

23 November 2017

Amverton Berhad Softer Than Expected

9M17 CNP of RM13.9m is weaker than expected, accounting for 52% of our full-year estimate. 9M17 sales of RM75.2m also lagged behind our target of RM111.9m. No dividends declared as expected. FY17E/FY18E earnings reduced by 17%/25% following our downward revision in development margins and property sales target. Maintain **OUTPERFORM** with a lower SoP-driven Target Price (TP) of RM2.00 (previous TP: RM2.50).

Softer than expected. Amverton Bhd's (formerly known as A & M Realty Bhd) 9M17 NP of RM13.9m makes up 52% of our full-year estimate which was weaker than expected. This was due to lower-than-expected development margins, as its current products i.e. link houses command lower margin compared to bungalows. Although 9M17 property sales of RM75.2m had picked up significantly, it still lags behind our full-year target of RM111.9m. No dividend was declared, as expected.

Results highlight. 9M17 NP declined by 11%, YoY despite revenue growth of 29%, due to lower operating margins of 17% (-7ppt). The compression in operating margin is mainly due to: (i) property development's product mix i.e. higher proportionate of link homes sales, which command lower margin compared to bungalows, and (ii) losses in hotel division due to refurbishments. QoQ, 3Q17 NP improved by 38% underpinned by: (i) strong growth of 42% in property revenue, and (ii) lower effective tax rate of 24% (-2ppt).

Outlook. While its earnings outlook could be softer than expected, we believe its growth prospect remains intact with a stronger set of earnings expected in 4Q17 backed by its Klang and Sg. Buloh projects, i.e. Amverton Links and Amverton Hills that have already reached completion stages of >70%. Their unbilled sale currently stands at RM50.4m with one-year visibility.

Toning down estimates. Post-results, we revised our FY17E/FY18E earnings downwards by 17%/25% after we factored in a lower development margin assumption. That said, we also reduced our FY17E/FY18E sales target by 13%/23% to RM97.8m/RM111.6m.

Maintain OUTPERFORM with a lower TP of RM2.00. Following the softer than expected results, we lowered our SoP-driven TP to RM2.00 with a wider property RNAV discount of 75% (previously, TP: RM2.50, discount: 68%) implying 71% discount to its SoP/share of RM7.00 (partial GDV and partial land bank basis). Although our TP implies a high FY17E/FY18E PER of 38.9x/32.8x vs. other small-mid cap developers' average of 9.0x, its GDV/market cap ratio is also high at 26.6x vs. small-mid cap peers' average of 12.4x. We still like the company for its healthy margins, light balance sheet, earnings growth, and future catalyst, i.e. Pulau Carey that is set to ride on the potential port development project undertaken by SIME and MMC, which returned to the limelight recently as highlighted in the media by our transport minister Dato Sri Liow Tiong Lai.

Risks to our call include: (i) lower-than-expected margins/property sales, and (ii) lower government spending on infrastructure projects i.e. ports infrastructure.

OUTPERFORM ↔

Price: RM1.32
Target Price: RM2.00 ↓

Expected Capital Gain: RM0.68 +51.5%
Expected Divd. Yield: RM0.00 +0.0%
Expected Total Return: RM0.68 +51.5%

KLCI Index 1723.54

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)	481.9
Par value per share (RM)	0.50
52-week range (H)	1.85
52-week range (L)	0.99
Free Float	29%
Beta	0.4
3-mth avg daily vol:	34,565

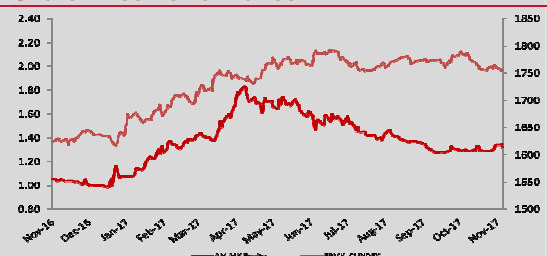
Major Shareholders

Delta Industries Sdn Bhd	55.1%
Boon Thong Ng	10.9%
Golden Approval Sdn Bhd	5.0%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	115.3	153.2	179.9
EBIT	25.8	30.9	37.4
PBT	28.0	32.3	39.1
Net Profit	20.1	22.1	26.1
Core PATAMI	20.1	22.1	26.1
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	-17%	-25%
Core EPS (sen)	5.5	6.0	7.2
Core EPS growth (%)	-15%	10%	19%
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	1.7	1.8	1.8
Price to NTA (x)	0.8	0.8	0.7
PER (x)	24.0	21.8	18.4
Debt-to-Equity ratio (x)	-0.1	-0.1	-0.1
Return on Asset (%)	2%	2%	3%
Return on Equity (%)	3%	3%	4%
Net Div. Yield (%)	0.0%	0.0%	0.0%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	1.5%	-9.6%	26.9%
Relative (%)	2.6%	-6.7%	21.1%

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OTHER POINTS

As reported in the news recently, Dato Sri Liow Tiong Lai reiterated that the Government will develop the Carey Island port as planned and confirmed that the mega port project was vital as it would add another 30 million 20-foot equivalent units (TEU) in container throughput. The Carey Island Port is a massive port-industrial city project, with infrastructure investments of more than RM200.0b covering an area of over 100sq km. (*The Star*)

Results Highlights

FYE Dec (RM'm)	3Q17	2Q17	QoQ	3Q16	YoY	9M17	9M16	YoY
Turnover	46.1	36.9	25%	31.1	48%	106.8	82.7	29%
EBIT	9.3	6.9	36%	9.9	-6%	18.2	20.1	-9%
Interest inc/(exp)	0.4	0.5	-13%	0.9	-52%	1.4	1.6	-10%
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	9.7	7.4	32%	10.8	-10%	19.6	21.6	-9%
Taxation	-2.3	-1.9	23%	-2.5	-7%	-4.9	-5.4	-10%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	7.4	5.5	36%	8.3	-10%	14.7	16.2	-9%
Minority interest	-0.2	-0.2	-6%	-0.1	232%	-0.8	-0.6	37%
PATAMI	7.2	5.2	38%	8.2	-12%	13.9	15.6	-11%
Core PATAMI	7.2	5.2	38%	8.2	-12%	13.9	15.6	-11%
EBIT margin	20%	19%		32%		17%	24%	
Pretax margin	21%	20%		35%		18%	26%	
CNP margin	16%	14%		26%		13%	19%	
EPS (sen)	2.0	0.4		0.9		3.8	4.3	
Core EPS(sen)	2.0	0.4		0.9		3.8	4.3	
BV/share (RM)	1.7	1.7		1.7		1.7	1.7	
Net gearing (x)	-0.1	-0.1		-0.1		-0.1	-0.1	
Effective tax	24%	26%		23%		25%	25%	

Source: Company, Kenanga Research

Segmental Breakdown

External Turnover Segmentation	3Q17	2Q17	QoQ	3Q16	YoY	9M17	9M16	YoY
Property	32.8	23.1	42%	17.2	90%	65.4	39.9	64%
Manufacturing	8.3	9.0	-8%	9.5	-13%	26.7	28.3	-6%
Hotel	3.7	3.1	21%	3.1	18%	10.0	10.6	-6%
Plantation	1.3	1.7	-22%	1.2	10%	4.7	3.8	25%
Property	9.0	6.7	34%	9.8	-8%	17.1	18.3	-6%
Manufacturing	0.3	0.3	-15%	0.2	15%	0.9	0.7	18%
Hotel	-0.1	-0.5	-80%	-0.2	-29%	-1.0	0.2	-734%
Plantation	0.2	0.4	-53%	0.0	376%	1.2	0.9	40%
Operating margins								
Property	27%	29%		57%		26%	46%	
Manufacturing	3%	3%		2%		3%	3%	
Hotel	-3%	-18%		-5%		-10%	1%	
Plantation	15%	24%		3%		25%	23%	

Source: Company, Kenanga Research



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Valuations							
Projects on DCF basis	Stake	Land size (ac)	Remaining Eff. GDV (RM'm)	Remaining Eff. Net Profit (RM'm)	Assumed Duration (years)	WACC (%)	NPV Value (RM'm)
Amverton Hills, Sg Buloh	100%	124	1,824	547	10	11%	322
Amverton Links, Klang	100%	23	100	30	3	11%	24
PK 11, Klang	100%	12	548	164	5	11%	99
Amverton Cove, Pulau Carey	60%	1,063	4,092	1,350	20	11%	538
Mont Kiara	100%	3	248	74	4	11%	47
Morib, Banting	100%	185	1,200	360	10	11%	212
Unbilled Sales	100%		24	7	2	11%	25
Projects on Land Valuation Basis	Stake	Land size (ac)	Book Value (RM'm)	Book Value (RM'psf)	Market Value (RM'psf)	Market Value (RM'm)	Surplus/ (Deficit)
Pulau Carey	60%	839	219	6	20	731	307
Klang land	100%	182	71	9	60	476	405
Melaka agriculture land	74%	164	16	2	3	21	4
Morib, Banting	100%	9	0.3	0.7	1.0	0.4	0.1
Seremban	100%	6	0.2	0.7	1.0	0.3	0.1
Property: Revised Asset Value							1,983
Property Book Value							448
Hotel/Leisure Book Value							124
SOP							2,555
SOP/sh (RM)							7.00
Share Base ('m)							365
Property RNAV Discount						-75%	-1823.2
Implied SOP Discount						-71%	
Target Price (RM)							2.00

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (22/11/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	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*	1.99	10,957	12.7	12.5	12.1	3.0%	5.0%	5.0%	0.62	910.6	928.6	951.9	2.0%	2.5%	2.20	OUTPERFORM
S P SETIA BHD*#	3.33	10,246	15.9	15.7	17.9	4.0%	9.7%	8.0%	1.37	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.06	4,810	32.8	17.4	16.5	0.0%	2.2%	4.0%	0.74	147.3	276.8	293.4	87.9%	6.0%	1.30	OUTPERFORM
SUNWAY BHD^	1.61	7,856	14.3	14.9	14.3	3.7%	7.3%	6.7%	1.00	541.6	521.7	542.6	-3.7%	4.0%	1.82	MARKET PERFORM
MAH SING GROUP BHD	1.54	3,734	12.5	12.8	13.2	4.4%	10.1%	10.0%	1.07	346.8	338.9	327.6	-2.3%	-3.3%	1.63	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.47	4,328	40.1	46.0	20.8	0.0%	3.7%	4.4%	1.15	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.45	4,246	10.7	10.5	10.4	6.1%	19.4%	9.8%	1.01	373.9	380.6	384.2	1.8%	1.0%	2.47	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	0.99	4,321	22.8	70.4	46.9	1.5%	8.6%	2.4%	0.81	244.1	77.6	122.3	-68%	57.6%	1.14	OUTPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.20	1,631	8.9	7.5	7.1	5.3%	31.8%	22.7%	1.45	188.0	224.0	238.0	19.1%	6.3%	2.12	MARKET PERFORM
SUNSURIA BERHAD	1.38	1,102	12.1	9.9	6.6	0.0%	6.9%	11.6%	1.25	90.7	111.9	166.4	23.3%	48.8%	1.50	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.50	341	13.5	9.4	9.0	4.0%	2.2%	8.0%	0.45	28.9	42.5	44.6	47.2%	4.9%	1.60	OUTPERFORM
HUA YANG BHD	0.68	238	3.4	45.0	20.5	0.3%	21.9%	12.2%	0.39	70.0	5.0	12.0	-92.9%	140.0%	0.65	UNDERPERFORM
AMVERTON BHD	1.32	482	24.0	21.8	18.4	0.0%	3.0%	4.0%	0.73	20.1	22.1	26.1	10.1%	18.1%	2.00	OUTPERFORM
MAGNA PRIMA BHD	1.27	422	79.6	87.6	48.8	0.6%	7.4%	1.1%	1.04	7.9	7.2	12.9	-8.9%	79.2%	1.60	OUTPERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.95	3,939	13.2	11.8	14.8	3.4%	6.6%	6.7%	0.80	298.0	333.9	267.1	12.0%	-20.0%	3.00	NEUTRAL
GLOMAC BHD	0.64	459	4.2	8.2	6.8	4.7%	2.3%	5.1%	0.41	108.2	55.7	68.0	-48.5%	22.1%	0.67	SELL
PARAMOUNT CORP BHD	1.77	751	10.0	13.6	10.4	9.6%	14.6%	13.6%	0.83	75.0	55.2	72.1	-26.5%	30.8%	2.37	BUY
TAMBUN INDAH LAND BHD	1.01	438	3.9	4.9	5.5	8.2%	18.8%	14.6%	0.73	112.2	90.1	79.3	-19.7%	-12.0%	1.34	NEUTRAL
LBS BINA GROUP BHD	2.05	1,393	16.3	12.7	10.0	4.7%	8.8%	9.0%	1.10	85.3	110.1	140.0	29.0%	27.2%	2.34	BUY

* Core NP and Core PER

^ Last price and TP is Ex-Bonus.

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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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