
Net profit	78.2	51.0	68.6	50.2	67.8	Payables	150.6	138.2	144.6	138.6	139.5
Minority interest	7.2	3.6	0.8	0.5	0.5	Others	91.5	102.6	58.3	51.7	47.5
Core earnings	71.0	47.3	67.9	49.7	67.3	Liabilities	461.8	456.7	486.2	496.1	516.8
Exceptional items	-	-	-	-	-	Shareholder's equity	369.1	406.4	633.9	670.8	722.1
Reported earnings	71.0	47.3	67.9	49.7	67.3	Minority interest	26.6	30.3	33.8	29.8	33.3
						Equity	395.7	436.7	667.6	700.6	755.4
Cash Flow Statement						Valuation & Ratios					
FYEMar (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYEMar (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	95.2	72.6	88.7	66.9	90.5	Core EPS (sen)	16.6	11.1	15.9	11.6	15.8
Depreciation & amortisation	5.6	5.4	6.5	6.9	7.7	P/E (x)	13.7	20.6	14.3	19.6	14.5
Changes in working capital	14.6	(17.5)	117.7	147.1	19.3	DPS (sen)	-	-	3.0	3.0	3.8
Share of JV profits	(5.5)	0.6	(5.2)	-	-	Dividend yield	0.0%	0.0%	1.3%	1.3%	1.6%
Taxation	(17.4)	(16.2)	(14.4)	(20.0)	(22.5)	BVPS (RM)	0.93	1.02	1.56	1.64	1.77
Others	(26.6)	(16.7)	(13.4)	(15.0)	(15.0)	P/B (x)	2.5	2.2	1.5	1.4	1.3
Operating cash flow	100.2	45.9	(40.1)	(108.3)	41.8	EBITDA margin	28.1%	24.2%	26.2%	20.2%	22.9%
Net capex	(43.1)	(48.2)	(63.0)	(54.2)	(98.5)	EBIT margin	26.4%	22.6%	24.5%	18.4%	21.1%
Others	(11.0)	7.6	19.3	25.0	-	PBT margin	27.9%	21.4%	23.3%	17.2%	20.1%
Investing cash flow	(54.1)	(40.6)	(43.7)	(29.2)	(98.5)	PAT margin	22.9%	15.0%	18.0%	12.9%	15.1%
Changes in borrowings	(31.2)	(3.9)	67.4	22.5	24.0	Core PAT margin	20.8%	14.0%	17.8%	12.8%	15.0%
Issuance of shares	0.3	-	107.6	-	-	ROE	17.9%	10.8%	10.2%	7.1%	8.9%
Dividends paid	(10.3)	(10.0)	-	(12.8)	(16.0)	ROA	8.3%	5.3%	5.9%	4.2%	5.3%
Others	(14.4)	6.2	1.5	-	-	Net gearing	27.8%	26.0%	13.7%	21.0%	21.3%
Financing cash flow	(51.0)	(12.2)	178.5	104.0	67.4						
Net cash flow	(4.9)	(6.9)	94.7	(33.4)	10.6						
Forex	-	-	-	-	-						
Others	-	-	-	-	-						
Beginning cash	90.2	85.3	78.4	173.2	139.8						
Ending cash	85.3	78.4	173.2	139.8	150.4						

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