

25 May 2018

Amverton Berhad Sluggish Start

1Q18 NP of RM3.6m came in below expectations, accounting for 14% of our full-year estimate. Pending 1Q18 sales info from management, we reckon sales could be slow as the outlook for the property sector remains challenging. No dividend declared as expected. Reduced FY18-19E earnings by 15-12%. Maintain MARKET PERFORM with a lower SoP-driven Target Price of RM1.05 (previously, RM1.15).

Below expectations. 1Q18 NP of RM3.6m came in below expectations, accounting for 14% of our full-year estimates. We believe that the shortfall is due to the rescheduling of launches – contributions from these launches are lumpy as bulk of their landed residential projects is on a built-then-sell model. Currently, 1Q18 sales information is pending from management. However, we reckon sales could be slow as the outlook for the property sector remains challenging. No dividends declared as expected.

Results review. 1Q18 NP increased significantly by 148% driven by several factors; (i) revenue growth of 26% backed by its property and hotel divisions, which grew by 71% and 34%, respectively, (ii) improvements in operating margin for all of its divisions ranging between 1-18ppt except for its plantation division, and (iii) lower effective tax rate of 25% (-2ppt). Revenue growth in its property division was driven by better sales generated from Amverton Links, while its hotel division was driven by the recovery in Amverton Heritage Resort Melaka coupled with better performance from Amverton Cove Golf & Island Resort. QoQ, 1Q18 NP fell 65% underpinned by lower revenue (-44%) due to lower launches compared to 4Q17.

Outlook. While we believe that its terrace products would sell like hot cakes, we opine that management should step up its marketing efforts in promoting its higher-end products, i.e. Amverton Hills (GDV: c.RM105.0m) as it could be one of the major earnings contributor to the group as it is also based on a built-then-sell model. That said, we are also looking forward to their potential launch of its serviced apartment (GDV: RM88.0m) in Pulau Carey this year. Its unbilled sales are estimated to hover between RM40-50m providing at least 1-year visibility.

Earnings reviewed. Post results, we lowered our FY18-19E earnings by 15-12% on the back of the cut in property sales by 19% and 16% to RM90.4m and RM92.6m, respectively, as we are turning more cautious due to the current market conditions.

Maintain MARKET PERFORM. Reiterate MP on AMVERTON with a lower SoP-driven TP of RM1.05 from RM1.15 (property RNAV discount of 88%) implying 83% discount to its SoP/share of RM6.21 (partial GDV and partial land bank basis), as we lower our margin assumptions for its developments. Our TP implies a high FY18E PBV of 0.6x which is still below small-mid cap developers' average of 0.7x.

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

MARKET PERFORM ↔

Price: **RM0.980**
Target Price: **RM1.05** ↓

Expected Capital Gain: **RM0.07** 7.1%
Expected Divd. Yield: **RM0.00** 0.0%
Expected Total Return: **RM0.07** 7.1%

KLCI Index 1,775.66

Stock Information

Bloomberg Ticker	AM MK Equity
Bursa Code	5959
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	365.1
Market Cap (RM m)	357.8
Par value per share (RM)	0.50
52-week range (H)	1.78
52-week range (L)	0.98
Free Float	29%
Beta	0.7
3-mth avg daily vol:	11,238

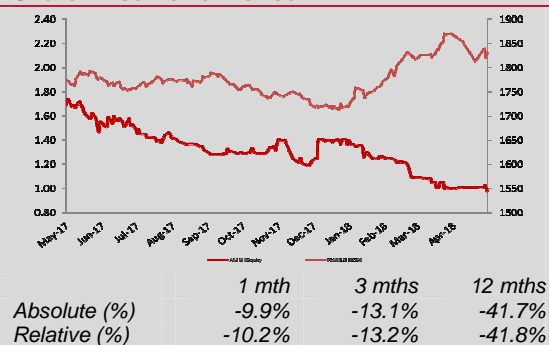
Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	153.2	157.8	165.4
EBIT	30.9	30.7	33.1
PBT	32.3	32.9	36.1
Net Profit	22.1	22.0	24.1
Core PATAMI	22.1	22.0	24.1
Consensus (NP)			
Earnings Revision		-15%	-12%
Core EPS (sen)	6.0	6.0	6.6
Core EPS growth (%)	10%	0%	10%
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	1.8	1.8	1.9
Price to NTA (x)	0.6	0.5	0.5
PER (x)	16.2	16.3	14.8
Debt-to-Equity ratio (x)	-0.1	-0.2	-0.2
Return on Asset (%)	2%	2%	3%
Return on Equity (%)	3%	3%	4%
Net Div. Yield (%)	0.0%	0.0%	0.0%

Share Price Performance



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Results Highlights						
	1Q18	4Q17	QoQ	1Q17	YoY	
FYE Dec (RM'm)						
Turnover	29.9	53.9	-44%	23.8	26%	
EBITDA	4.9	13.1	-62%	2.0	145%	
Depreciation	0.0	0.0	n.m.	0.0	n.m.	
EBIT	4.9	13.1	-62%	2.0	145%	
Interest inc/(exp)	0.5	0.4	40%	0.5	8%	
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	5.5	13.4	-59%	2.5	118%	
Taxation	-1.4	-2.4	-41%	-0.7	107%	
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	
Profit after tax	4.1	11.1	-63%	1.8	122%	
Minority interest	-0.5	-0.7	-29%	-0.4	22%	
PATAMI	3.6	10.4	-65%	1.5	148%	
Core PATAMI	3.6	10.4	-65%	1.5	148%	
EBIT margin	16%	24%		8%		
Pretax margin	18%	25%		11%		
CNP margin	12%	19%		6%		
EPS (sen)	1.0	2.9		0.4		
Core EPS(sen)	1.0	2.9		0.4		
BV/share (RM)	1.8	1.8		1.7		
Net gearing (x)	-0.1	-0.1		-0.1		
Effective tax	25%	18%		27%		

Source: Company, Kenanga Research

Segmental Breakdown						
	1Q18	4Q17	QoQ	1Q17	YoY	
External Turnover						
Property	16.2	38.8	-58%	9.5	71%	
Manufacturing	7.8	8.3	-6%	9.4	-17%	
Hotel	4.4	5.1	-15%	3.3	34%	
Plantation	1.6	1.6	-5%	1.7	-7%	
Total	29.9	53.9	-44%	23.8	26%	
Operating profit						
Property	3.8	11.7	-68%	1.5	158%	
Manufacturing	0.3	0.5	-40%	0.3	-4%	
Hotel	0.4	0.8	-53%	-0.3	210%	
Plantation	0.5	0.1	283%	0.6	-14%	
Total	4.9	13.1	-62%	2.0	145%	
Operating margins						
Property	23%	30%		15%		
Manufacturing	4%	6%		3%		
Hotel	8%	15%		-10%		
Plantation	33%	8%		35%		

Source: Company, Kenanga Research

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Sum-of-Parts							
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	438	10	11%	258
Amverton Links, Klang	100%	23	100	24	3	11%	20
PK 11, Klang	100%	12	548	131	5	11%	79
Amverton Cove, Pulau Carey	60%	1,063	4,092	982	20	11%	391
Mont Kiara	100%	3	248	59	4	11%	37
Morib, Banting	100%	185	1,200	288	10	11%	170
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							1,696
Property Book Value							448
Hotel/Leisure Book Value							124
SOP							2,267
SOP/sh (RM)							6.21
Share Base ('m)							365
Property RNAV Discount						-88%	-1881.9
Implied SOP Discount						-83%	
Target Price (RM)							1.05

Source: Kenanga Research

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Peer Comparison

NAME	Price (24/5/18)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY18/19 NP Growth	FY19/20 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY17/18	FY18/19	FY19/20	(%)	(%)	(%)	(x)	FY17/18	FY18/19	FY19/20	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	1.58	8,700	9.8	12.6	12.1	3.8%	5.1%	4.0%	0.50	938.0	727.4	757.2	-22.4%	4.1%	1.70	MARKET PERFORM
S P SETIA BHD*	3.09	12,020	13.8	17.4	14.8	3.7%	8.4%	4.8%	0.80	766.4	607.3	712.3	-20.8%	17.3%	3.50	OUTPERFORM
UEM SUNRISE BHD*	0.845	3,834	14.1	11.4	10.7	1.2%	4.0%	4.7%	0.57	272.2	335.7	358.7	23.3%	6.8%	0.970	OUTPERFORM
SUNWAY BHD	1.50	7,308	13.0	12.8	12.1	4.1%	7.3%	6.7%	0.91	566.0	573.0	608.0	1.2%	6.1%	1.60	MARKET PERFORM
MAH SING GROUP BHD	1.10	2,670	10.4	10.7	11.0	5.9%	9.0%	8.2%	0.74	296.8	290.2	281.8	-2.2%	-2.9%	1.10	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.44	4,240	37.5	22.5	15.9	0.0%	5.2%	4.3%	1.12	113.1	188.6	267.1	66.8%	41.7%	1.15	OUTPERFORM
UOA DEVELOPMENT BHD*	2.58	4,471	11.4	13.7	12.4	5.4%	12.1%	7.7%	1.05	401.5	333.1	369.3	-17.0%	10.9%	2.30	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	0.680	2,986	32.4	20.0	17.4	2.6%	2.1%	3.7%	0.71	101.3	163.8	186.8	62%	14.0%	1.15	OUTPERFORM
SUNSURIA BERHAD	1.10	879	9.7	10.5	8.2	0.0%	12.5%	10.3%	1.00	90.7	84.1	107.5	-7.3%	27.8%	1.15	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.33	303	10.6	11.9	11.5	4.5%	2.2%	8.0%	0.35	34.9	31.3	32.5	-10.3%	3.8%	1.30	MARKET PERFORM
HUA YANG BHD	0.480	169	38.3	16.3	14.9	0.0%	0.7%	1.7%	0.28	4.4	10.3	11.3	134.4%	9.4%	0.465	MARKET PERFORM
AMVERTON BHD	0.98	358	16.2	16.3	14.8	0.0%	3.0%	4.0%	0.54	22.1	22.0	24.1	-0.5%	9.5%	1.05	MARKET PERFORM
MAGNA PRIMA BHD	1.14	379	71.3	48.3	47.1	1.0%	7.4%	1.1%	0.91	6.7	11.7	12.0	74.6%	2.6%	0.955	UNDERPERFORM
CONSENSUS NUMBERS																
SIME DARBY PROPERTY BHD	1.44	9793	15.7	18.2	20.6	1.9%	n.a.	7.4%	1.20	624.0	537.3	476.1	-13.9%	-11.4%	1.87	BUY
MATRIX CONCEPTS HOLDINGS BHD	1.93	1452	6.9	5.7	5.5	7%	19.0%	19.3%	1.05	211.8	253.5	265.5	19.7%	4.7%	2.39	BUY
LBS BINA GROUP BHD	0.93	1435	13.9	11.9	10.5	3.8%	8.6%	9.5%	1.07	103.4	121.0	136.5	17.0%	12.8%	1.22	BUY
PARAMOUNT CORP BHD	1.95	835	6.3	9.3	8.9	4.6%	12.2%	8.3%	0.76	133.4	89.9	94.2	-32.6%	4.8%	2.40	BUY
TITIJAYA LAND BHD	0.42	565	7.4	7.6	6.9	3%	8.6%	11.0%	0.49	76.0	73.9	82.0	-2.7%	10.9%	0.86	BUY
YONG TAI BHD	1.42	685	103.4	21.5	7.3	0%	3.5%	8.8%	1.18	6.6	31.8	94.0	380.6%	195.5%	2.09	BUY
GLOMAC BHD	0.48	377	3.5	15.8	12.2	1.9%	0.6%	1.1%	n.a.	108.2	23.8	30.9	-78.0%	30.0%	0.49	SELL
TAMBUN INDAH LAND BHD	0.83	357	4.3	5.6	5.7	6.9%	14.9%	10.4%	0.64	83.4	64.1	62.8	-23.1%	-2.0%	1.00	NEUTRAL

* Core NP and Core PER

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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