

29 August 2019

IJM Corporation

A Weak Start

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1Q20 CNP of RM69.9m makes up 15%/16% of our/consensus full-year estimates. However, we deem its performance as broadly in-line, expecting progress for its existing projects to pick up in 2H20. No dividends were declared, as expected. No changes to FY20-21E earnings. Maintain UP with an unchanged SoP-driven TP of RM1.80.

Broadly within. 1Q20 CNP of RM69.9m makes up 15%/16% of our/consensus full-year estimates. However, we deem the performance to be broadly in line as we expect progress for its existing projects to pick up in 2H20. No dividends were declared, as expected.

Results highlight. 1Q20 CNP fell 48% YoY, amid higher revenue (+7%) owing to higher effective minority interest and tax. IJM contributed RM21.0m to minorities (of which RM10.5m arises from the interest payment for its perpetual sukuk.) vs. gain of RM1.9m back in 1Q19. Positively, most of its divisions registered positive growth operationally with pre-tax profits growing at 2%-79%, except for its plantation division, which is still in losses.

QoQ, 1Q20 CNP was down 45% due to sharp decline in associate contribution (-86%) coupled with margin compressions, underpinned by its construction and property development divisions. Pre-tax margins for these two divisions came down by 6-10ppt to range of 8%-10%, respectively.

Outlook. IJM's outstanding order-book currently stands at c.RM6.1b, while its property unbilled sales are c.RM2.0b with visibility for the next 3-4 years, and is on-track to meet our target sales of RM1.6b in FY20. As for its plantation division, we continue to expect high production costs to crimp into margins in the near-term due to full overhead charges for its very young estates in Indonesia.

Earnings unchanged. No changes to our FY20-21E earnings.

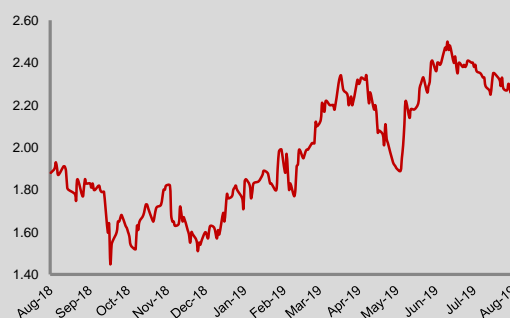
Maintain UP with an unchanged SoP-based TP of RM1.80, as we believe that the recent share price rebound had fully priced in most of the positive anticipations, coupled with the uninspiring outlook on the sectors that IJM is involved in (i.e. construction, property, industry, and plantation). Our TP implies FY20E PER of 14.1x which is above KLCON's 10-year average of 13.3x.

Key upside risks for our call are: (i) higher-than-expected margins, and (ii) higher than expected progress in construction works.

UNDERPERFORM ↔

Price : RM2.19
Target Price : RM1.80 ↔

Share Price Performance



KLCI	1,589.82
YTD KLCI chg	-6.0%
YTD stock price chg	35.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJM MK EQUITY
Market Cap (RM m)	7,948.5
Shares Outstanding	3,629.5
52-week range (H)	2.51
52-week range (L)	1.39
3-mth avg daily vol:	4,256,513
Free Float	71%
Beta	1.7

Major Shareholders

Employees Provident Fund Board	15.5%
Kumpulan Wang Persaraan Diperbadankan	7.0%
Skim Amanah Saham Bumiputera	7.0%

Summary Earnings Table

FYE Mar (RM m)	2019A	2020E	2021E
Turnover	5655.7	6945.7	7084.6
EBIT	712.2	713.8	730.0
PBT	648.0	785.0	799.0
Net Profit (NP)	423.9	461.7	471.6
Core net profit (NP)	415.9	461.7	471.6
Consensus (NP)	N.A.	446.0	482.9
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	11.5	12.8	13.1
Core EPS growth (%)	1.6%	11.0%	2.2%
DPS (sen)	4.0	5.0	5.0
BVPS (RM)	2.70	2.78	2.86
PER	19.0	17.1	16.8
Price/NTA (x)	0.8	0.8	0.8
Net Gearing (x)	0.3	0.5	0.5
Dividend Yield (%)	1.8%	2.3%	2.3%



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Results Highlight					
Y/E : Mar (RM mn)	1Q20	4Q19	QoQ	1Q19	YoY
Turnover	1,543.6	1,394.9	11%	1,444.3	7%
EBIT	184.0	259.8	-29%	147.9	24%
Interest expense	-54.6	-39.8	37%	-59.8	-9%
Associates	15.7	111.8	-86%	7.4	113%
Exceptional items	-10.4	112.8	-109%	-82.8	-87%
Pretax profit	143.4	331.6	-57%	91.4	57%
Taxation	-62.9	-64.7	-3%	-42.4	48%
Profit after tax	80.5	267.0	-70%	49.0	64%
Minority interest	-21.0	-26.1	-19%	1.9	n.m.
Net profit	59.4	240.8	-75%	51.0	17%
Core net profit	69.9	128.0	-45%	133.8	-48%
EPS (sen)	2.0	3.6		3.7	
DPS (sen)	0.0	2.0		0.0	
EBIT margin	12%	19%		10%	
Pretax margin	9%	24%		6%	
Effective tax rate	44%	20%		46%	

Source: Company, Kenanga Research

Segmental Breakdown					
Y/E : Mar (RM mn)	1Q20	4Q19	QoQ	1Q19	YoY
Revenue					
Construction	518.0	444.9	16%	526.9	-2%
Property	462.4	357.1	29%	334.7	38%
Industry	231.3	212.2	9%	231.7	0%
Plantation	133.1	164.8	-19%	183.1	-27%
Infrastructure	198.7	215.7	-8%	167.8	18%
Investment & Others	0.2	0.2	-12%	0.1	15%
Group Revenue	1,543.6	1,394.9	11%	1,444.3	7%
Pre tax Profit					
Construction	40.6	61.9	-34%	39.7	2%
Property	45.9	70.0	-35%	44.9	2%
Industry	15.2	14.8	2%	13.1	15%
Plantation	-5.4	16.7	-132%	-26.3	-80%
Infrastructure	44.4	171.4	-74%	24.9	79%
Investment & Others	2.7	-3.3	-182%	6.9	-61%
Group Pre-tax Profit	143.4	331.6	-57%	103.2	39%
Pre-tax margin (%)	1Q20	4Q19	-	1Q19	-
Construction	8%	14%		8%	
Property development	10%	20%		13%	
Concrete products & manufacturing	7%	7%		6%	
Plantation	-4%	10%		-14%	
Infrastructure	22%	79%		15%	
Group Pre-tax Profit	9%	24%		7%	

Source: Company, Kenanga Research

Sum-Of-Parts valuation-IJM Corporation Berhad					
	Mkt Cap/value	Stake (%)	Value (RMm)	Value per share (RMm)	Remarks
Construction	1,877.9	100%	1,877.9	0.53	9x FY20E PER
Infrastructure	3,420.5	mix	3,420.5	0.97	DCF (WACC of 8-10%)
Industrial	735.7	100%	735.7	0.21	7x FY20E PER
Property	3,655.2	100%	1,096.6	0.31	70% discount on acquisition price
Plantation	1,232.7	55%	678.0	0.19	Kenanga's Fair Value on IJM Plant of RM1.40
WCE	511.0	22%	110.9	0.03	Current Mkt Cap
Total			7,919.5	2.24	
Discount				20%	
Fair value				1.80	Based on Enlarged Share Base of 3,542m shares

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
GAMUDA BHD	3.54	8,753.7	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	10.7	12.9	15.0	1.2	1.1	8.7%	3.4%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.06	570.9	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.6	9.8	7.1	1.2	1.1	11.9%	3.4%	1.15	MP
HOCK SENG LEE BERHAD	1.34	736.4	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.7	11.1	9.4	1.0	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.19	7,948.5	Y	03/2020	22.8%	2.0%	11.0%	2.2%	19.0	17.1	16.8	0.8	0.8	4.7%	2.3%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.41	1,738.4	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.7	11.3	11.1	1.8	1.6	14.9%	2.1%	1.20	UP
KIMLUN CORP BHD	1.26	428.1	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.7	6.8	6.6	0.6	0.6	9.0%	3.4%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.280	249.1	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	5.6	9.5	10.7	0.3	0.3	3.3%	5.4%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.47	1,193.9	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.3	7.5	7.2	1.1	1.0	13.4%	2.9%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.00	2,578.7	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	18.5	21.1	16.5	4.3	3.9	19.4%	2.7%	1.45	UP
WCT HOLDINGS BHD	1.00	1,409.9	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	11.0	12.8	10.7	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average																	
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.375	224.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	15.3	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.125	47.7	Y	06/2019	N.A.	N.A.	N.A.	N.A.	91.6	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.22	602.0	Y	12/2019	19.3%	37.9%	15.5%	36.2%	9.8	8.5	0.0	1.2	1.2	15.1%	4.8%	1.80	BUY
GADANG HOLDINGS BHD	0.700	509.6	Y	05/2020	7.4%	11.6%	45.5%	12.3%	11.7	8.1	0.0	0.6	N.A.	9.5%	2.1%	0.783	SELL
JAKS RESOURCES BHD	0.745	479.1	Y	12/2019	68.9%	-47.0%	655.6%	-21.2%	31.7	4.2	0.0	0.5	0.5	13.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.280	165.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.0	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.95	489.3	Y	06/2019	223.5%	-1.7%	135.7%	-6.4%	31.5	13.4	0.1	1.6	1.5	11.4%	5.5%	2.86	NEUTRAL
PESONA METRO HOLDINGS	0.225	156.4	Y	12/2019	12.1%	9.5%	165.4%	13.7%	18.9	7.1	0.0	1.0	N.A.	11.7%	4.4%	0.310	BUY
PROTASCO BHD	0.260	126.6	Y	12/2019	-6.3%	0.9%	394.3%	22.1%	N.A.	10.4	0.0	0.4	0.4	3.8%	4.6%	0.270	SELL
TRC SYNERGY BHD	0.555	266.7	Y	12/2019	15.8%	23.6%	70.8%	29.9%	12.8	7.5	0.0	0.6	0.6	8.5%	5.8%	0.750	BUY

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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