

PP14767/09/2012(030761)

Market Access

IJM Corporation Berhad

“Fundamentals Remain Intact”

Results Review

- Actual vs. expectations.** IJM Corporation Bhd (IJM Corp) FY15 core net profit of RM531 million, excluding exceptional item, came in below ours and consensus estimates respectively, accounting 85% and 90% of both estimates full year net profit forecast. Lower-than-expected earnings were impacted by disappointing contribution from industry (-14% y-o-y) and infrastructure division (-78% y-o-y) due to lower deliveries of higher margin marine piles and higher cost of opening the Besraya tollway’s eastern extension.
- Dividend.** Declared second interim dividend of 11.0sen/share for the quarter, bringing total dividend to 15.0sen/share for FY15, translating into a dividend payout ratio of 56% (FY14: 43%).
- Top line.** FY15 revenue dropped to RM5.4 billion (-9% y-o-y) hammered by lower contribution from the construction division which fell by 47% y-o-y to RM950 million. Nonetheless, all key divisions other than construction posted a significant increase in revenue performance. Infrastructure division emerged as the star performer in FY15 after recording a growth of 32% y-o-y, assisted by steady traffic growth in the group’s toll road concessions as well as the consolidation of Swarna Tollway since November 2013.

Plantation division also registered a mild growth of 3% y-o-y, driven by higher total sales volume of CPO at 243,487MT (+5% y-o-y). Furthermore, revenue contribution from property division improved by 2% y-o-y due to higher progress billings from major projects including Shah Alam 2 and Bandar Rimbayu developments in Selangor, S2 Heights and Seri Binjai in Negeri Sembilan as well as Vertiq, The Address and The Light Collection III in Penang.

Wednesday, May 27, 2015

BUY (TP: RM8.14)

| | |
|----------------------------|--------|
| Current Price (RM) | RM6.97 |
| New Target Price (RM) | RM8.14 |
| Previous Target Price (RM) | RM7.50 |
| Previous Recommend. | HOLD |
| Upside To Target Price | 17% |
| Dividend Yield (FY17) | 2% |

| | |
|------------|--------|
| Stock Code | |
| Bloomberg | IJM MK |

| | |
|--------------------------|--------------|
| Stock & Market Data | |
| Listing | MAIN MARKET |
| Sector | Construction |
| Shariah Compliance | Yes |
| Issued Shares (mn) | 1,783 |
| Market Cap (RM mn) | 12,821 |
| YTD Chg In Share Price | 9% |
| Beta (x) | 0.75 |
| 52-week Hi/Lo (RM) | 7.50 6.13 |
| 3M Average Volume (shrs) | 4.95mn |
| Estimated Free Float | 74% |

| | |
|--------------------|-----|
| Major Shareholders | |
| EPF | 12% |
| JP Morgan | 9% |
| Skim ASB | 8% |

- **Bottom line.** FY15 PBT fell to RM1.0 billion or shedding by 28% y-o-y due to one-off gain from the disposal of Kemaman port as well as fair value gain on the acquisition of CIDB Inventures and Swarna Tollway in FY14. Excluding these exceptional items, IJM Corp still posted a significant growth of 27% y-o-y in FY15 PBT in line with the higher contribution from construction division (+10% y-o-y) on the back of higher margin from its various projects. Nonetheless, FY15 PBT margin stood at 19%, lower against FY14 margin of 24%.
- **Latest development.** IJM Construction Sdn Bhd, a wholly-owned subsidiary of IJM Corp, has secured two construction contract in 1Q2015 consist of; i) RM538.5 million awards from Pearl Discovery Development Sdn Bhd for the proposed mixed development known as "Puteri Cove Residences" on Plot TR-2-2, Mukim Pulau, Daerah Johor Bahru and ii) RM1.2 billion award from Kuantan Port Consortium Sdn Bhd (KPC) for the proposed design, construction and completion of New Deep Water Terminal at Kuantan Port, Pahang - Phase 1, expected to be completed within 36 months.
- **Construction's order book.** IJM Corp's construction orderbook currently stands at approximately RM7.0 billion with 40% 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, LRT 3 and Penang Integrated Transportation Master Plan.
- **Valuation & recommendation.** We re-value IJM Corp at RM8.14 as we roll over our valuation into FY17 and the stock is a **BUY**. Re-rating catalyst may come from i) potential work package from KVMRT2 and LRT3 and ii) phase 2 of the Light project 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 | 6.97 | 41 | 47 | 20.6 | 15.8 | 1.5 | 1.4 | 6 | 2 | 8.14 | Buy |
| GAMUDA | Jul | 4.99 | 32 | 32 | 16.0 | 16.0 | 2.0 | 1.9 | 13 | 2 | 5.87 | Buy |
| WCT | Dec | 1.77 | 13 | 14 | 14.6 | 12.9 | 0.9 | 0.9 | 5 | 1 | 1.76 | Hold |
| BENALEC | Jun | 0.68 | 3 | 6 | 15.2 | 12.8 | 1.0 | 0.9 | 0 | 0 | NR | NR |
| CREST BUILDER | Dec | 1.18 | 11 | 8 | 10.9 | 14.2 | 0.4 | 0.0 | 6 | 3 | NR | NR |
| EVERSENDAL | Dec | 0.73 | 8 | 10 | 9.7 | 7.4 | 0.6 | 0.6 | 4 | 1 | NR | NR |
| KIHLUN | Dec | 1.30 | 15 | 16 | 8.5 | 7.8 | 0.9 | 0.8 | 13 | 2 | NR | NR |
| MRCB | Dec | 1.27 | 6 | 9 | 23.7 | 15.7 | 1.4 | 1.4 | 8 | 2 | NR | NR |
| AZRB | Dec | 0.70 | 5 | 7 | 14.1 | 10.1 | 0.0 | 0.0 | 5 | NA | NR | NR |
| YTL CORP | Jun | 1.60 | 14 | 13 | 13.3 | 12.8 | 1.2 | 1.1 | 9 | 6 | NR | NR |
| Average | | | | | 14.7 | 12.5 | 1.0 | 0.9 | 7 | 2 | | |

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 | 38 | 44 |
| PBT margin | 18% | 24% | 19% | 19% | 19% |
| Net profit margin | 9% | 14% | 9% | 10% | 10% |
| PER (x) | 18.9 | 11.2 | 21.4 | 18.1 | 15.8 |
| P/BV (x) | 1.5 | 1.5 | 1.6 | 1.4 | 1.4 |
| DPS (sen) | 13 | 25 | 15 | 16 | 16 |
| Dividend yield | 2% | 4% | 2% | 2% | 2% |

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

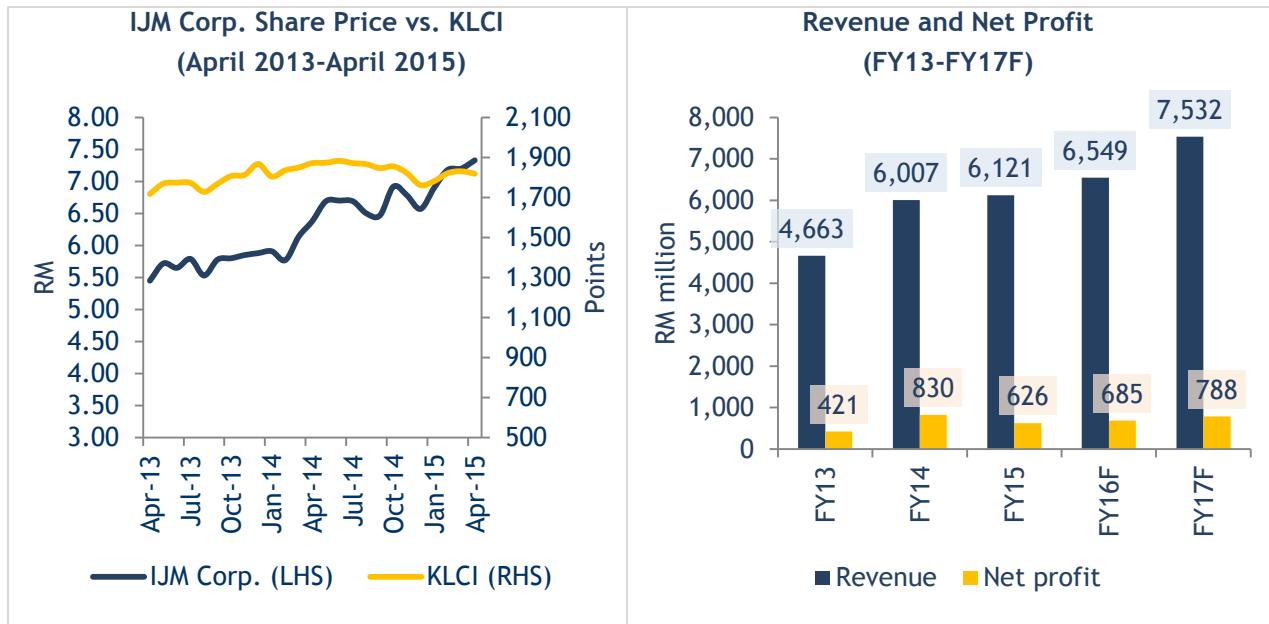
| YE: Mar (RM million) | 4Q14 | 3Q15 | 4Q15 | q-o-q | y-o-y | 12M14 | 12M15 | y-o-y |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 1,651 | 1,339 | 1,443 | 8% | -13% | 6,006 | 5,448 | -9% |
| EBIT | 548 | 330 | 320 | -3% | -42% | 1,788 | 1,292 | -28% |
| Interest expense | (100) | (60) | (53) | -11% | -47% | (231) | (243) | 5% |
| Associates | (151) | 8 | (22) | NM | NM | (140) | (30) | NM |
| PBT | 298 | 278 | 245 | -12% | -18% | 1,416 | 1,019 | -28% |
| Taxation | (162) | (67) | (93) | 40% | -42% | (341) | (306) | -10% |
| Net profit | 8 | 138 | 98 | -29% | 1093% | 830 | 481 | -42% |
| EPS (sen) | 1 | 9 | 7 | -29% | 1034% | 59 | 33 | -45% |
| EBIT margin | 33% | 25% | 22% | | | 30% | 24% | |
| PBT margin | 18% | 21% | 17% | | | 24% | 19% | |
| Net profit margin | 0% | 10% | 7% | | | 14% | 9% | |
| Effective tax rate | 54% | 24% | 38% | | | 24% | 30% | |

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

| YE: Mar (RM million) | 4Q14 | 3Q15 | 4Q15 | q-o-q | y-o-y | 12M14 | 12M15 | y-o-y |
|----------------------|-------|------|------|-------|-------|-------|-------|-------|
| Revenue | | | | | | | | |
| Construction | 371 | 194 | 250 | 29% | -33% | 1,802 | 950 | -47% |
| Property | 703 | 520 | 606 | 17% | -14% | 2,076 | 2,116 | 2% |
| Industry | 215 | 220 | 228 | 4% | 6% | 884 | 922 | 4% |
| Plantation | 188 | 183 | 133 | -28% | -29% | 647 | 668 | 3% |
| Infrastructure | 173 | 223 | 226 | 1% | 31% | 597 | 791 | 32% |
| Other | 0.3 | 0.1 | 0.7 | 1300% | 133% | 0.7 | 1.0 | 51% |
| PBT | | | | | | | | |
| Construction | 81 | 20 | 71 | 263% | -12% | 168 | 185 | 10% |
| Property | 306 | 139 | 128 | -8% | -58% | 749 | 495 | -34% |
| Industry | 34 | 27 | 30 | 11% | -12% | 146 | 126 | -14% |
| Plantation | 79 | 39 | (15) | -138% | -119% | 109 | 89 | -18% |
| Infrastructure | (199) | 6 | 3 | -49% | NM | 189 | 42 | -78% |
| Other | (2) | 48 | 27 | -43% | NM | 55 | 83 | 50% |

Source: Bursa Malaysia, M&A Securities



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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