Contributions from Vietnam gain traction

JAKS's 2Q16 results were below expectations due to larger-than-expected gestation losses in Evolve Concept Mall. But JAKS's saw its earnings growth underpinned by higher contributions from the Vietnam EPC contract. Completion of the Vietnam's plant detailed design would be the key rerating catalyst for JAKS. Reaffirm BUY.

1H16 results below expectations

JAKS's 1H16 net profit of RM10.9m accounted for 16% and 13% of our and consensus expectations respectively. While we continue to expect earnings contribution from its US$455m (RM1.82bn) EPC (engineering, procurement and construction) work related to the Vietnam power plant to be more material in 2H16, JAKS's 1H16 profitability has been dragged down by larger-than-expected losses in Evolve Concept Mall (ECM), due to gestation costs, finance costs and depreciation charges.

Growing contributions from Vietnam

The group's 2Q16 revenue jumped 80.3% yoy to RM159.1m, mainly driven by the Vietnam EPC contract and progress billings in its property segment. JAKS's property unbilled sales trended sequentially lower to RM285m in 2Q16 (1Q16: RM300m). On yoy comparison, 2Q16 net profit jumped to RM9.8m (2Q15: RM3.3m) due to the Vietnam EPC contract as well as recognition of other income (c.RM4m).

Contributions from Vietnam should continue to gather pace

On the Vietnam EPC contract, we gather from management that work is progressing on infrastructure related work such as the jetty and the workers' living quarters, while piling works should commence soon. We believe once management secures the go ahead for the plant's detailed design in 3Q16, this would pave the way for other major infrastructure works to commence in 4Q16.

Reaffirm BUY rating and TP of RM1.60

We reaffirm our BUY call and 12-month target price of RM1.60, based on a 20% discount to our RNAV (realisable net asset value) valuation of RM2.00. We have trimmed our FY16E EPS by 34% to account for the larger-than-expected operating losses at ECM, but leave our FY17-18E EPS unchanged given management's target of disposing off ECM by year-end. In addition, we value ECM based on our projected disposal price of the mall instead of earnings. The completion of the Vietnam's plant detailed design would be the key rerating catalyst for JAKS, in our view.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	491.1	449.4	651.7	939.7	969.0
EBITDA (RMm)	73.8	81.7	131.8	191.8	197.5
Pretax profit (RMm)	53.9	55.4	112.1	172.3	178.1
Net profit (RMm)	14.0	41.6	44.8	68.9	71.3
EPS (sen)	3.2	9.5	10.2	15.7	16.3
PER (x)	31.7	10.7	9.9	6.4	6.2
Core net profit (RMm)	14.0	12.4	44.8	68.9	71.3
Core EPS (sen)	3.2	2.8	10.2	15.7	16.3
Core EPS growth (%)	86.1	(11.2)	>100	53.7	3.4
Core PER (x)	31.7	35.7	9.9	6.4	6.2
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	16.4	14.9	9.2	6.3	6.1
Chg in EPS (%)			(33.8)	-	-
Affin/Consensus (x)			0.6	0.7	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

JAKS Resources

JAK MK
Sector: Utilities

RM1.01 @ 22 Aug 2016

BUY (maintain)

Upside 58%

Price Target: RM1.60

Previous Target: RM1.60

Price Performance

	1M	3M	12M
Absolute	+8.0%	+8.0%	+23.2%
Rel to KLCI	+5.9%	+4.0%	+14.7%

Stock Data

Issued shares (m)	438.4
Mkt cap (RMm)/(US$m)	442.7/109.8
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	0.72-1.28
Est free float	74%
BV per share (RM)	1.15
P/BV (x)	0.88
Net cash/(debt) (RMm) (2Q16)	(423.1)
ROE (2016E)	12.3%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Ang Lam Poah	8.0%
Original Invention	6.0%
Philip Capital Management	5.5%

Source: Affin Hwang, Bloomberg

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Risks

The key risk to our view lies in slower-than-expected recognition of earnings from the Vietnam EPC (engineering, procurement and construction) work, as it is a significant component of our valuation for JAKS. Other risks include delays in monetising the shopping mall and slower-than-expected property sales.

Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q16	QoQ % chg	YoY % chg	1H16	YoY % chg	Comments
Revenue	159.1	*29.6*	*80.3*	281.9	*40.9*	Higher mainly driven by construction revenue from Vietnam.
Op costs	(141.7)	*25.2*	*89.0*	(254.9)	*46.5*	
EBITDA	**17.4**	*81.2*	*31.1*	**27.0**	*3.8*	
EBITDA margin (%)	*10.9*	*+3.1ppt*	*-4.1ppt*	*9.6*	*-3.4ppt*	
Depn and amort	(3.3)	*(1.6)*	*>100*	(6.6)	*>100*	Higher yoy due to Evolve Concept mall.
EBIT	**14.2**	*>100*	*14.8*	**20.5**	*(15.2)*	
Int expense	(6.6)	*8.2*	*68.1*	(12.6)	*69.0*	Higher yoy due to Evolve Concept mall.
Pretax profit	**7.6**	*>100*	*(9.8)*	**7.9**	*(52.9)*	
Tax	(1.4)	*(4.7)*	*(57.3)*	(2.8)	*(52.3)*	
Tax rate (%)	*17.8*	*Nm*	*-19.8ppt*	*35.3*	*+0.5ppt*	
MI	3.6	*59.0*	*Nm*	5.8	*Nm*	
Net profit	**9.8**	*>100*	*>100*	**10.9**	*72.2*	
EPS (sen)	2.2	*>100*	*>100*	2.5	*72.9*	
Core net profit	**9.8**	*>100*	*>100*	**10.9**	*72.2*	Below Affin Hwang and consensus expectations.

Source: Affin Hwang, Company data

Fig 2: JAKS RNAV Valuation

JAKS RNAV Segmental	Equity Value (RMm)	Comments
Property		
- Pacific Star	33.3	51% stake in RM1.2bn GDV due for completion by 2016; c.RM400m of unbilled sales plus c.RM100m of unsold units.
- USJ 1	107.1	100% stake in GDV of RM2.0bn (5-year development) assuming 2016 launch.
Construction	490.0	PER at 10x based on 2016E net profit of RM49m, which includes non-technical work from Vietnam project.
Mall	234.6	51% stake of 460k sq ft NLA @ RM1,000 psf.
Gross debt	(601.6)	
Cash balance	41.6	
Total RNAV (without Vietnam project)	**305.0**	
RNAV/per share (RM)	**0.70**	
Vietnam IPP	571.7	With financial closure @ 30% stake (WACC: 10.2%, IRR: 14%).
Total RNAV (with Vietnam project)	**876.7**	
RNAV/per share (RM)	**2.00**	
Discount to total RNAV (with Vietnam project)	20.0%	
Target price (RM)	**1.60**	
No of shares (mil)	438.4	

Source: Affin Hwang estimates

Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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