

24 August 2018

Amverton Berhad 1H18 Below Expectations

1H18 NP of RM7.8m came in below expectations, accounting for 35% of our full-year estimate. 1H18 sales of RM26.1m are also weaker compared to our target of RM90.4m. No dividend declared as expected. Reduced FY18-19E earnings by 21-29%. Downgrade to UNDERPERFORM (previously, MARKET PERFORM) with an unchanged SoP-driven Target Price of RM1.00.

Below expectations. 1H18 CNP of RM7.8m was disappointing, making up only 35% of our full-year estimates, stemming from: (i) lower-than-expected operating margins for its development division, and (ii) weaker-than-expected property sales (note that their products are usually near completion prior to launch or are inventories). Its 1H18 property sales of RM26.1m was weaker compared to our full-year target of RM90.4m. No dividends declared as expected.

Results highlight. 1H18 CNP grew 14%, YoY underpinned by: (i) revenue growth of 2%, (ii) lower effective tax rate of 24% (-2ppt), and (iii) improvements in operating margins by 1ppt to 16%. Its revenue growth is mainly driven by property and hotel division that registered growth of 8-28%, while improvements in margins are mainly from its hotel division that saw profitability returning to the black from losses of RM0.9m in 1H17. QoQ, its 2Q18 CNP growth of 16% was mainly backed by the improvements in revenue (+7%) driven by the growth in property revenue (+18%) which we believe was due to better property sales from its existing projects, i.e. Amverton Hills, and Amverton Links.

Outlook. For the year, we expect minimal launches as we expect management to focus in clearing its inventories and unsold units from its on-going projects, i.e. AHill,ton Hill which is on the higher-end segment as we expect this would be one of the major earnings contributor to the group. 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 of RM48.0m would provide 1-year visibility.

Earnings review. Post results, we further reduced our FY18-19E earnings by 21-29% on the back of the cut in property sales by 46% and 13% to RM48.4m and RM80.8m, respectively, coupled with a lower margin assumption for its property development.

Downgrades to UNDERPERFORM. Since its share price has recently run up slightly, coupled with the disappointment in results, we downgrade AMVERTON to UP (previously, MP) with an unchanged SoP-driven TP of RM1.00 (property RNAV discount of 88%) implying 83% discount to its SoP/share of RM6.21 (partial GDV and partial land bank basis). Our applied discount of 88%, which is already the steepest in our universe, is due to the slower pace in unlock the value of their Pulau Carey landbank, which forms the bulk of the valuation.

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

UNDERPERFORM ↓

Price: RM1.08
Target Price: RM1.00 ↔

Expected Capital Gain: -RM0.08 -7.4%
Expected Divd. Yield: RM0.00 0.0%
Expected Total Return: -RM0.08 -7.4%

KLCI Index 1,810.87

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)	394.3
Par value per share (RM)	0.50
52-week range (H)	1.47
52-week range (L)	0.90
Free Float	29%
Beta	1.1
3-mth avg daily vol:	5,591

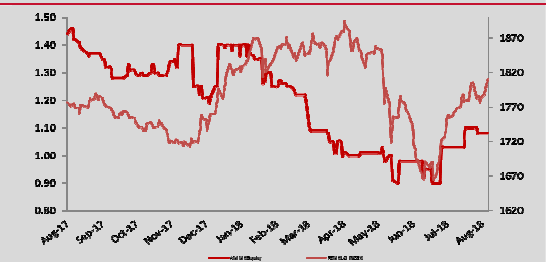
Major Shareholders

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	160.7	147.2	138.4
EBIT	31.3	23.8	22.6
PBT	33.0	26.0	25.8
Net Profit	24.3	17.3	17.2
Core PATAMI	24.3	17.3	17.2
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	-21%	-29%
Core EPS (sen)	6.7	4.8	4.7
Core EPS growth (%)	21%	-29%	-1%
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	1.8	1.8	1.9
Price to NTA (x)	0.6	0.6	0.6
PER (x)	16.2	22.7	22.9
Debt-to-Equity ratio (x)	-0.1	-0.2	-0.2
Return on Asset (%)	3%	2%	2%
Return on Equity (%)	4%	3%	3%
Net Div. Yield (%)	0.0%	0.0%	0.0%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	4.9%	10.2%	-23.9%
Relative (%)	2.1%	8.2%	-25.9%

Adrian Ng Wei Gek / Sarah Lim Fern Chieh
adrian.ng@ / sarahlim@kenanga.com.my
+603-2172 2639 / +603-2172 2646

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Results Highlights

	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
FYE Dec (RM'm)								
Turnover	32.0	29.9	7%	36.9	-13%	61.9	60.7	2%
EBITDA	5.1	4.9	3%	6.9	-26%	10.0	8.9	13%
Depreciation	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
EBIT	5.1	4.9	3%	6.9	-26%	10.0	8.9	13%
Interest inc/(exp)	0.6	0.5	18%	0.5	33%	1.2	1.0	21%
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	5.7	5.5	5%	7.4	-22%	11.2	9.9	14%
Taxation	-1.3	-1.4	-3%	-1.9	-28%	-2.7	-2.6	8%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	4.4	4.1	7%	5.5	-20%	8.5	7.3	16%
Minority interest	-0.2	-0.5	-59%	-0.2	-18%	-0.7	-0.6	7%
PATAMI	4.2	3.6	16%	5.2	-20%	7.8	6.7	16%
Core PATAMI	4.2	3.6	16%	5.2	-20%	7.8	6.7	16%
EBIT margin	16%	16%		19%		16%	15%	
Pretax margin	18%	18%		20%		18%	16%	
CNP margin	13%	12%		14%		13%	11%	
EPS (sen)	1.1	1.0		1.4		2.1	1.8	
Core EPS(sen)	1.1	1.0		1.4		2.1	1.8	
BV/share (RM)	1.8	1.8		1.7		1.8	1.7	
Net gearing (x)	-0.1	-0.1		-0.1		-0.1	-0.1	
Effective tax	24%	25%		26%		24%	26%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
External Turnover Segmentation								
Property	19.1	16.2	18%	23.1	-17%	35.3	32.6	8%
Manufacturing	7.9	7.8	0%	9.0	-13%	15.7	18.4	-15%
Hotel	3.7	4.4	-15%	3.1	21%	8.1	6.3	28%
Plantation	1.3	1.6	-15%	1.7	-23%	2.9	3.4	-15%
Total	32.0	29.9	7%	36.9	-13%	61.9	60.7	2%
EBIT Segmentation								
Property	4.9	3.8	30%	6.7	-27%	8.7	8.2	6%
Manufacturing	0.3	0.3	5%	0.3	-1%	0.6	0.6	-3%
Hotel	-0.1	0.4	n.m.	-0.5	-79%	0.3	-0.9	n.m.
Plantation	0.0	0.5	-97%	0.4	-97%	0.5	1.0	-48%
Total	5.1	4.9	4%	6.9	-26%	10.0	8.9	13%
EBIT margins								
Property	26%	23%		29%		25%	25%	
Manufacturing	4%	4%		3%		4%	3%	
Hotel	-3%	8%		-18%		3%	-14%	
Plantation	1%	33%		24%		18%	30%	

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)							1.00

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																	
AMVERTON BHD	1.08	394.3	Y	12/2018	-8.4%	-6.0%	-28.7%	-0.7%	16.2	22.7	22.9	0.6	0.6	2.7%	0.0%	1.00	UP
CRESCENDO CORPORATION BHD	1.33	302.5	Y	01/2019	12.2%	1.6%	-10.4%	3.7%	10.7	11.9	11.5	0.4	0.4	3.5%	4.5%	1.30	MP
ECO WORLD DEVELOPMENT GROUP	1.29	3,798.2	Y	10/2018	-1.7%	-0.3%	45.7%	55.7%	33.6	23.1	14.8	1.0	1.0	3.8%	0.0%	1.30	MP
HUA YANG BHD	0.480	169.0	Y	03/2019	-3.2%	2.2%	134.4%	9.4%	38.3	16.3	14.9	0.3	0.3	1.7%	0.0%	0.465	MP
IOI PROPERTIES GROUP BHD	1.79	9,856.0	Y	06/2018	-25.0%	-5.0%	-22.4%	4.1%	11.1	14.3	13.7	0.6	0.6	4.0%	3.4%	1.70	MP
MAGNA PRIMA BHD	0.980	326.0	Y	12/2018	37.8%	0.4%	73.3%	2.6%	61.3	41.6	40.5	0.8	0.8	1.9%	1.1%	0.955	MP
MAH SING GROUP BHD	1.21	2,937.5	Y	12/2018	-0.8%	-0.3%	-23.7%	0.7%	11.5	15.0	14.9	0.8	0.8	6.5%	4.5%	1.10	MP
MALAYSIAN RESOURCES CORP BHD	0.795	3,490.7	Y	12/2018	-6.1%	9.1%	32.6%	6.6%	37.9	28.6	26.8	0.8	0.8	2.8%	2.2%	0.700	MP
SP SETIA BHD	2.94	11,469.3	Y	12/2018	-16.4%	7.6%	-53.4%	30.5%	14.8	31.8	24.3	0.9	0.8	5.4%	5.3%	3.50	OP
SUNSURIA BHD	0.970	774.9	Y	09/2018	-1.7%	21.8%	-7.3%	27.9%	8.5	9.2	7.2	1.0	0.9	10.3%	0.0%	1.10	OP
SUNWAY BHD	1.58	7,684.8	Y	12/2018	-2.6%	4.6%	-3.8%	8.1%	13.7	14.3	13.2	1.0	1.0	6.9%	4.4%	1.55	MP
UEM SUNRISE BHD	0.925	4,197.1	Y	12/2018	6.1%	9.8%	23.3%	6.8%	15.4	12.5	11.7	0.7	0.6	4.7%	1.1%	0.970	OP
UOA DEVELOPMENT BHD	2.41	4,443.4	Y	12/2018	5.0%	8.9%	-17.0%	10.9%	10.6	12.8	11.6	1.0	1.0	7.7%	5.8%	2.30	MP
Simple Average					-0.4%	4.2%	11.0%	12.8%	21.8	19.5	17.5	0.8	0.7	4.7%	2.5%		
CONSENSUS NUMBERS																	
GLOMAC BHD	0.435	344.7	Y	04/2019	-17.5%	27.5%	-26.1%	46.8%	11.1	15.1	10.3	0.3	N.A.	1.8%	3.0%	0.530	NEUTRAL
LBS BINA GROUP BHD	0.900	1,402.2	Y	12/2018	3.1%	14.7%	19.2%	12.2%	13.6	11.4	10.1	1.2	1.0	8.6%	3.7%	1.25	BUY
MATRIX CONCEPTS HOLDINGS BHD	2.12	1,595.1	Y	03/2019	24.4%	14.0%	17.1%	9.1%	7.5	6.4	5.9	1.3	1.2	19.0%	6.6%	2.37	BUY
PARAMOUNT CORP BHD	1.88	805.2	Y	12/2018	8.2%	5.0%	-33.3%	3.4%	6.0	9.0	8.8	0.8	0.7	8.3%	4.8%	2.40	BUY
SIME DARBY PROPERTY BHD	1.30	8,841.1	Y	12/2018	-3.3%	2.1%	-15.3%	-14.1%	14.2	16.7	19.5	0.9	0.9	7.4%	2.4%	1.63	BUY
TAMBUN INDAH LAND BHD	0.980	424.7	Y	12/2018	-29.3%	-1.4%	-36.1%	0.9%	5.1	8.0	7.9	0.7	0.8	8.2%	4.6%	1.00	BUY
TITIJAYA LAND BHD	0.400	537.7	Y	06/2018	6.9%	2.9%	8.9%	5.6%	7.1	6.5	6.2	0.4	0.4	11.3%	5.5%	0.570	BUY
YONG TAI BHD	1.03	500.2	Y	06/2018	160.8%	179.5%	155.9%	590.4%	75.5	29.5	4.3	1.3	1.0	6.3%	0.0%	1.87	BUY

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

This report is accessible at www.bursamids.com too.



Chan Ken Yew
Head of Research

