

30 April 2024

# AWC Bhd

## A Proxy to Rising Environmentalism

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### INVESTMENT MERIT

**AWC Bhd is a good proxy to rising environmentalism, particularly, among corporations. It is at the forefront of automated waste management and green building services (including energy management and rainwater harvesting). It is poised for a step-up in earnings in FY24, having plugged the earnings leakages from key earnings contributor Stream Group and effected a turnaround of its facilities division. Its current outstanding order book of RM767m should keep it busy over the next 2-3 years. We value the company at RM1.06 based on 14x FY25F PER. We recommend ADD.**

**Proxy to rising environmentalism.** AWC Bhd is a good proxy to rising environmentalism, particularly, among corporations. It is at the forefront of automated waste management and green building services (including energy management and rainwater harvesting). It also has a facilities division that maintains federal government buildings (for the southern zone and Sarawak Zone) and a rail division that supplies track materials and equipment to the railways industry.

**Stream Group earnings leakages plugged.** AWC is poised for a step-up in earnings in FY24F, having plugged the earnings leakages from key earnings contributor Stream Group. In Dec 2023, AWC bought out Stream Group's 49% minority shareholder for RM110m. In terms of prospects, apart from rising environmentalism locally, Stream Group also sees opportunities in new smart and green mega city development projects in Nusantara, Indonesia and NEOM, Saudi Arabia.

In 1HFY24 (Jul-Dec 2023), AWC's environment division (driven largely by Stream Group) contributed 72% of AWC's group PBT of RM14.2m. AWC's net profit of RM11.2m would have been 43% higher if not for an MI of RM4.8m largely attributable to Stream Group's MI. This lumpy MI will be effectively removed starting from 2HFY24.

**Facilities division to turn around.** Its facilities division posted a pre-tax loss of RM7.9m in FY23 due to impairments, higher electricity cost, unscheduled works and a higher minimum wage. However, it already turned profitable in 2QFY24 backed by a higher revenue and improved cost efficiency. AWC is confident of securing at least 10% of 150 public hospital support services concessions up for renewal/retendering in Mar 2025.

**More rail jobs.** Its rail division's current order backlog of RM74.1m orderbook, largely awarded by KTM and MRT Corp, should rise in tandem with the roll-out of Penang Mutiara LRT Line and MRT3, resulting in higher demand for track materials. Meanwhile, earnings for its engineering division are expected to be resilient on the back of its current RM92.3m outstanding order book as well as the revival of property and construction projects locally.

**Strong earnings growth.** We project FY24F net profit to surge to RM19.9m from RM2.1m a year ago due to: (i) the elimination of MI from Stream Group from 2HFY24, and (ii) the turnaround of its facilities division. We project its FY25F net profit to grow 26% driven mainly by the full-year impact of the full ownership of Stream Group. Overall, its current outstanding order book of RM766.8m should keep it busy for the next 2-3 years.

|            | Rating | Fair Value |
|------------|--------|------------|
| Last Price | -      | RM0.95     |
| Kenanga    | ADD    | RM1.06     |
| Consensus  | -      | -          |

| Stock Information     |                                |
|-----------------------|--------------------------------|
| Shariah Status        | Yes                            |
| Stock Name            | AWC Bhd                        |
| CAT Code              | 7579                           |
| Industry              | Industrial Products & Services |
| Industry Sub-sector   | Industrial Services            |
| YTD stock price chg   | 48.44%                         |
| Market Cap (RM m)     | 312.12                         |
| Issued shares (m)     | 328.54                         |
| 52-week range (Hi)    | 0.96                           |
| 52-week range (Low)   | 0.45                           |
| 3-mth avg. daily vol. | 2,673,686                      |
| Free Float            | 42.7%                          |
| Beta                  | 0.69                           |
| Altman's Z-score      | 2.40                           |

| Major Shareholders   |       |
|----------------------|-------|
| K-Capital Sdn Bhd    | 25.7% |
| Mohamed Nagoor Ahmad | 7.9%  |
| Mastrack Sdn         | 4.4%  |

| Financials        |         |         |         |
|-------------------|---------|---------|---------|
| FY Jun (RM m)     | 2023F   | 2024F   | 2025F   |
| Revenue           | 379.0   | 411.3   | 448.8   |
| EBITDA            | 83.2    | 96.1    | 104.9   |
| Profit Before Tax | 11.8    | 32.6    | 33.0    |
| Net Profit        | 2.1     | 19.9    | 25.1    |
| EPS (sen)         | 0.6     | 6.1     | 7.6     |
| BV/Share (sen)    | 70.5    | 75.1    | 80.7    |
| PER (x)           | 72.4    | 15.7    | 12.4    |
| PBV (x)           | 1.3     | 1.3     | 1.2     |
| Net Gearing (x)   | N. Cash | N. Cash | N. Cash |
| DPS (sen)         | 1.0     | 1.5     | 2.0     |
| Div Yield (%)     | 2.1     | 1.6     | 2.1     |

| Quarterly Financial Data (RM m) |        |         |         |
|---------------------------------|--------|---------|---------|
|                                 | 4QFY23 | 1QFY24  | 2QFY24  |
| Revenue                         | 91.5   | 88.8    | 116.8   |
| PBT/(LBT)                       | -15.6  | 3.8     | 10.4    |
| <b>Net Profit</b>               | -13.4  | 0.5     | 5.8     |
| Basic EPS (sen)                 | -4.1   | 0.1     | 1.8     |
| Revenue Growth (QoQ)            | -3.5%  | -2.9%   | 31.5%   |
| EPS growth (QoQ)                | N/A    | >100.0% | >100.0% |
| Net Margin (%)                  | -14.6% | 0.5%    | 5.0%    |

| Peers Comparisons | PER (FY23A)  | Div. Yld (%) | Mkt Cap (RM m) |
|-------------------|--------------|--------------|----------------|
| EDGENTA           | 24.9x        | 2.2          | 769.3          |
| GFM               | 9.8x         | 0.5          | 296.2          |
| NADIBHD           | N/A          | N/A          | 195.8          |
| <b>Average</b>    | <b>17.4x</b> | <b>1.4</b>   | <b>420.4</b>   |

**Valuations and recommendation.** We value AWC at RM1.06 based on 14x FY25F PER, at a 20% discount to 17x forward PER of peer **EDGENTA (Not Rated)** given AWC's smaller market capitalisation. There is no adjustment to our fair value based on on ESG given a 3-star rating as appraised by us (see Page 3). We recommend **ADD**.

Daily Charting – AWC Bhd



**Comment:** AWC's stock, after exiting a five-month consolidation and gaining over 45% since April due to positive turnaround expectations and favorable market sentiment, has re-entered consolidation since mid-April. Despite oversold conditions shown by stochastic and RSI indicators, it remains above all the key SMA levels (5, 13, and 50 days), indicating sustained buying interest. A move above the immediate resistance at RM0.96 (R1) could target RM1.00 (R2), while dropping below the support at RM0.90 (S1) might lead to a decline to RM0.84(S2).

About the stock:

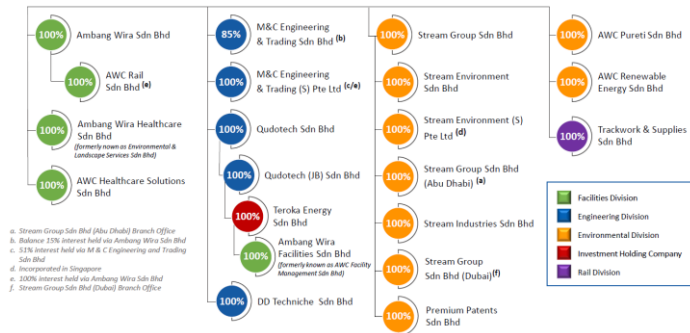
**Name** : AWC Bhd  
**Bursa Code** : AWC  
**CAT Code** : 7579

Key Support & Resistance level

**Resistance** : RM0.960 (R1) RM1.00 (R2)  
**Support** : RM0.90 (S1) RM0840 (S2)  
**Outlook** : Neutral

Source: Kenanga Research

ONE STOP CONSTRUCTION SOLUTIONS PROVIDER



BUSINESS OVERVIEW

AWC provides engineering services such as electrical distribution, lighting, air-conditioning and security, building controls, engineering components, and systems, as well as waste collection services and has customers worldwide.

BUSINESS SEGMENTS

AWC is operating in four business segments, namely environment, engineering, facilities, and rail.

**Stock ESG Ratings:**

|                 | Criterion  | Rating |   |   |   |   |
|-----------------|--|--------|---|---|---|---|
| <b>GENERAL</b>  | Earnings Sustainability & Quality                | ★      | ★ | ★ |   |   |
|                 | Community Investment                             | ★      | ★ | ★ |   |   |
|                 | Workers Safety & Wellbeing                       | ★      | ★ | ★ |   |   |
|                 | Corporate Governance                             | ★      | ★ | ★ |   |   |
|                 | Anti-Corruption Policy                           | ★      | ★ | ★ |   |   |
|                 | Emissions Management                             | ★      | ★ | ★ |   |   |
| <b>SPECIFIC</b> | Migrant Worker Welfare                           | ★      | ★ | ★ |   |   |
|                 | Waste Disposal/Pollution Control                 | ★      | ★ | ★ | ★ | ☆ |
|                 | Work Site Safety                                 | ★      | ★ | ★ |   |   |
|                 | Environmentally Friendly Construction Technology | ★      | ★ | ★ |   |   |
|                 | Supply Chain Auditing                            | ★      | ★ | ★ |   |   |
|                 | Energy Efficiency                                | ★      | ★ | ★ | ★ |   |
|                 | <b>OVERALL</b>                                   | ★      | ★ | ★ |   |   |

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

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