

24 June 2024

IJM Corporation

Bags RM962m Industrial Building Jobs

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IJM has started replenishing its construction order book in FY25 (Mar) with RM962.3m contracts to build a warehouse in Shah Alam, Selangor, and a semiconductor foundry in Penang. We maintain our forecasts but raise our TP by 8%. Downgrade our call to **MARKET PERFORM** from **OUTPERFORM** following the recent run-up in its share price.

IJM has secured RM962.3m contracts comprising:

1. a RM584.3m contract from Strategic Sonata Sdn Bhd for the construction of a 6-storey warehouse and ancillary facilities in Section 15, Shah Alam, Selangor, to be completed within 28 months from Jun 2024; and
2. a RM378m building contract for Phase 1 of a semiconductor manufacturing facility for Siliconware Precision Malaysia Sdn Bhd (part of ASE Technology Holding Co Ltd, the world's largest outsourced semiconductor assembly and test company) in Bandar Cassia Technology Park, Penang, to be completed by Oct 2025.

These are IJM's first job wins in FY25 (vs. our full-year assumption of RM5b), boosting its outstanding construction order book to RM7b.

Outlook. We expect a significant revitalisation of the construction sector in 2024 backed by: (i) the roll-out of the RM45b MRT3 project and several flood mitigation projects reportedly to be worth RM13b, and (ii) the vibrant private sector construction market, underpinned by massive investment in new semiconductor foundries and data centres. We understand that IJM is also eyeing work packages from various projects in East Malaysia and Indonesia.

Forecasts: Maintained. Our forecasts assume job wins of RM5b and RM4b in FY25-26, respectively.

Valuations. Nonetheless, we lift our SoP-driven TP by 8% to RM3.00 (see Page 2) from RM2.77 to reflect an additional 2x multiple increase in our PER valuation for all construction stocks to factor in the improved prospects for the roll-out of public infrastructure projects as the government gets cracking on fiscal policy reforms with the removal of diesel fuel subsidy rationalisation on 10 Jun 2024. We now value IJM's construction business at 20x earnings (from 18x). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Investment case. We like IJM for: (i) it is poised to garner a slice of action in the imminent mega rail projects, i.e., MRT3 and Bayan Lepas LRT given its involvement in the previous MRT and LRT projects, (ii) its strong earnings visibility underpinned by an outstanding construction orderbook of RM7.0b and new property sales of RM1.4b, and (iii) Kuantan Port's position as the largest port in the East Coast capturing export and import activities growth. However, its valuations have become rich after the recent run-up in its share price. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

Risks to our call include: (i) sustained weak construction jobs flow, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

MARKET PERFORM ↓

Price: **RM3.00**
Target Price: **RM3.00** ↑

Share Price Performance



KLCI	1,590.37
YTD KLCI chg	9.3%
YTD stock price chg	59.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJM MK EQUITY
Market Cap (RM m)	10,518.5
Shares Outstanding	3,506.2
52-week range (H)	3.06
52-week range (L)	1.43
3-mth avg. daily vol.	10,030,570
Free Float	48%
Beta	0.8

Major Shareholders

Amanah Saham Nasional	16.8%
Employees Provident Fund	16.3%
Kumpulan Wang Persaraan	9.8%

Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Turnover	5919	5709	6304
EBIT	1072	1117	1141
PBT	964	897	922
Net Profit (NP)	647	519	572
Core net profit	516	473	526
Consensus (NP)	-	495	549
Earnings Revision (%)	-	-	-
Core EPS (sen)	11.6	13.0	14.4
Core EPS growth (%)	98.2	-8.3	11.2
NDPS (sen)	8.0	8.0	8.0
BVPS (RM)	2.73	2.78	2.84
NTA/share (RM)	2.69	2.74	2.81
PER (x)	25.9	23.1	20.8
PBV (x)	1.10	1.08	1.06
P/NTA (x)	1.11	1.09	1.07
Net Gearing (x)	0.27	0.24	0.28
Net Div. Yield (%)	3.3	2.7	2.7

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IJM's Sum-of-Parts Valuation		
	Valuation (RM m)	Basis
Construction & Building Materials	5,880.8	20x FY26F PER
Property	3,839.1	50% discount to RNAV
Ports (60% ownership)	761.1	20x FY26F PER
Toll-way Concessions	1,107.2	DCF Equity value
Net Debts	-640.4	Estimated FY26F
SOP	10,947.8	
SOP (RM/share)	3.00	

Source: Company, Kenanga Research

IJM's Property RNAV			
Project	Remaining land bank (acres)	Outstanding GDV (RM m)	NPV of profit (RM m)
Landbanks (as of FY23)			
Penang	160	11,674	162.5
Klang Valley	964	15,437	214.8
Johor	387	4,315	60.1
Seremban	890	5,207	72.5
Pahang	1,083	453	6.3
Sabah	215	3,078	42.8
Overseas	0.45	724	36.7
	3,699	40,889	595.6
Unbilled Sales (as of FY23)		3,000	278.0
Property NAV (as of FY21)			6,804.6
Total RNAV			7,678.2
Discount to RNAV			50%
Discounted RNAV			3,839.1

Source: Company, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	6.38	7.29	14.3%	17,677.0	Y	07/2024	40.2	50.6	29.7%	25.8%	17.5	14.1	1.5	10.0%	12.0	1.9%
IJM	MP	3.00	3.00	0.0%	10,518.5	Y	03/2025	13.0	14.4	-8.3%	11.2%	32.9	35.2	1.1	4.8%	8.0	2.7%
KERJAYA	OP	1.84	2.16	17.4%	2,320.3	Y	12/2024	14.2	15.8	33.3%	11.3%	15.1	13.2	1.6	13.0%	10.0	5.4%
KIMLUN	OP	1.28	1.76	37.5%	452.3	Y	12/2024	11.9	14.7	493.0%	23.0%	12.9	11.0	0.6	5.5%	1.0	0.8%
SUNCON	OP	3.80	4.28	12.6%	4,899.6	Y	12/2024	14.0	20.4	19.4%	45.7%	29.9	28.6	4.9	19.1%	6.0	1.6%
WCT	OP	0.825	0.880	6.7%	1,169.2	Y	12/2024	2.9	4.4	-83.8%	50.0%	32.7	22.4	0.4	1.4%	0.5	0.6%
Sector Aggregate					37,036.9					43.6%	23.3%	18.3	14.8	1.3	7.3%		2.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	★	
SPECIFIC	Migrant Worker Welfare	★	★	★	☆	
	Waste Disposal/Pollution Control	★	★	★		
	Work Site Safety	★	★	★	☆	
	Environmentally Friendly Construction Technology	★	★	★	☆	
	Supply Chain Auditing	★	★	★		
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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Published by:

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