**4QFY11 RESULTS UPDATE** **12 September 2011**

# AWC Berhad

**Bursa / Bloomberg Code: 7579 / AWCF MK**
**Stock is Shariah-compliant.**

| | |
|---|---|
| **Price :** | **RM0.23** |
| **Market Capitalization :** | **RM52.6 mln** |
| **Market :** | **Main Market** |
| **Sector :** | **Trading/Services** |
| **Recommendation :** | **Hold** |

**AWC: 4QFY11 results**

| **FYE June** | | **Quarter-on-Quarter** | | **Year-on-Year** | | **Cumulative** | | |
|---|---|---|---|---|---|---|---|---|
| **(RM mln)** | **Jun 11** | **Mar 11** | **%chg** | **Jun 10** | **%chg** | **FY11** | **FY10** | **%chg** |
| Turnover | 49.8 | 34.9 | 42.7% | 66.7 | -25.4% | 153.4 | 184.8 | -17.0% |
| Operating profit | 6.8 | 3.7 | 85.6% | 7.4 | -7.9% | 16.6 | 27.4 | -39.6% |
| Finance costs | 0.2 | (0.3) | | (0.2) | | (0.2) | (0.3) | |
| Pre-tax profit | 7.0 | 3.3 | 109.2% | 7.1 | -2.1% | 16.4 | 27.1 | -39.5% |
| Tax | (1.7) | (0.3) | | (0.7) | | (2.7) | (5.0) | |
| Net profit after MI | 3.5 | 1.4 | 151.2% | 3.2 | 9.5% | 8.2 | 11.8 | -30.2% |
| EPS (sen) - basic | 1.5 | 0.6 | | 1.4 | | 3.7 | 5.2 | |
| Op. profit margin | 13.6% | 10.5% | | 11.1% | | 10.8% | 14.8% | |
| Pre-tax margin | 14.0% | 9.6% | | 10.7% | | 10.7% | 14.7% | |
| Net profit margin | 7.0% | 4.0% | | 4.7% | | 5.4% | 6.4% | |
| NTA/share (RM) | 0.30 | | | | | | | |

## 4QFY11 Results Review

- AWC posted its strongest quarter in FY11 with 4QFY11 net profit rising 2.5x q-o-q to RM3.5 mln, bringing full year net profit to RM8.2 mln, which exceeded our expectations compared to our projection of RM5.8 mln.

- Despite strong 4QFY11 results, full year FY11 revenue nevertheless decreased 17.0% y-o-y to RM153.4 mln principally due to lower contribution from its Technology (-48% y-o-y) and Environment (-29% y-o-y) divisions. Operating profit fell by a larger-than-proportionate 39.6% y-o-y as the Technology business chalked up losses of RM3.1 mln while profit from the Environment segment shrunk by 37% y-o-y. AWC's two other core divisions – Facilities and Engineering – recorded healthy growth with segmental profit rising 86% y-o-y and 46% y-o-y respectively.

- Sequentially, 4QFY11 performance rebounded strongly with revenue and net profit up by 42.7% and 151.2% respectively, on better contributions from all business segment, save for its Technology division.

- Overall, AWC's performance suffered in FY11 due to delays at some of its projects in the UAE, weakening of the Dirham (which is closely pegged to the USD) and underperformance of its Technology division. According to management, the loss at its Technology segment was due to lower of number of projects secured, which were insufficient to cover the overhead expenses.

- Looking ahead, we expect the operating environment to remain challenging for the Group. Outlook in the UAE, where AWC has several large ongoing projects (in the Environment division), is still soft and we expect this to prevail into FY12. Orderbook replenishment appears to be slow with its orderbook declining to approximately RM140 mln as at end-June 2011 from over RM200 mln in 1QFY11. We understand management is currently bidding for approximately RM200 mln worth of projects with an average historical conversion (success) rate of about 20%.

- On a brighter note, AWC's operations continue to be firmly supported by a BV/share of 30 sen and a net cash/share of 23 sen as at end-June 2011. Its integrated facilities management services concession from the Government continues to provide earnings support with its consistent stream of revenue.

- Meanwhile, AWC's current orderbook of RM140 mln would provide earnings visibility in the near term while management works on clinching new projects. To recap, AWC 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. Should AWC bag the project, it would be a substantial boost to its orderbook. However, for now, it is still waiting for the final decision to be announced. Additionally, we understand management is also working to penetrate into new markets to diversify its income base.

- For FY12, we are projecting revenue and net profit to grow a modest 4.5% and 6.9% y-o-y to RM160.3 mln and RM8.8 mln respectively, on the assumptions that AWC manages to grow its orderbook to back to RM200 mln and a better performance at its Technology division.

- AWC announced a second interim dividend of 1 sen per sen in June 2011, bringing total dividend declared in FY11 to 2 sen per sen. This translates into an attractive gross dividend yield of 9.1% based on current share price.

## Recommendation

We maintain a **Hold** recommendation on AWC but raise our fair value marginally to **27 sen** (from 26 sen) after rolling over our valuation to FY12. Our fair value is derived from ascribing a peer-benchmarked PER of 7x (from 10x) against our FY12 net profit projection. The lower PER multiple reflects the reduced average PER of peers following the recent selldown in the equity market. While our fair value warrants a more aggressive recommendation, we refrain from doing so at this juncture given its challenging outlook and lack of earnings growth catalyst. We note however, that AWC's valuation, at prospective FY12 PER of 6x and P/BV of 0.7x appears to be undemanding, considering that it is also supported by a net cash/share of 23 sen.

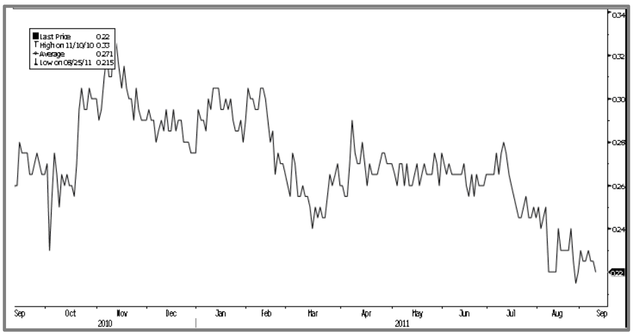
**Per Share Data**

| FYE June | FY10 | FY11 | FY12f |
|---|---|---|---|
| Book Value (RM) | 0.31 | 0.30 | 0.32 |
| Cash Flow (sen) | 6.6 | 4.7 | 5.2 |
| Earnings (sen) | 5.2 | 3.7 | 3.9 |
| (sen) | 1.0 | 2.0 | 1.5 |
| Payout Ratio (%) | 14.5% | 49.5% | 38.9% |
| PER (x) | 4.4 | 6.3 | 6.0 |
| P/Cash Flow (x) | 3.5 | 4.9 | 4.4 |
| P/Book Value (x) | 0.7 | 0.8 | 0.7 |
| Dividend Yield (%) | 4.3% | 8.7% | 6.5% |
| ROE (%) | 17.0% | 12.2% | 12.2% |
| Net gearing (x) | Net cash | Net cash | Net cash |

**P&L Summary**

| FYE June (RM mln) | FY09 | FY10 | FY11 | FY12f |
|---|---|---|---|---|
| Revenue | 103.1 | 184.8 | 153.4 | 160.3 |
| EBIT | 7.4 | 27.4 | 16.6 | 18.0 |
| Net Int Exp | (0.5) | (0.3) | (0.2) | (0.3) |
| Pre-tax Profit | 6.8 | 27.1 | 16.4 | 17.7 |
| Eff. Tax Rate | 21.4% | 18.4% | 16.3% | 16.5% |
| Net Profit after MI | 3.2 | 11.8 | 8.2 | 8.8 |
| EBIT Margin (%) | 7.1% | 14.8% | 10.8% | 11.2% |
| Pre-tax Margin (%) | 6.6% | 14.7% | 10.7% | 11.0% |
| Net Margin (%) | 3.1% | 6.4% | 5.4% | 5.5% |

**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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