

3QFY11 RESULTS UPDATE

7 June 2011

AWC Berhad

Price : RM0.265

Market Capitalization : RM60.6 mln

Market : Main Market

Sector : Trading/Services

Recommendation : Hold

Bursa / Bloomberg Code: 7579 / AWCf MK
Stock is Shariah-compliant.**AWC: 3QFY11 results**

FYE June (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	Mar 11	Dec 10	% chg	Mar 10	% chg	9MFY11	9MFY10	% chg
Turnover	34.9	32.7	6.6%	51.5	-32.3%	103.6	117.7	-12.0%
Operating profit	3.7	1.7	112.7%	6.3	-41.8%	9.8	19.9	-51.0%
Finance costs	(0.3)	0.1		(0.2)		(0.4)	(0.4)	
Pre-tax profit	3.3	1.8	86.8%	6.1	-45.3%	9.4	19.5	-51.9%
Tax	(0.3)	(0.3)		(0.8)		(1.0)	(3.9)	
Net profit	1.4	1.0	32.7%	2.4	-42.2%	4.8	8.5	-44.0%
EPS (sen) - basic	0.6	0.5		1.1		2.1	3.8	
Op. profit margin	10.5%	5.3%		12.2%		9.4%	16.9%	
Pre-tax margin	9.6%	5.5%		11.8%		9.1%	16.6%	
Net profit margin	4.0%	3.2%		4.6%		4.6%	7.2%	
NTA/share (RM)	0.31							

3QFY11 Results Review

- AWC's 9MFY11 net profit of RM4.8 mln was ahead of our expectations, having reached 82.8% of our full-year projection of RM5.8 mln.
- Y-o-Y, the Group's 9MFY11 performance deteriorated with turnover and net profit falling 12.0% and 44.0% respectively, affected by lower contributions from the Environmental (-11.5% y-o-y) and Technology (-52.9% y-o-y) divisions. Additionally, the larger-than-proportionate decline in net profit was mainly due to losses incurred at the Technology division as well as higher operating expenses (+22.3% y-o-y) in 9MFY11.
- On segmental breakdown, the Environmental business remains the largest division, accounting for 48% and 71.6% of turnover and operating profit respectively, followed by Facilities (29%; 27%), Engineering (18.4%; 11.5%) and Technology (4.5%, nm) divisions.
- Sequentially, 3QFY11's results showed improvement with revenue and net profit up by 6.6% and 32.7% respectively, on better contributions from the Environmental division.
- Meanwhile, AWC's balance sheet continues to be lean, supported by a net cash/share of 26 sen and a NTA/share of 24 sen.
- Looking ahead, AWC's earnings prospects remain relatively uncertain at this juncture, in our opinion. Although the Group has a strong current orderbook in excess of RM200 mln from the Environmental division, the bulk of it is in the Saudi Arabia and we understand there are some delays in the progress of these projects by its clients. Moreover, the Dirham currency (which is pegged against the USD) has been weakening against Ringgit, further affecting its profit margins.
- On a brighter note, we take comfort that AWC's balance sheet is lean as it would not be bogged down by high interest expense in this period of uncertainty. We also understand that the Group

has been shortlisted as one of the two bidders to build the third expansion of the holy mosque, Masjidil Haram in Mecca, Saudi Arabia, that has a prospective contract value of approximately RM160 mln. Nonetheless, until further clarity pertaining to its earnings outlook emerges, we are maintaining our current FY11 net profit project of RM5.8 mln for now.

- No dividend was declared in the quarter under review.

Recommendation

We reiterate our **Hold** recommendation on AWC with an unchanged fair value of **26 sen**, derived from pegging a peer-benchmarked 10x PER against our FY11 net profit projection. We maintain our neutral stand on the stock at this juncture. While we like the Group's success in the Middle East markets thus far as well as its healthy balance sheet, moderating factors include the soft property sector outlook in Saudi Arabia, continued delays in its current projects and strengthening Ringgit which diminishes the value of its Dirham contracts.

Per Share Data

FYE June	FY09	FY10	FY11f
Book Value (sen)	26.1	30.9	30.9
Cash Flow (sen)	5.3	14.8	6.8
Earnings (sen)	1.4	5.2	2.6
Dividend (sen)	-	1.0	1.0
Payout Ratio (%)	0.0%	19.2%	38.0%
PER (x)	18.9	5.1	10.4
P/Cash Flow (x)	5.0	1.8	3.9
P/Book Value (x)	0.0	0.0	0.0
Dividend Yield (%)	0.0%	3.8%	3.8%
ROE (%)	5.4%	16.8%	7.9%
Net gearing (x)	Net cash	Net cash	Net cash

P&L Summary

FYE June (RM mIn)	FY08	FY09	FY10	FY11f
Revenue	98.1	103.1	184.8	148.9
EBIT	(9.4)	7.4	27.4	10.5
Net Int Exp	(0.3)	(0.5)	(0.3)	(0.7)
Pre-tax Profit	(9.7)	6.8	27.1	9.8
Eff. Tax Rate	nm	21.4%	18.4%	15.4%
Net Profit	(9.8)	3.2	11.8	5.8
EBIT Margin (%)	nm	7.1%	14.8%	7.1%
Pre-tax Margin (%)	nm	6.6%	14.7%	6.6%
Net Margin (%)	nm	3.1%	6.4%	3.9%

AWC's last 12-month share price chart



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RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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