

26 May 2017

A & M Realty Berhad

Weak but Expected...

A&M's 1Q17 net profit accounted for 5% of our FY17E estimate, which is broadly within our expectation banking on stronger 2H17 as highlighted in our previous report. Property sales of RM5.8m are also behind our target of RM111.9m due to the lack of launches in 1Q17. No dividends as expected. No changes to earnings. Maintain **OUTPERFORM** with a SOP-driven Target Price of RM3.00.

Weak performance well expected... A&M kicked off the year with a relatively weak set of results, registering CNP of only RM1.5m that accounts for 5% of our full-year estimates. However, we deem this as broadly within expectations. It's weak performance is expected as highlighted in our initiation report as new launches to only kick off from 2Q17 onwards. In terms of property sales, A&M only registered sales of RM5.8m behind our sales target of RM111.9m due to the lack of launches in 1Q17. No dividend declared, as expected.

Results review. YoY, 1Q17 NP decreased by 63% underpinned by several factors, i) decrease in revenue contributions from its property (-14%) and hotel division (-17%), ii) substantial decrease in property operating margins by 28ppt to 15% which we believe is due to upfront costs incurred (i.e. marketing and construction costs) for its upcoming projects, iii) losses incurred by its hotel division as they have closed down Amverton Heritage, Melaka for refurbishment. **QoQ**, 1Q17 revenue and NP saw a sharper decrease by 27% and 68%, respectively, as they have seen a slew of handovers from its previous projects in 4Q16, while the compressions in property margins and losses incurred by its hotel division are largely due to similar reasons above.

Stay tuned for 2H17. While earnings outlook may appear soft due to its current earnings performance, its growth prospects remained intact and its earnings is set to stage a strong recovery in 2H17 upon the launching of its Klang and Sg. Buloh project, i.e. Amverton Links and Amverton Hills that have already reached a completion stage of >70%. To recap, management intends to launch RM238.6m worth of projects in FY17 of which 41% are still within the affordable range.

Earnings estimate unchanged. Post results, we are keeping our FY17-18E earnings of RM26.7m-RM34.6m.

Maintain OUTPERFORM with an unchanged TP of RM3.00. Our TP is based on 57% SoP discount to its SoP of RM7.00 (partial GDV and partial landbank basis). While our applied property RNAV discount of 60% is a tad higher than HUAYANG's applied discount of 57%. Although our TP implies a high FY17-18E PER of 41.0x-31.6x vs. other small mid cap developers average of 9.1x-7.6x, its GDV/mkt cap ratio is also high at 26.6x vs. small-mid cap peer's average of 12.4x. We like the company for its healthy margins, light balance sheet, strong new sales, earnings growth, and its future catalyst, i.e. Pulau Carey that is set to ride on the potential port development project undertaken by SIME and MMC.

OUTPERFORM ↔

Price: RM1.72
Target Price: RM3.00 ↔

Expected Capital Gain: RM1.28 +74.4%
Expected Divd. Yield: RM0.00 +0.0%
Expected Total Return: RM1.28 +74.0%

KLCI Index 1,773.96

Stock Information

Bloomberg Ticker	AM MK Equity
Bursa Code	5959
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	365.1
Market Cap (RM m)	627.9
Par value per share (RM)	0.50
52-week range (H)	1.85
52-week range (L)	0.98
Free Float	30%
Beta	0.7
3-mth avg daily vol:	356,539

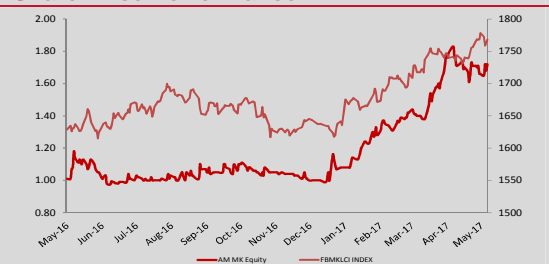
Major Shareholders

Delta Industries S/B	55.1%
Boon Thong Ng	10.9%
Eng Neo Yeoh	3.8%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	115.3	154.0	185.9
EBIT	25.8	37.7	48.9
PBT	28.0	39.2	50.8
Net Profit	20.1	26.7	34.6
Core PATAMI	20.1	26.7	34.6
Consensus (NP)	n.a.	23.4	28.3
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	5.5	7.3	9.5
Core EPS growth (%)	-15%	33%	30%
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	1.7	1.8	1.9
Price to NTA (x)	1.0	1.0	0.9
PER (x)	31.3	23.5	18.1
Debt-to-Equity ratio (x)	-0.1	-0.1	-0.1
Return on Asset (%)	2%	3%	4%
Return on Equity (%)	3%	4%	5%
Net Div. Yield (%)	0.0%	0.0%	0.0%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	0.0%	0.0%	66.3%
Relative (%)	-0.3%	-3.6%	57.6%

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Results Highlights						
	1Q17	4Q16	QoQ	1Q16	YoY	
FYE Dec (RM'm)						
Turnover	23.8	32.6	-27%	25.2	-5%	
EBITDA	2.0	5.7	-65%	5.3	-62%	
Depreciation	0.0	0.0	n.m.	0.0	n.m.	
EBIT	2.0	5.7	-65%	5.3	-62%	
Interest inc/(exp)	0.5	0.7	-32%	0.4	36%	
Associates	0.0	0.0	n.m.	0.0	n.m.	
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	
Pretax profit	2.5	6.4	-61%	5.7	-56%	
Taxation	-0.7	-1.2	-44%	-1.5	-55%	
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	
Profit after tax	1.8	5.2	-65%	4.2	-56%	
Minority interest	-0.4	-0.7	-47%	-0.3	35%	
PATAMI	1.5	4.5	-68%	3.9	-63%	
Core PATAMI	1.5	4.5	-68%	3.9	-63%	
EBIT margin	8%	17%		21%		
Pretax margin	11%	20%		23%		
CNP margin	6%	14%		16%		
EPS (sen)	0.4	1.2		1.1		
Core EPS(sen)	0.4	1.2		1.1		
BV/share (RM)	1.7	1.7		1.6		
Net gearing (x)	-0.1	-0.1		-0.1		
Effective tax	27%	19%		26%		

Source: Company, Kenanga Research

Segmental Breakdown						
External Turnover Segmentation	1Q17	4Q16	QoQ	1Q16	YoY	
Property	9.5	17.5	-46%	11.0	-14%	
Manufacturing	9.4	9.8	-4%	9.3	1%	
Hotel	3.3	4.2	-22%	3.9	-17%	
Plantation	1.7	1.1	46%	1.0	74%	
Total	23.8	32.6	-27%	25.2	-5%	
Property	1.5	4.7	-69%	4.7	-69%	
Manufacturing	0.3	0.4	-20%	0.2	27%	
Hotel	-0.3	0.7	-148%	0.2	-304%	
Plantation	0.6	-0.1	-848%	0.2	181%	
Total	2.0	5.7	-65%	5.3	-62%	
Operating margins						
Property	15%	27%		43%		
Manufacturing	3%	4%		2%		
Hotel	n.m.	17%		4%		
Plantation	35%	-7%		22%		

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (25/5/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	Fwd P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	2.10	11,563	17.8	14.5	14.4	3.4%	4.1%	4.2%	0.61	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
S P SETIA BHD*	3.80	10,847	13.4	14.2	17.5	4.9%	9.7%	8.0%	1.31	808.0	761.3	620.6	-5.8%	-18.5%	3.86	OUTPERFORM
UEM SUNRISE BHD*	1.28	5,808	39.4	24.9	36.0	0.0%	2.2%	3.4%	0.90	147.3	233.5	161.3	58.5%	-30.9%	1.45	OUTPERFORM
SUNWAY BHD*	3.60	7,326	13.5	14.0	13.5	2.8%	7.3%	6.7%	0.82	541.6	521.7	542.6	-3.7%	4.0%	3.41	OUTPERFORM
MAH SING GROUP BHD^	1.52	3,662	10.6	10.8	11.2	4.3%	10.1%	10.0%	1.06	346.8	338.9	327.5	-2.3%	-3.4%	1.63	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.59	4,682	36.2	41.5	18.8	0.0%	3.7%	4.4%	1.24	129.3	112.9	248.8	-12.7%	120.4%	1.72	OUTPERFORM
UOA DEVELOPMENT BHD*	2.62	4,274	11.4	11.3	10.9	5.7%	19.4%	9.8%	1.08	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.23	3,183	13.0	46.3	42.1	0.1%	8.6%	2.4%	1.34	244.1	68.8	75.7	-72%	10.0%	1.32	MARKET PERFORM
KSL HOLDINGS BHD	1.20	1,236	6.0	7.1	7.0	0.0%	8.8%	6.9%	0.46	204.6	173.7	177.1	-15.1%	2.0%	1.30	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.75	1,581	8.4	7.1	6.6	5.3%	31.8%	22.7%	1.45	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.39	1,110	30.3	11.3	7.1	2.2%	6.9%	13.3%	1.40	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.65	375	13.0	11.2	10.8	2.9%	2.2%	8.0%	0.49	28.9	33.6	34.6	16.4%	3.0%	1.70	MARKET PERFORM
HUA YANG BHD	1.08	380	6.2	6.1	5.3	1.7%	21.9%	12.2%	0.58	61.0	62.0	72.0	1.6%	16.1%	1.24	MARKET PERFORM
A&M REALTY BHD	1.72	628	31.3	23.5	18.1	0.0%	3.3%	4.2%	0.96	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.95	3,938	13.2	12.8	16.4	3.1%	6.7%	6.4%	0.80	298.0	307.0	240.3	3.0%	-21.7%	3.00	NEUTRAL
GLOMAC BHD	0.70	506	6.3	12.7	7.4	5.3%	12.7%	6.0%	0.51	80.9	39.8	68.7	-50.9%	72.7%	0.74	SELL
PARAMOUNT CORP BHD	1.89	802	10.7	9.9	9.5	4.8%	8.0%	8.3%	0.82	75.0	80.6	84.9	7.5%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.49	644	5.7	6.7	7.0	5.9%	21.5%	16.4%	1.08	112.2	96.4	91.7	-14.1%	-4.9%	1.58	NEUTRAL
LBS BINA GROUP BHD	2.04	1,359	15.9	12.1	9.7	4.7%	8.1%	9.1%	1.09	85.3	112.0	139.9	31.2%	25.0%	2.12	BUY

* Core NP and Core PER

^ Last price and TP is Ex-rights and Ex-Bonus.

MRCB's prices are of ex-rights

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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