

28 August 2017

A & M Realty Berhad Picking Up Pace

1H17 NP of RM6.7m only makes up 25% of our full-year estimates; we deem it is still within our expectation as we are anticipating a stronger 2H17 performance. 1H17 property sales have picked up pace to RM36.1m and is on track to meet our RM111.9m sales target for FY17. No dividend declared as expected. No changes to FY17-18E earnings. Maintain OUTPERFORM with an unchanged Target Price of RM3.00.

Within expectations. 1H17 Net Profit (NP) of RM6.7m only makes up for 25% of our full-year estimate. However, we deem the results to be in line as we are anticipating a stronger 2H17 from sales of projects with very advanced completion stages. Positively, 1H17 property sales have picked up to RM36.1m and is on track to meet our full-year target of RM111.9m, considering that launches were only ramped up in mid 2Q17. No dividend as expected.

Results highlight. YoY, 1H17 NP was down by 9% despite an 18% improvement in revenue. The main drag on its earnings was from its hotel division that continued to register operating losses (-RM0.9m) mainly attributable to the lower performance at Amverton Heritage as it is now undergoing its second phase of renovation. In its property development division, operating margin came off by 13ppt to 25% due to the change in products mix as they had sold higher-end properties back in 1H16 coupled with the clearance of inventories, which led to better margin contribution back then. On QoQ basis, its 2Q17 NP saw a massive growth of 260%, underpinned by revenue growth of 55%. The improvement is mainly driven by its property division, which saw improvements in revenue (+144%) and operating margins (+14ppt), as its property sales with high completion stages have picked up pace.

Stay tuned for 2H17. While earnings outlook may appear soft due to its current earnings performance, its growth prospects remained intact and with earnings set to stage a strong recovery in 2H17 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 RM38.3m with one-year's visibility.

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

Maintain OUTPERFORM with an unchanged TP of RM3.00. Our TP is based on 60% property RNAV discount or an implied 57% discount to its SoP of RM7.00 (partial GDV and partial land bank basis). Although our TP implies a high FY17-18E PER of 41.0x-31.6x vs. other small-mid cap developers' average of 9.0x-7.6x, its GDV/mkt cap ratio is also high at 26.6x vs. small-mid cap peer's average of 12.4x while its earnings growth is stronger than its peers. We like the company for its healthy margins, light balance sheet, strong new sales, 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. Note that SIME has announced an option agreement between Plantation and Property that allows SIME and Property to acquire lands from Plantation, for a period of 5 years (extendable another 3 years), subject to shareholder approval if required, with the market value of the land to be determined by an independent valuer, and positively they have earmarked 993 acres of land in Pulau Carey to be sold to SIME and Property in the option agreement.

OUTPERFORM ↔

Price: RM1.42
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 1,769.17

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)	518.4
Par value per share (RM)	0.50
52-week range (H)	1.85
52-week range (L)	0.99
Free Float	29%
Beta	0.6
3-mth avg daily vol:	108,983

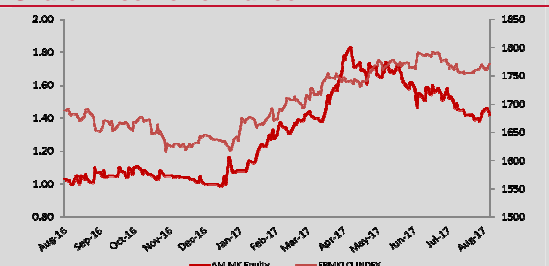
Major Shareholders

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	154.0	188.9
EBIT	25.8	37.7	50.1
PBT	28.0	39.2	51.8
Net Profit	20.1	26.7	34.6
Core PATAMI	20.1	26.7	34.6
Consensus (NP)	n.a.	n.a.	n.a.
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)	0.8	0.8	0.8
PER (x)	25.8	19.4	15.0
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 (%)	4.9%	1.9%	-100.0%
Relative (%)	5.9%	5.5%	-105.2%

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Results Highlights								
FYE Dec (RM'm)	2Q17	1Q17	QoQ	2Q16	YoY	1H17	1H16	YoY
Turnover	36.9	23.8	55%	26.5	39%	60.7	51.6	18%
EBITDA	6.9	2.0	242%	4.8	43%	8.9	10.1	-12%
Depreciation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
EBIT	6.9	2.0	242%	4.8	43%	8.9	10.1	-12%
Interest inc/(exp)	0.5	0.5	-4%	0.3	49%	1.0	0.7	42%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Exceptional items	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Forex gain/(loss)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Pretax profit	7.4	2.5	193%	5.1	43%	9.9	10.8	-9%
Taxation	-1.9	-0.7	179%	-1.5	29%	-2.6	-2.9	-13%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit after tax	5.5	1.8	198%	3.7	48%	7.3	7.9	-7%
Minority interest	-0.2	-0.4	-39%	-0.3	-10%	-0.6	-0.5	14%
PATAMI	5.2	1.5	260%	3.4	53%	6.7	7.3	-9%
Core PATAMI	5.2	1.5	260%	3.4	53%	6.7	7.3	-9%
EBIT margin	19%	8%		18%		15%	20%	
Pretax margin	20%	11%		19%		16%	21%	
CNP margin	14%	6%		13%		11%	14%	
EPS (sen)	1.4	0.4		0.9		1.8	2.0	
Core EPS(sen)	1.4	0.4		0.9		1.8	2.0	
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	26%	27%		28%		26%	27%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Turnover Segmentation	2Q17	1Q17	QoQ	2Q16	YoY	1H17	1H16	YoY
Property	23.1	9.5	144%	11.7	97%	32.6	22.7	44%
Manufacturing	9.0	9.4	-4%	9.5	-5%	18.4	18.8	-2%
Hotel	3.1	3.3	-6%	3.6	-15%	6.3	7.5	-16%
Plantation	1.7	1.7	3%	1.6	6%	3.4	2.6	32%
Total	36.9	23.8	55%	26.5	39%	60.7	51.6	18%
Property	6.7	1.5	359%	3.8	76%	8.2	8.5	-4%
Manufacturing	0.3	0.3	2%	0.3	12%	0.6	0.5	19%
Hotel	-0.5	-0.3	60%	0.1	-480%	-0.9	0.3	-385%
Plantation	0.4	0.6	-30%	0.6	-32%	1.0	0.8	23%
Total	6.9	2.0	242%	4.8	43%	8.9	10.1	-12%
Operating margins								
Property	29%	15%		32%		25%	38%	
Manufacturing	3%	3%		3%		3%	3%	
Hotel	-18%	-10%		4%		-14%	4%	
Plantation	24%	35%		38%		30%	32%	

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (25/8/17)	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*	2.14	11,783	18.2	14.7	14.7	3.4%	4.1%	4.2%	0.63	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
S P SPSETIA BHD*#	3.46	10,572	13.1	13.9	16.2	3.8%	9.7%	8.0%	1.41	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.18	5,354	36.3	22.9	33.2	0.0%	2.2%	3.4%	0.83	147.3	233.5	161.3	58.5%	-30.9%	1.33	OUTPERFORM
SUNWAY BHD^	1.88	8,993	16.6	17.2	16.6	4.7%	7.3%	6.7%	0.50	541.6	521.7	542.6	-3.7%	4.0%	1.82	MARKET PERFORM
MAH SING GROUP BHD	1.57	3,790	10.9	11.2	11.6	4.1%	10.1%	10.0%	1.09	346.8	338.9	327.5	-2.3%	-3.4%	1.67	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.57	4,623	35.8	41.0	18.6	0.0%	3.7%	4.4%	1.22	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.58	4,471	12.0	11.8	11.4	5.8%	19.4%	9.8%	1.07	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.10	2,631	10.8	34.6	27.1	0.2%	8.6%	2.4%	0.90	244.1	76.0	97.2	-69%	27.9%	1.32	OUTPERFORM
KSL HOLDINGS BHD	1.26	1,297	6.3	6.3	6.3	0.0%	8.8%	6.9%	0.48	204.6	206.0	205.0	0.7%	-0.5%	1.30	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.72	1,596	8.5	7.1	6.7	5.4%	31.8%	22.7%	1.43	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.45	1,158	31.6	13.8	10.4	1.8%	6.9%	11.6%	1.51	36.7	84.2	111.9	129.5%	32.9%	1.55	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.52	346	12.0	11.3	10.9	2.9%	2.2%	8.0%	0.45	28.9	30.6	31.6	6.0%	3.3%	1.70	MARKET PERFORM
HUA YANG BHD	0.84	296	4.8	6.9	5.9	1.4%	21.9%	12.2%	0.46	61.0	43.0	50.0	-29.5%	16.3%	0.95	UNDERPERFORM
A&M REALTY BHD	1.42	518	25.8	19.4	15.0	0.0%	3.3%	4.2%	0.81	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
MAGNA PRIMA BHD	1.49	496	62.7	76.2	45.1	0.4%	7.4%	1.1%	1.22	7.9	6.5	11.0	-17.7%	69.2%	1.60	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.85	3,804	12.8	11.9	15.8	3.5%	6.7%	6.4%	0.77	298.0	320.4	240.3	7.5%	-25.0%	3.00	NEUTRAL
GLOMAC BHD	0.65	466	4.2	8.2	6.6	4.7%	10.7%	5.3%	0.42	110.4	57.1	70.8	-48.3%	24.1%	0.70	NEUTRAL
PARAMOUNT CORP BHD	1.82	772	10.3	12.1	9.6	9.3%	7.0%	14.7%	0.84	75.0	63.6	80.6	-15.2%	26.7%	2.37	BUY
TAMBUN INDAH LAND BHD	1.21	524	4.7	6.0	6.6	6.6%	20.0%	14.6%	0.88	112.2	87.5	79.7	-22.0%	-8.9%	1.41	NEUTRAL

* 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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