

PP14767/09/2012(030761)

Market Access

IJM Corporation Berhad

“Sombre Ending”

Results Review

- Actual vs. expectations.** IJM Corporation Bhd (IJM Corp) FY16 core net profit of RM491 million (+1% y-o-y), came in below ours and consensus estimates respectively, accounting 86% and 79% of both estimates full year net profit forecast, no thanks to weaker earnings contribution from the property division (-68% y-o-y) as well as plantation division (-44% y-o-y). Note that FY16 earnings have been adjusted to exclude exceptional items including; i) RM302 million one-off gains from the disposal of 74% equity interest in Jaipur Mahua Tollway and 70% equity interest in Swarna Tollway and ii) RM17 million net forex losses.
- Dividend.** Declared second interim dividend of 7.0sen/share for the quarter, bringing total dividend to 10.0sen/share for FY16, translating into a dividend yield of 2.9% (FY15: 4.4%).
- Top line.** FY16 revenue dropped to RM5.1 billion (-6% y-o-y) hammered by lower contribution from property and plantation divisions. Property division posted lower revenue of RM1.2 billion (-44% y-o-y) impacted by lower property sales during the period in line with challenging property market condition. Meanwhile, plantation division’s revenue dropped to RM558 million (-16% y-o-y) hammered by weaker sales volume of CPO (-11% y-o-y) and the drop in average CPO price for the group’s Sabah and Indonesian operation by 6% y-o-y and 11% y-o-y respectively.

However, construction division managed to achieve higher revenue of RM1.4 billion (+49% y-o-y) in FY16 lifted by higher contribution from new projects secured in the previous year. Manufacturing and quarrying division also registered a strong revenue of

Friday, May 27, 2016

BUY (TP: RM4.20)

Current Price (RM)	RM3.44
New Target Price (RM)	RM4.20
Previous Target Price (RM)	RM4.00
Previous Recommend.	BUY
Upside To Target Price	22%
Dividend Yield (FY17)	2%

Stock Code

Bloomberg	IJM MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	3,589
Market Cap (RM mn)	12,488
YTD Chg In Share Price	3%
Beta (x)	0.95
52-week Hi/Lo (RM)	3.65   2.87
3M Average Volume (shrs)	5.77mn
Estimated Free Float	61%

Major Shareholders

EPF	14%
Skim ASB	8%
LTH	6%

RM980 million (+6% y-o-y) driven by the increase in the delivered tonnage of piles. Furthermore, Infrastructure division also posted higher revenue of RM991 million (+25% y-o-y) due to improve traffic growth in the group's Malaysia toll road concession added with higher cargo revenue by its port concession.

- **Bottom line.** IJM Corp PBT improved to 1.2 billion in FY16 or jumping by 13% y-o-y due to the one-off gains from the disposal of 74% equity interest in Jaipur Mahua Tollway Private Limited and 70% equity interest in Swarna Tollway Private Limited. Segmental wise, the group's infrastructure division emerged as the star performer in FY16 after recording commendable PBT of RM556 million (+ >500% y-o-y) respectively, offsetting lower PBT contribution from construction (-8% y-o-y), property (-68% y-o-y) and plantation division (-44% y-o-y).
- **Latest development.** IJM Corp' unit, IJM Construction Sdn Bhd has secured RM1.47 billion contract from MRT Corp. to construct the viaduct guideway and other associated works for 4.6km stretch of MRT Sungai Buloh-Serdang-Putrajaya (SSP) line. The viaduct work package (V203) is part of the SSP line's elevated alignment from Jinjang to Jalan Ipoh North Portal. Hence, we estimate that RM1.47 billion KVMRT2 contracts may potentially contribute RM132 million to the group's bottom line, based on conservative PBT margin assumption of 9%. (i.e. FY17-FY20)
- **Construction orderbook.** IJM Corp's construction orderbook currently stands at approximately RM8.4 billion which enough to keep them busy for the next 2 years. Moving forward, we expect the group to emerge as one of the potential beneficiaries to grab some goodies from LRT3 project awards (work packages) which is expected to be roll-out in 2H2016 as well as several potential new jobs to replenish its orderbook further including Sungai Besi-Ulu Kelang Expressway (SUKE), Damansara-Shah Alam Elevated Expressway (DASH) and Pan Borneo Highway.
- **Change to forecast.** We have maintained our FY17 earnings forecast as we already factoring in the new earnings contribution from KVMRT2 work package which has been secured recently. We introduce our FY18 earnings forecast. Given that, FY17 and FY18 earnings are projected to increase by 56% y-o-y and 2% y-o-y respectively, lifted by i) recovery in construction margin underpinned by various job wins and ii) earnings acceleration from the group's manufacturing and quarrying division.
- **Valuation & recommendation.** We re-value IJM Corp at RM4.20 pegged to PER of 20x (20% premium to the group's average 3-years PER of 17x) and the stock is a **BUY** underpinned by i) robust outlook on the construction industry in Malaysia backed by 11MP and Budget 2016 projects and ii) healthy construction orderbook of approximately RM8.4 billion.

Table 1: Peers comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
IJM CORP	Mar	3.44	19	21	17.4	17.1	1.4	1.3	11	2	4.20	Buy
GAMUDA	Jul	4.73	27	31	17.9	15.7	1.7	1.6	10	2	5.94	Buy
WCT	Dec	1.54	11	13	15.8	12.7	0.8	0.8	9	1	1.93	Buy
SCGB	Dec	1.53	11	12	15.3	13.3	3.9	3.3	33	2	1.92	Buy
BENALEC	Jun	0.51	7	9	8.2	6.2	0.7	0.3	0	1	NR	NR
CREST BUILDER	Dec	0.93	8	NA	10.2	NA	NA	NA	8	4	NR	NR
EVERSENDAL	Dec	0.66	9	9	8.4	8.6	0.6	0.6	6	2	NR	NR
KIMLUN	Dec	1.76	20	23	9.0	8.0	1.1	1.0	16	2	NR	NR
MRCB	Dec	1.17	5	6	26.6	20.8	1.1	1.1	16	2	NR	NR
AZRB	Dec	0.72	NA	NA	NA	NA	NA	NA	6	3	NR	NR
YTL CORP	Jun	1.60	13	14	12.4	11.5	1.1	1.0	7	6	NR	NR
Average					14.1	12.7	1.4	1.2	11	3		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: Mar (RM million)	FY14	FY15	FY16	FY17F	FY18F
Revenue	6,007	5,448	5,128	7,639	7,791
EBIT	1,788	1,292	1,301	1,528	1,558
Finance costs	(231)	(243)	(169)	(229)	(234)
Associates	3	(19)	14	38	39
JCE	(143)	(11)	10	(61)	(62)
PBT	1,416	1,019	1,156	1,276	1,301
Net profit	830	481	794	766	781
EPS (sen)	59	33	22	21	22
PBT margin	24%	19%	23%	17%	17%
Net profit margin	14%	9%	15%	10%	10%
PER (x)	11.2	21.4	15.5	16.1	15.8
P/BV (x)	1.5	1.6	1.4	1.3	1.2
Dividend yield	2%	2%	3%	2%	2%

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Results Analysis

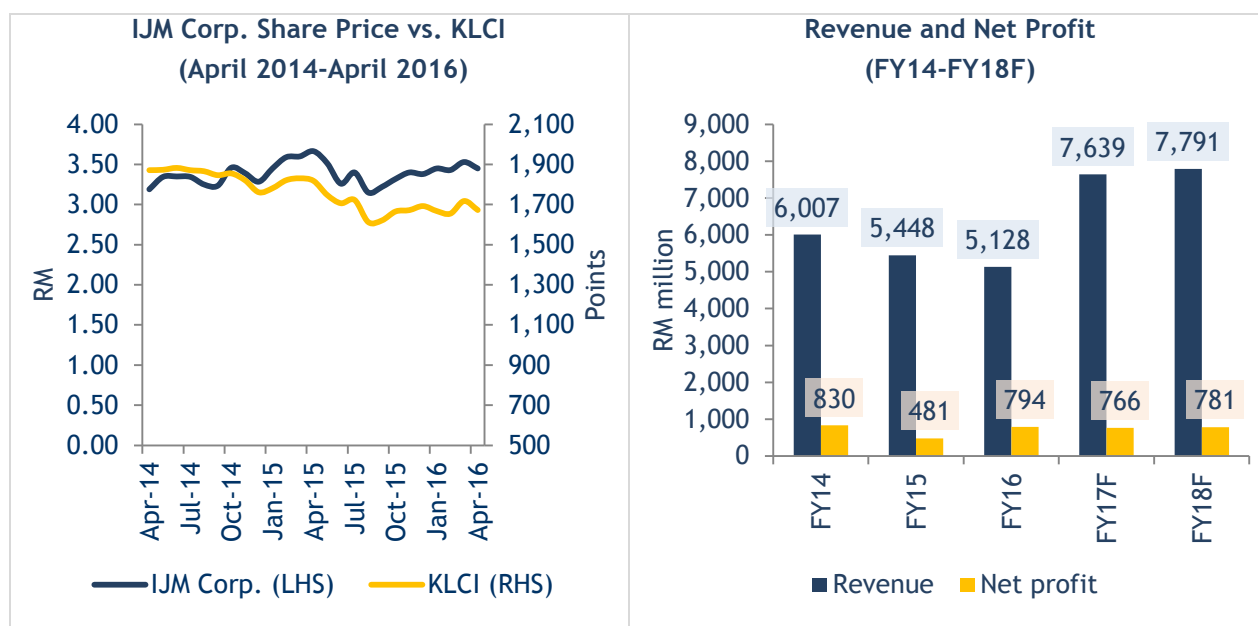
YE: Mar (RM million)	4Q15	3Q16	4Q16	q-o-q	y-o-y	12M15	12M16	y-o-y
Revenue	1,443	1,440	1,167	-19%	-19%	5,448	5,128	-6%
EBIT	320	414	124	-70%	-61%	1,292	1,301	1%
Interest expense	(53)	(41)	(14)	-66%	-74%	(243)	(169)	-30%
Associates	(22)	(1)	25	NM	NM	8	24	178%
PBT	245	373	135	-64%	-45%	1,019	1,156	13%
Taxation	(93)	(78)	(93)	19%	-1%	(306)	(274)	-10%
Net profit	98	256	44	-83%	-55%	481	794	65%
EPS (sen)	3	7	1	-83%	-59%	15	22	51%
EBIT margin	22%	29%	11%			24%	25%	
PBT margin	17%	26%	12%			19%	23%	
Net profit margin	7%	18%	4%			9%	15%	
Effective tax rate	38%	21%	69%			30%	24%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

YE: Mar (RM million)	4Q15	3Q16	4Q16	q-o-q	y-o-y	12M15	12M16	y-o-y
<b>Revenue</b>								
Construction	250	485	356	-27%	42%	950	1,414	49%
Property	606	306	301	-2%	-50%	2,116	1,185	-44%
Manufacturing & Quarrying	228	232	215	-7%	-6%	922	980	6%
Plantation	133	156	115	-26%	-13%	668	558	-16%
Infrastructure	226	261	181	-31%	-20%	791	991	25%
Other	0.7	0.1	0.3	400%	-65%	1.0	0.6	-43%
<b>PBT</b>								
Construction	71	35	53	54%	-25%	185	171	-8%
Property	128	21	4	-78%	-97%	495	159	-68%
Manufacturing & Quarrying	30	23	23	2%	-22%	126	124	-1%
Plantation	(15)	54	3	-94%	NM	89	50	-44%
Infrastructure	3	261	89	-66%	2986%	42	556	1214%
Other	27	(20)	(38)	NM	NM	83	96	16%

Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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