

## AME Elite Consortium Bhd

### Regional expansion kick-off

#### Summary

- AME Elite Consortium Bhd (AME) via its wholly owned subsidiary, Northern Industrial Park Sdn Bhd has formed a special purpose vehicle (SPV) with Majestic Builders Sdn Bhd for the development of an integrated industrial park in Seberang Prai, Penang with a gross development value (GDV) of RM1.00bn.
- The SPV (50:50 equity stake), Suling Hill Development Sdn Bhd, has entered into a sale and purchase agreement with landowner Waz Lian Holdings Sdn Bhd to acquire 16 parcels of freehold land measuring a total of 71.2-ha for RM130.0m. The acquisition will be satisfied partly via cash amounting to RM80.0m, while the remaining consideration of RM50.0m will be settled via in-kind industrial properties from the intended industrial park development within 24 months upon fulfilment of conditions of the sale and purchase agreement.
- The proposed acquisition is targeted to be completed by 3Q23. Upon completion, this will boost their landbank to slightly more than 400.0-ac. that will be able to generate long-term earnings visibility over the next 5-7 years.
- We gather that the land purchase consideration translates to approximately RM182.58/sqm is at the lower end against other plot of industrial lands within proximity area that is selling at approximately RM350-550/sqm. Recall that their 169.8-ac land acquisitions in the Southern Industrial and Logistics Clusters (SiLC) in Iskandar Puteri, Johor Bahru at RM434.3m translates to RM632.03/sqm.
- It is no surprise that over the years, AME is constantly looking for opportunities to mark their footprint into other states. We are sanguine on the move into the northern region with Penang being one of the top 3 destinations of industrial hubs in Peninsular Malaysia. The strategic location is expected to attract vast demand, particularly within the electrical and electronics, electronic manufacturing services, semiconductors, automotive and among others industries.
- Given AME's strong historical track record and their position as an integrated industrial property specialist, we reckon that AME will be able to replicate their success of i-Parks that are equipped with custom-built industrial properties and workers dormitories in Johor into their northern venture. This also marks the first step of AME's geographical diversification into other states in Malaysia.

#### Valuation & Recommendation

- With no immediate contribution coming in until the completion of land acquisition in 3Q23, we are keeping our earnings forecast unchanged, pending their upcoming quarterly results announcement tentatively on 24th August 2022. Following the recent weakness in share price, we upgrade AME to **BUY** (from Hold), with an unchanged target price of RM1.87.

#### Company Update

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#### BUY (from Hold)

|                 |        |
|-----------------|--------|
| Share price     | RM1.63 |
| Target price    | RM1.87 |
| Previous TP     | RM1.87 |
| Capital upside  | 14.7%  |
| Dividend return | 2.5%   |
| Total return    | 17.2%  |

#### Company profile

Principally involved in construction of customised large manufacturing plants and design, build and development of industrial parks

#### Stock information

|                      |           |
|----------------------|-----------|
| Bursa Code           | 5216      |
| Bloomberg ticker     | AME MK    |
| Listing market       | Main      |
| Share issued (m)     | 640.7     |
| Market Cap (m)       | 1,044.3   |
| 52W High/Low         | 2.03/1.49 |
| Est. Free float      | 35.0%     |
| Beta (x)             | 0.7       |
| 3-mth avg vol ('000) | 311.9     |
| Shariah compliant    | Yes       |

#### Major shareholders

|              | %    |
|--------------|------|
| Lim Yook Kim | 17.8 |
| Lee Chai     | 17.6 |
| Kang Ah Chee | 17.4 |

#### Share price vs. KLCI (%)

|              | 1M   | 3M   | 12M  |
|--------------|------|------|------|
| Hist. return | 1M   | 3M   | 12M  |
| Absolute     | 0.0  | -3.0 | -7.3 |
| Relative     | -5.8 | -0.9 | -8.9 |

#### Earnings summary

| FYE (Mar) | FY22 | FY23f | FY24f |
|-----------|------|-------|-------|
| PATMI (m) | 48.6 | 59.9  | 71.5  |
| EPS (sen) | 7.6  | 9.3   | 11.2  |
| P/E (x)   | 21.5 | 17.4  | 14.6  |

#### Relative performance chart



- Our target price is derived by ascribing a target PER of 20.0x to its FY23f EPS of 9.3 sen. The assigned PER is in line with the historical 1-year mean average and is slightly higher against the small-mid cap construction industry average of 15.0-18.0x, premised to AME's position as a niche construction player, specialising in the industrial REIT space.
- Risks to our recommendation and target price include dependency on the foreign direct investment in Malaysia. Also, weaker-than-expected construction orderbook replenishment and slower-than-expected industrial property sales may hamper the prospect of earnings growth.

## Financial Highlights

*All items in (RM m) unless otherwise stated*

| Income Statement            |        |        |        |        |        | Balance Sheet          |         |          |         |         |         |
|-----------------------------|--------|--------|--------|--------|--------|------------------------|---------|----------|---------|---------|---------|
| FYE Mar (RM m)              | FY20   | FY21   | FY22   | FY23f  | FY24f  | FYE Mar (RM m)         | FY20    | FY21     | FY22    | FY23f   | FY24f   |
| Revenue                     | 380.3  | 460.6  | 398.4  | 518.1  | 595.3  | Cash                   | 191.8   | 271.4    | 187.2   | 221.9   | 204.4   |
| EBITDA                      | 99.8   | 88.3   | 80.9   | 95.9   | 113.1  | Receivables            | 86.2    | 94.3     | 82.3    | 99.4    | 114.2   |
| EBIT                        | 93.3   | 81.5   | 74.6   | 88.9   | 104.9  | Inventories            | 357.8   | 311.5    | 649.9   | 651.5   | 698.7   |
| Net finance income/ (cost)  | (10.0) | (5.4)  | (7.3)  | (8.0)  | (9.6)  | PPE                    | 100.6   | 131.6    | 147.0   | 166.0   | 187.5   |
| Associates & JV             | 5.3    | 3.5    | 1.6    | 2.6    | 3.0    | Others                 | 417.5   | 383.0    | 435.8   | 438.5   | 455.0   |
| Profit before tax           | 88.7   | 79.6   | 68.9   | 83.5   | 98.3   | Assets                 | 1,153.9 | 1,191.8  | 1,502.2 | 1,577.3 | 1,659.7 |
| Tax                         | (20.0) | (21.7) | (16.4) | (20.0) | (23.6) | Debts                  | 283.2   | 247.6    | 249.4   | 241.4   | 237.4   |
| Net profit                  | 68.6   | 57.9   | 52.5   | 63.4   | 74.7   | Payables               | 144.6   | 147.2    | 188.4   | 183.8   | 184.6   |
| Minority interest           | 4.5    | 4.4    | 4.0    | 3.6    | 3.2    | Others                 | 58.3    | 84.8     | 317.8   | 349.6   | 383.2   |
| Core earnings               | 56.9   | 53.5   | 41.6   | 59.9   | 71.5   | Liabilities            | 486.2   | 479.6    | 755.6   | 774.8   | 805.1   |
| Diluted core earnings       | -      | -      | -      | 64.0   | 73.6   | Shareholder's equity   | 633.9   | 674.5    | 706.0   | 707.0   | 707.0   |
| Exceptional items           | 7.3    | -      | 7.0    | -      | -      | Minority interest      | 33.8    | 37.7     | 40.7    | 95.4    | 147.5   |
| Reported earnings           | 64.1   | 53.5   | 48.6   | 59.9   | 71.5   | Equity                 | 667.6   | 712.2    | 746.7   | 802.5   | 854.6   |
| Cash Flow Statement         |        |        |        |        |        | Valuation & Ratios     |         |          |         |         |         |
| FYE Mar (RM m)              | FY20   | FY21   | FY22   | FY23f  | FY24f  | FYE Mar (RM m)         | FY20    | FY21     | FY22    | FY23f   | FY24f   |
| Profit before taxation      | 88.7   | 79.6   | 68.9   | 83.5   | 98.3   | Core EPS (sen)         | 8.9     | 8.3      | 6.5     | 9.3     | 11.2    |
| Depreciation & amortisation | 6.5    | 6.8    | 6.4    | 7.0    | 8.2    | Diluted Core EPS (sen) | -       | -        | -       | 9.3     | 11.2    |
| Changes in working capital  | 117.7  | 70.5   | 373.2  | 14.2   | 75.1   | P/E (x)                | 18.4    | 19.5     | 25.1    | 17.4    | 14.6    |
| Share of JV profits         | (5.2)  | (3.5)  | (1.6)  | -      | -      | Diluted P/E (x)        | -       | -        | -       | 19.9    | 17.4    |
| Taxation                    | (14.4) | (22.6) | (19.7) | (20.0) | (23.6) | DPS (sen)              | 3.0     | 4.0      | 2.5     | 4.0     | 4.0     |
| Others                      | (13.4) | (6.5)  | (4.5)  | -      | -      | Dividend yield         | 1.8%    | 2.5%     | 1.5%    | 2.5%    | 2.5%    |
| Operating cash flow         | (40.1) | 130.1  | (56.7) | 56.2   | 7.8    | BVPS (RM)              | 1.04    | 1.11     | 1.17    | 1.25    | 1.33    |
| Net capex                   | (63.0) | (7.9)  | (15.1) | (25.9) | (29.8) | P/B (x)                | 1.6     | 1.5      | 1.4     | 1.3     | 1.2     |
| Others                      | 19.3   | 8.5    | 3.1    | -      | -      | EBITDA margin          | 26.2%   | 19.2%    | 20.3%   | 18.5%   | 19.0%   |
| Investing cash flow         | (43.7) | 0.6    | (12.0) | (25.9) | (29.8) | EBIT margin            | 24.5%   | 17.7%    | 18.7%   | 17.2%   | 17.6%   |
| Changes in borrowings       | 67.4   | (35.6) | 1.8    | (8.1)  | (4.0)  | PBT margin             | 23.3%   | 17.3%    | 17.3%   | 16.1%   | 16.5%   |
| Issuance of shares          | 107.6  | 0.5    | -      | -      | -      | PAT margin             | 18.0%   | 12.6%    | 13.2%   | 12.2%   | 12.6%   |
| Dividends paid              | -      | (12.8) | (17.1) | (25.6) | (25.6) | Core PAT margin        | 15.0%   | 11.6%    | 10.4%   | 11.6%   | 12.0%   |
| Others                      | 1.5    | -      | -      | -      | -      | ROE                    | 8.5%    | 7.5%     | 5.6%    | 7.5%    | 8.4%    |
| Financing cash flow         | 178.5  | (47.9) | (17.6) | 4.4    | 4.4    | ROA                    | 4.9%    | 4.5%     | 2.8%    | 3.8%    | 4.3%    |
| Net cash flow               | 94.7   | 82.8   | (86.3) | 34.7   | (17.6) | Net gearing            | 13.7%   | Net Cash | 8.3%    | 2.4%    | 3.9%    |
| Forex                       | -      | -      | -      | -      | -      |                        |         |          |         |         |         |
| Others                      | -      | -      | -      | -      | -      |                        |         |          |         |         |         |
| Beginning cash              | 78.4   | 173.2  | 255.9  | 169.7  | 204.4  |                        |         |          |         |         |         |
| Ending cash                 | 173.2  | 255.9  | 169.7  | 204.4  | 186.8  |                        |         |          |         |         |         |

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