

PP14767/09/2012(030761)

Market Access

IJM Corporation Berhad

“6M16 Results On Track, More to Come”

Results Review

- Actual vs. expectations.** IJM Corporation Bhd (IJM Corp) 6M16 core net profit of RM305 million (+13% y-o-y), came in line with ours and consensus estimates respectively, accounting 45% and 44% of both estimates full year net profit forecast. Note that 6M16 earnings have been adjusted to exclude exceptional items including; i) RM169 million one-off gain from the disposal of 74% equity interest in Jaipur Mahua Tollway Private Limited and ii) RM20 million net forex gain. Commendable earnings were propelled by improving contribution from the industry division (+13% y-o-y) and infrastructure division (+509% y-o-y), assisted by the increase in delivery of tonnage piles and continued traffic growth in the group’s toll road and port concessions.
- Dividend.** Declared an interim dividend of 3.0sen/share for 6M16, translating into a dividend payout ratio of 22%, lower than 6M15 payout of 58%.
- Top line.** 6M16 revenue dropped to RM2.5 billion (-5% y-o-y) hammered by lower contribution from property and plantation divisions. Property division posted lower revenue of RM578 million (-42% y-o-y) impacted by lower unbilled sales as a results of lower take-up rate in line with challenging property market condition. Meanwhile, plantation division’s revenue dropped to RM287 million (-18% y-o-y) hammered by weaker sales volume of CPO (-10% y-o-y) and the drop in average CPO price for the group’s Sabah and Indonesian operation by 12% y-o-y and 11% y-o-y respectively. However, construction division managed to achieve higher revenue of RM573 million (+13% y-o-y) lifted by higher contribution from new projects secured in the previous year.

Thursday, November 26, 2015

BUY (TP: RM3.74)

Current Price (RM)	RM3.35
New Target Price (RM)	RM3.74
Previous Target Price (RM)	RM3.74
Previous Recommend.	HOLD
Upside To Target Price	12%
Dividend Yield (FY17)	5%

Stock Code

Bloomberg	IJM MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	3,572
Market Cap (RM mn)	11,789
YTD Chg In Share Price	0.5%
Beta (x)	1.00
52-week Hi/Lo (RM)	3.75 2.87
3M Average Volume (shrs)	6.09mn
Estimated Free Float	61%

Major Shareholders

EPF	15%
Skim ASB	7%
LTH	6%

- **Bottom line.** IJM Corp PBT improved to 648 million in 6M16 or jumping by 31% y-o-y due to one-off gain from disposal of 74% equity interest in Jaipur Mahua Tollway Private Limited. Segmental wise, the group's industry and infrastructure division emerged as the star performer in 6M16 after recording commendable PBT of RM78 million (+13% y-o-y) and RM206 million (+509% y-o-y) respectively, offsetting lower PBT contribution from construction (-13% y-o-y), property (-41% y-o-y). In addition, plantation division suffered a loss before tax (LBT) of RM6 million in 6M16 vs. PBT of RM66 million in 6M15.
- **Latest development.** IJM Corp has secured the Letter of Award (LOA) issued by GDP Architects Sdn Bhd in September 2015 on behalf of Hotel Equatorial (M) Sdn Bhd and Fenghuang Development Sdn Bhd for stage 2 works - main building works for the proposed construction of 1 block of 52 storeys mixed commercial development known as "Equatorial Plaza" on Lot 1217, Seksyen 57, Jalan Sultan Ismail, Kuala Lumpur. The contract is worth RM455.5 million involving the construction works of the podium block, office tower and hotel tower and the interior design works for the hotel tower and hotel outlet. The entire project is slated to be completed within 36 month.
- **Construction's order book.** IJM Corp's construction orderbook currently stands at approximately RM7.0 billion with 38% coming from the West Coast Expressway's (WCE) contract worth RM2.8 billion. Moving forward, the group is expected to replenish its order book further by grabbing some potential new jobs wins including Menara Warisan Merdeka and some work package from KVMRT2 and LRT 3.
- **Change to forecast.** We keep unchanged our earnings forecast as 6M16 earnings are in line with our expectation. Given that, FY16 and FY17 earnings are projected to increase by 42% y-o-y and 15% y-o-y respectively, lifted by i) recovery in construction margin underpinned by the group's healthy construction order book of approximately RM7.0 billion and ii) earnings acceleration from the privatization of IJM land.
- **Valuation & recommendation.** We value IJM Corp at RM3.74 and the stock is a **BUY** underpinned by i) robust outlook on construction industry in Malaysia backed by 11MP and Budget 2015 projects and ii) phase 2 of the Light project development in Penang.

Table 1: Peers comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
IJM CORP	Mar	3.35	19	22	16.7	15.3	1.4	1.3	9	2	3.74	Buy
GAMUDA	Jul	4.56	28	29	16.0	15.6	1.7	1.6	12	3	5.80	Buy
WCT	Dec	1.53	10	13	13.3	10.9	0.7	0.7	5	1	1.63	HOLD
SCGB	Dec	1.37	10	10	12.9	12.7	3.9	3.3	NA	NA	1.63	Buy
BENALEC	Jun	0.58	0.04	0.1	9.1	7.7	1.0	1.1	1	1	NR	NR
CREST BUILDER	Dec	1.00	7	8	14.6	11.8	NA	NA	6	4	NR	NR
EVERSENDAL	Dec	0.88	8	10	9.3	7.9	0.6	0.6	6	2	NR	NR
KIMLUN	Dec	1.30	16	17	8.0	7.8	0.9	0.8	12	3	NR	NR
MRCB	Dec	1.33	4	7	34.1	20.5	1.2	1.2	15	2	NR	NR
AZRB	Dec	0.65	NA	NA	NA	NA	NA	NA	5	3	NR	NR
YTL CORP	Jun	1.54	11	13	13.5	11.8	1.1	1.0	7	6	NR	NR
Average					14.8	12.2	1.4	1.3	8	3		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Mar (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	4,518	6,007	5,448	6,549	7,532
EBIT	973	1,788	1,292	1,441	1,657
Finance costs	(173)	(231)	(243)	(196)	(226)
Associates	40	3	(19)	33	38
JCE	(38)	(143)	(11)	(52)	(60)
PBT	802	1,416	1,019	1,225	1,408
Net profit	409	830	481	685	788
EPS (sen)	30	59	33	19	22
PBT margin	18%	24%	19%	19%	19%
Net profit margin	9%	14%	9%	10%	10%
PER (x)	18.9	11.2	21.4	17.3	15.0
P/BV (x)	1.5	1.5	1.6	1.5	1.2
DPS (sen)	13	25	15	16.0	16.0
Dividend yield	2%	4%	2%	5%	5%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

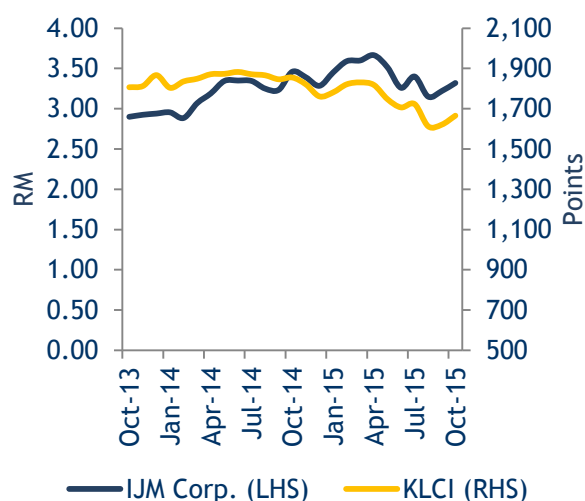
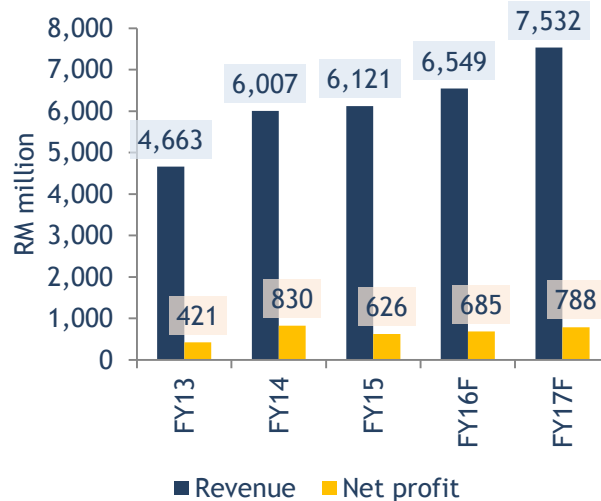
YE: Mar (RM million)	2Q15	1Q16	2Q16	q-o-q	y-o-y	6M15	6M16	y-o-y
Revenue	1,293	1,182	1,339	13%	4%	2,666	2,521	-5%
EBIT	306	479	283	-41%	-7%	642	763	19%
Interest expense	(65)	(53)	(61)	14%	-6%	(130)	(114)	-12%
Associates	(3)	1	(1)	NM	NM	(16)	0.1	NM
PBT	238	427	222	-48%	-7%	497	648	31%
Taxation	(73)	(56)	(47)	-16%	-35%	(146)	(103)	-29%
Net profit	111	337	156	-54%	40%	245	493	101%
EPS (sen)	3	19	4	-77%	28%	8	14	83%
EBIT margin	24%	41%	21%			24%	30%	
PBT margin	18%	36%	17%			19%	26%	
Net profit margin	9%	28%	12%			9%	20%	
Effective tax rate	31%	13%	21%			29%	16%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Mar (RM million)	2Q15	1Q16	2Q16	q-o-q	y-o-y	6M15	6M16	y-o-y
Revenue								
Construction	222	213	360	69%	62%	507	573	13%
Property	501	294	285	-3%	-43%	990	578	-42%
Industry	220	286	248	-13%	12%	475	533	12%
Plantation	174	142	145	2%	-16%	351	287	-18%
Infrastructure	176	248	301	22%	71%	342	549	60%
Other	0.3	0.0	0.2	344%	-33%	0.3	0.3	0%
PBT								
Construction	47	41	42	3%	-12%	94	82	-13%
Property	112	50	84	68%	-25%	227	134	-41%
Industry	33	40	38	-5%	16%	69	78	13%
Plantation	34	26	(32)	NM	NM	66	(6)	NM
Infrastructure	-3	244	-38	-116%	1358%	34	206	509%
Other	14	26	128	384%	798%	7	154	2137%

Source: Bursa Malaysia, M&A Securities

IJM Corp. Share Price vs. KLCI
(October 2013-October 2015)Revenue and Net Profit
(FY13-FY17F)

Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

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

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M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my