

PP14767/09/2012(030761)

Market Access

IJM Corporation Berhad

“Dispose 70% Stake in Swarna Tollway”

IJM Corporation Bhd (IJM Corp) will be disposing its 70% stake in Swarna Tollway Private Limited (STPL) for RM407.76 million and planning to dispose the remaining 30% stake in STPL within 42 months from the completion of the disposal. We are positive on the proposed disposal as IJM Corp may realise the intrinsic value of its investment with estimated gain of RM92.62 million (5.2 sen/share). Hence, IJM Corp is a BUY with target price of RM8.14.

- **Detail of the disposal.** IJM Corp’s subsidiary, IJMII (Mauritius) Limited (IJMIIM) had entered into a conditional Share Purchase Agreement with MAIF Investments India 3 Pte Ltd (MAIF) and STPL to dispose of 175,000,000 equity shares of INR10 each and 14,000,000 cumulative compulsorily convertible preference shares of INR10 each, representing 70% of the issued and paid-up share capital of STPL to MAIF for a total consideration of INR6,853.1 million or equivalent to about RM407.76 million.  
  
IJM Corp also will dispose the remaining 30% stake in STPL, representing 75,000,000 equity shares of INR10 each and 6,000,000 cumulative compulsorily convertible preference shares of INR10 each held in STPL for a total consideration of INR3,176.8 million or equivalent to about RM189.02 million within 42 months from the completion of disposal subject to the approval from the authorities.
- **Info on STPL.** STPL is the concessionaire for the improvement and upgrading of existing 2-lane highways from km 52.8 to km 163.6 of Tada-Nellore section and km 217 to km 252 of Nandigama-Ibrahimpatnam section of the National Highways No. 5 and No. 9 respectively in Andhra Pradesh, India. The highway was completed in

Thursday, July 23, 2015

BUY (TP: RM8.14)

Current Price (RM)	RM7.06
New Target Price (RM)	RM8.14
Previous Target Price (RM)	RM7.50
Previous Recommend.	HOLD
Upside To Target Price	15%
Dividend Yield (FY16)	2%

Stock Code

Bloomberg	IJM MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	1,783
Market Cap (RM mn)	12,593
YTD Chg In Share Price	7%
Beta (x)	0.78
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%

2004 and STPL holds a 30-year concession which will expire in September 2031.

- Our view.** This is the third highway's asset disposal by IJM Corp following the disposal of 35.6% stake in Trichy Highway in March 2013 and 100% stake in Jaipur-Mahua Tollway in December 2014. We are positive on the proposed disposal of 70% stake in STPL as IJM Corp may realise the intrinsic value of its investment with estimated gain of RM92.62 million (5.2 sen/share). We expect the impact to group's bottomline is minimal as earnings contribution from highway operation is less than 10% of PBT annually. Upon the completion of the disposal, IJM will have 3 toll roads remaining in India consisting of Rewa Tollway (100%-owned, 387km), Chilkaluripet-Vijayawada (89.8%-owned, 79km) and Trichy Tollway (13.3%-owned, 93km) plus 3 toll road concession in Malaysia namely Besraya (100%-owned, 29km), NPE (100%-owned, 20km), LEKAS (50%-owned, 44km) and 1 toll road concession in Argentina (20%-owned, 56km).
- Special dividend.** We do not rule out the potential of IJM Corp to pay a special dividend to the shareholders from exceptional gain of RM92.62 million which translates into a special DPS of 5.2 sen/share which may bring the total FY16 DPS to 21 sen, attributing or a net yield of 3.0%.
- Change to forecast.** We keep unchanged our earnings forecast pending the completion of the propose disposal. Nonetheless, 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 RM8.14 as we roll over our valuation into FY17 and the stock is a BUY underpinned by the strong construction's orderbook replenishment under 11MP and ii) stable growth prospect from Industrial, plantation and infrastructure division.

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	7.06	41	47	20.6	15.8	1.5	1.4	6	2	8.14	Buy
GAMUDA	Jul	4.74	32	32	16.0	16.0	2.0	1.9	13	2	5.87	Buy
WCT	Dec	1.40	13	14	14.6	12.9	0.9	0.9	5	1	1.76	Hold
BENALEC	Jun	0.63	3	6	15.2	12.8	1.0	0.9	0	0	NR	NR
CREST BUILDER	Dec	1.07	11	8	10.9	14.2	0.4	0.0	6	3	NR	NR
EVERSENDAL	Dec	1.02	8	10	9.7	7.4	0.6	0.6	4	1	NR	NR
KIMLUN	Dec	1.36	15	16	8.5	7.8	0.9	0.8	13	2	NR	NR
MRCB	Dec	1.11	6	9	23.7	15.7	1.4	1.4	8	2	NR	NR
AZRB	Dec	0.66	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

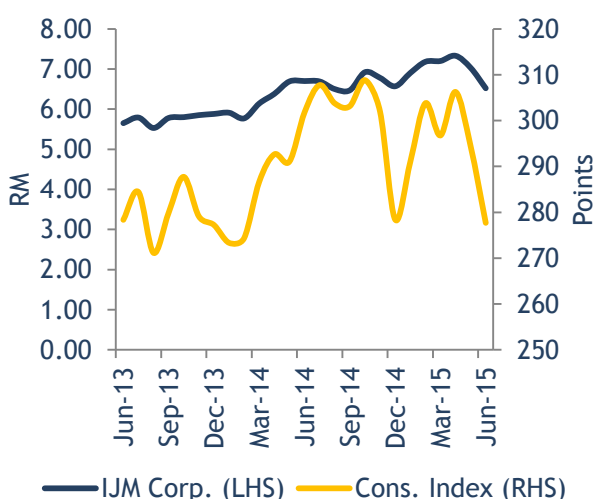
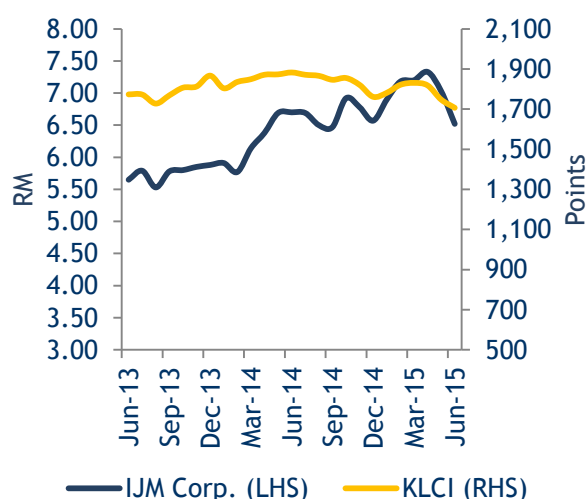
YE: Mar (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	4,518	6,007	5,448	6,549	7,532
EBIT	973	1,788	1,292	1,441	1,657
Finance costs	(173)	(231)	(243)	(196)	(226)
Associates	40	3	(19)	33	38
JCE	(38)	(143)	(11)	(52)	(60)
PBT	802	1,416	1,019	1,225	1,408
Net profit	409	830	481	685	788
EPS (sen)	30	59	33	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&amp;A Securities

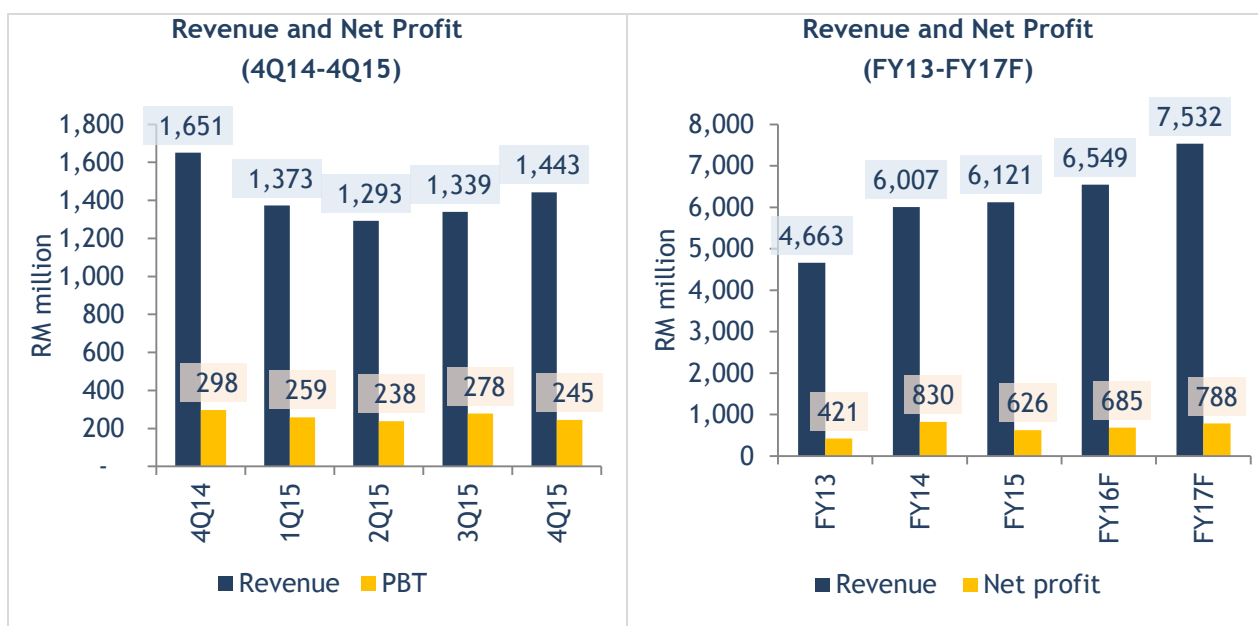
Table 3: Segmental PBT Margin (1Q14-4Q15)

YE: Mar (RM million)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Revenue								
Construction	1%	6%	10%	22%	16%	21%	10%	28%
Property	25%	29%	42%	43%	24%	22%	27%	21%
Industry	18%	17%	16%	16%	14%	15%	12%	13%
Plantation	2%	-3%	18%	42%	17%	20%	21%	-11%
Infrastructure	55%	3%	203%	-115%	22%	-1%	3%	1%

Source: Bursa Malaysia, M&amp;A Securities

IJM Corp. Share Price vs. Construction Index  
(June 2013-June 2015)IJM Corp. Share Price vs. KLCI  
(June 2013-June 2015)

Source: Bloomberg, M&amp;A Securities



Source: Bloomberg, M&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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