

- **Unbilled** orders of RM2.77 bil up to 2021
- **Looking** to reward shareholders

# Gabungan AQRS gets over GE14 blip



by  
**Stephanie Jacob**

In the aftermath of the 14th General Election (GE14) and the shock win of Pakatan Harapan, Gabungan AQRS Bhd was hit badly on Bursa Malaysia. The construction sector was among those to suffer most when trading resumed after the polls as investors reacted nervously to the coalition's promise to review all mega infrastructure projects.

As a construction player, Gabungan AQRS hit limit down on May 14 just half an hour into the morning trading session post GE14. It was at RM1.60 on the eve of polling but fell to RM1.12 when trading resumed after the polls, losing 29% of its market capitalisation.

Investors' reaction was mainly due to concerns that the group's prospects may be hit by the potential cancellation of projects such as the East Coast Rail Link (ECRL) and the Pan Borneo Highway in Sabah.

However, the company believes that the market reaction was overblown as traders overestimated Gabungan AQRS' exposure to both these projects. It also believes the sell-down was being driven by the misconception that it is politically linked to the former government, something the company vehemently denies.

Gabungan AQRS' E'Island property development (artist's impression), which analysts see as an important contributor to the group



## Healthy orderbook

Gabungan AQRS' CEO Datuk Azizan Jaafar is keen to dispel the market perception on the company's business prospects. He points out that the company has unbilled sales of RM2.77 bil which spans up to 2021.

"The construction sector is expected to be the star performer this year, and it will contribute to the group's earnings until 2021, propelled by our existing outstanding construction order book of RM2.77 bil," he tells *FocusM*.

Projects include a construction package for the Sungai Besi Ulu Klang (SUKU) project, LRT 3 and Pusat Pentadbiran Sultan Ahmad Shah in Pahang.

As for the Pan Borneo Highway Sabah and ECRL projects, Azizan notes that the new

government has indicated that both will continue and therefore the company could still win some contracts.

"To date we have submitted tenders for the Pan Borneo Highway Sabah together with Suria Capital Holdings. Aside from that, our Sedco Precast plant has been receiving orders to supply the precast components for that project and has the capacity to supply for the projects other packages too," he says. Gabungan AQRS has a 49% stake in the Sedco Precast plant with the other 51% being held by the Sabah Economic Development Corporation (Sedco).

The company has also tendered for ECRL packages and believes the strength of its proposals and its track record make it a strong contender. Azizan is keen to emphasise that AQRS has always participated in the tendering process for government-linked projects it has secured.

"We have always participated in open tenders and we have been vying for projects based on our merit, capabilities and financial strength. I do not believe in hand-outs and have never been willing to pay to get projects," he emphasises. After the nervous investor reaction post-GE14, which saw the counter fall to 61.5 sen on June 4, the counter has stabilised somewhat. It closed at RM1.10 on June 27.

Analysts believe Gabungan AQRS was oversold and maintain a positive outlook on the company's prospects. Macquarie Capital Securities (M) Sdn Bhd analyst Aiman Mohamad has a target price of RM1.80 on the counter. The current target price is down from the RM3 call it had on the stock pre-election, but this was due to the "wide sector de-rating post-GE14."

The brokerage highlights the company's fundamentals, assets and healthy order book as reasons to be positive. It retains its outperform rating on the stock in line with this outlook. "Given AQRS' order book balance and its set of quality property projects such as E'Island Residence and One Jesselton Waterfront, we believe the stock is oversold and the current share price poses an attrac-



DD Hoe

**Azizan is confident about the group's prospects**

tive entry level for the stock," he says in his recent report.

## Strong property projects

While construction has so far been AQRS' star performer, the company is also eager to build up its property development segment. It believes that The Peak development in Johor Bahru and the E'Island project in Puchong can be important catalysts to earnings.

Analysts concur and see the E'Island project particularly as a potential boost to the property division's earnings. UOB Kay Hian analyst Vincent Khoo expects strong demand for the project given its attractive price point and the extras (like furnishings) that Gabungan AQRS is throwing in.

"We expect brisk demand for E'Island Residence which is priced well below the neighbouring condominium developments' net pricing even though E'Island units are semi-furnished whereas other developments are delivered bare."

"The company expects E'Island to deliver 20% pre-tax profit margin given its cheap land cost and the waiver it obtained from having to comply with Rumah Selangorku low cost housing quota," he notes in a recent report. Overall, the property division is expected to increase to RM37 mil in 2020 and to account for 22% of the group's overall pre-tax profit, the report adds. Gabungan AQRS' balance sheet has also begun to show improvements as its net gearing stands at 0.06 times as at Q1FY18. This cou-

## Gabungan AQRS Bhd

### CONSTRUCTION

#### KEY BOARD MEMBERS AND MANAGEMENT

YM Tunku Alizan Raja Muhammad Alias (chairman)  
Datuk Azizan Jaafar (group CEO)

#### MAJOR SHAREHOLDERS

Datuk Azizan Jaafar  
**11.22%**

#### MARKET CAP (June 27)

**RM505m**

Share price (June 27)

**RM1.10**

52-week high (Jan 11)

**RM2.13**

52-week low (June 4)

**61.5 sen**

#### FINANCIAL RESULTS

(Q1 ended Mar 31, 2018)

Revenue

**RM127.5m**

Net profit

**RM16.6m**

#### One-year price chart



## Turnaround on track

THE post GE-14 slump in May aside, Gabungan AQRS Bhd's share price has been steadily rising since Datuk Azizan Jaafar took the reins as CEO back in April 2016. This has come in tandem with improving financial results and better prospects for the company under his turnaround plan.

Upon becoming CEO, Azizan instituted a group wide transformation plan focusing on dealing with mounting debt levels, a dwindling construction orderbook and high operating cost and inefficiencies.

As at end FY17, the group has made progress on all three fronts. It has reduced its net gearing levels to 0.11 times (0.06 times at end Q1FY18) and built up its orderbook to more than RM2 bil over the two-year period of FY16 to FY17.

After costs as a percentage of revenue hit a high of 22% in FY15, the company managed to slash it to 14% in FY17.

Looking ahead, Azizan sees bright prospects in the construction and property development sectors which AQRS can capitalise on. He believes that under the new government large infrastructure projects will be broken into smaller packages or contracts and this will provide plenty of opportunities for small and mid-cap players like them.

He also welcomes the new government's promise of greater transparency and openness in the tender process for these projects. He emphasises his confidence that AQRS can compete and win in this new environment because that is the way it won all its projects in the past.

"I like this and welcome this because it will be better for us. This is nothing new for us, it's what we have always been doing," he says of the government's plans.

The company, he adds, has no plans to venture overseas at this point, as its structure and capabilities are attuned to local projects.

pled with expected strong cash flows from property projects will place the company in a position to reward shareholders.

"The two key property projects could yield cumulative cash flows of more than RM500 mil through to 2021, which is close to AQRS' market cap level," notes UOB Kay Hian's Khoo. The brokerage has a buy call on the stock with a target price of RM1.86.

The company says it hopes to utilise returns from these projects to reward shareholders in the form of better dividends. The Peak development, for example, does not carry any bank borrowings and its costs are being financed through a mix of unbilled sales and internal funding, explains Azizan. Any earnings above that will be cash flow for the company and can be returned to shareholders, he adds, calling this a "gamechanger" for the group.

In FY17, the group paid shareholders a two sen dividend (comprising 0.5 sen interim dividend and a 1.5 sen special dividend). No dividend was offered in FY16.

Gabungan AQRS has also proposed to undertake a bonus issue of new warrants on the basis of one bonus warrant for every four existing shares. The implementation of these Warrant B shares will be after the expiry of Warrants A on July 20, 2018.

This enables them to "participate in a derivative of the group without incurring any additional cost." *FocusM*