

PP14767/09/2012(030761)

Market Access

IJM Corporation Berhad

“Clear Growth Trajectory”

Results Review

- Actual vs. expectations.** IJM Corporation Bhd (IJM Corp) 1Q16 core net profit of RM141 million, came in line with ours but slightly below consensus estimates respectively, accounting 21% and 19% of both estimates full year net profit forecast. Note that 1Q16 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) RM27 million net forex gain. Better-than-expected earnings were impacted by improving contribution from the industry division (+10% y-o-y) and infrastructure division (+569% 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.** No dividend was declared during the quarter.
- Top line.** 1Q16 revenue dropped to RM1.2 billion (-14% y-o-y) hammered by lower contribution from construction, property and plantation divisions. Construction division registered weaker revenue of RM213 million (-25% y-o-y) due to the completion of several major projects while property division also posted lower revenue of RM294 million (-40% y-o-y) impacted by lower property sales during the quarter in line with challenging property market condition. Meanwhile, plantation division’s revenue dropped to RM142 million (-20% y-o-y) hammered by weaker sales volume of CPO (-6% y-o-y) and the drop in average CPO price for the group’s Sabah and Indonesian operation by 16% y-o-y and 19% y-o-y respectively.

Wednesday, August 26, 2015

BUY (TP: RM8.14)

Current Price (RM)	RM6.05
New Target Price (RM)	RM8.14
Previous Target Price (RM)	RM7.50
Previous Recommend.	HOLD
Upside To Target Price	35%
Dividend Yield (FY17)	3%

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)	10,699
YTD Chg In Share Price	-9%
Beta (x)	0.81
52-week Hi/Lo (RM)	7.50   5.91
3M Average Volume (shrs)	4.04mn
Estimated Free Float	61%

Major Shareholders

EPF	13%
Skim ASB	7%
LTH	5%

- **Bottom line.** IJM Corp reported PBT improved to 427 million or jumping by 65% 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 1Q16 after recording commendable PBT contribution of RM40 million (+10% y-o-y) and RM244 million (+569% y-o-y) respectively, offsetting lower PBT contribution from construction (-13% y-o-y), property (-57% y-o-y) and plantation (-17% y-o-y). Excluding exceptional item, IJM Corp's core PBT was still lower at RM231 million (-13% y-o-y).
- **Latest development.** 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. This is the third highway's asset disposal undertaken 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 will book a good return of its investment with estimated gain of RM92.62 million (5.2 sen/share).
- **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 and LRT 3.
- **Change to forecast.** We keep unchanged our FY15 earnings forecast as 1Q16 earnings are in line with our expectation. Given that, FY15 and FY16 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 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	6.05	40	46	17.0	14.6	1.3	1.2	6	2	8.14	Buy
GAMUDA	Jul	4.05	31	30	15.4	15.7	1.9	1.8	13	3	5.87	Buy
WCT	Dec	1.14	12	14	11.7	10.1	0.7	0.6	5	2	1.28	Hold
SCGB	Dec	1.04	10	10	11.3	12.2	3.7	3.1	NA	NA	1.40	Buy
BENALEC	Jun	0.54	2	5	17.0	12.6	0.8	0.7	-2	0	NR	NR
CREST BUILDER	Dec	0.97	7	8	15.3	12.4	NA	NA	6	4	NR	NR
EVERSENDAL	Dec	0.73	10	11	10.3	8.9	0.8	0.8	5	1	NR	NR
KIMLUN	Dec	1.07	15	16	8.7	8.1	0.9	0.8	10	3	NR	NR
MRCB	Dec	0.81	5	7	21.0	14.9	1.1	1.1	19	2	NR	NR
AZRB	Dec	0.53	5	7	12.7	9.1	NA	NA	4	3	NR	NR
YTL CORP	Jun	1.52	14	13	13.8	12.4	1.1	1.1	8	6	NR	NR
Average					14.0	11.9	1.4	1.3	8	3		

Source: Bloomberg, M&amp;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	15.7	13.7
P/BV (x)	1.5	1.5	1.6	1.3	1.2
DPS (sen)	13	25	15	16	16
Dividend yield	2%	4%	2%	3%	3%

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Results Analysis

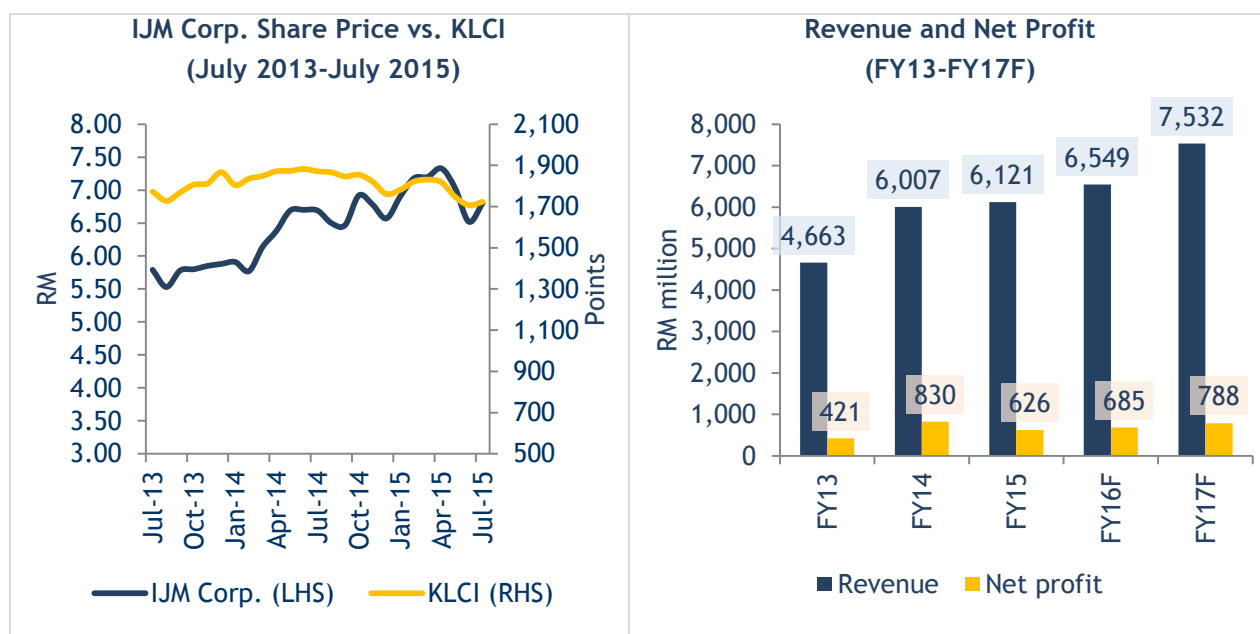
YE: Mar (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	1,373	1,443	1,182	-18%	-14%	1,373	1,182	-14%
EBIT	336	320	479	50%	43%	336	479	43%
Interest expense	(65)	(53)	(53)	0%	-17%	(65)	(53)	-17%
Associates	(13)	(22)	1	NM	NM	(13)	1	NM
PBT	259	245	427	74%	65%	259	427	65%
Taxation	(73)	(93)	(56)	-40%	-23%	(73)	(56)	-23%
Net profit	133	98	337	243%	153%	133	337	153%
EPS (sen)	9	7	19	189%	106%	9	19	106%
EBIT margin	24%	22%	41%			24%	41%	
PBT margin	19%	17%	36%			19%	36%	
Net profit margin	10%	7%	28%			10%	28%	
Effective tax rate	28%	38%	13%			28%	13%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

YE: Mar (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
<b>Revenue</b>								
Construction	285	250	213	-14%	-25%	285	213	-25%
Property	489	606	294	-52%	-40%	489	294	-40%
Industry	254	228	286	25%	12%	254	286	12%
Plantation	178	133	142	7%	-20%	178	142	-20%
Infrastructure	166	226	248	10%	49%	166	248	49%
Other	0.03	0.7	0.05	-94%	61%	0.03	0.05	61%
<b>PBT</b>								
Construction	47	71	41	-43%	-13%	47	41	-13%
Property	115	128	50	-61%	-57%	115	50	-57%
Industry	36	30	40	35%	10%	36	40	10%
Plantation	31	(15)	26	-275%	-17%	31	26	-17%
Infrastructure	36	3	244	8362%	569%	36	244	569%
Other	(7)	27	26	-4%	NM	(7)	26	NM

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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