AFFIN HWANG CAPITAL

Results Note

Outthink. Outperform.

Manufacturing and plantation drag

IJM Corp's 1QFY18 results were below expectations. We were surprised by the weak plantation, property and manufacturing earnings. Core net profit increased 19-20% qoq and yoy to RM131m. The infrastructure division was the star performer in 1QFY18 with PBT up more than 2-fold to RM65m. But the recent seizing of bauxite stockpiles will reduce cargo throughput for its port operations in 2HFY18. We reiterate our HOLD call with a reduced RNAV-based target price (TP) of RM3.70.

Below expectations

IJM's net profit of RM126m in 1QFY18 comprised only 19-20% of consensus and our previous FY18E net profit of RM671m and RM641m respectively. Weak plantation, property and manufacturing earnings were partly offset by strong infrastructure earnings. Revenue increased 12% yoy to RM1.47bn, driven by higher revenue for all divisions. PBT grew 13% yoy in 1HFY18 due to better operating performance, despite the absence of one-off gains (RM12m in 1HFY17). Slower net profit growth of 9% yoy due to higher tax rate and minorities.

Higher port and construction earnings

Higher PBT for infrastructure (+211%), property (+23%) and construction (+16%) divisions offset the impact of lower PBT for manufacturing (-16%) and plantation (-36%) divisions in 1QFY18. The jump in cargo throughput by 73% yoy to 5,114k FWT lifted port earnings. Property earnings were higher mainly due to an unrealized forex gain. Construction earnings were lifted by contribution from RM3bn new contracts secured in FY18.

Cut in earnings

Plantation revenue was lifted by higher CPO prices and sales volume in 1QFY18. But PBT fell 36% yoy due to higher production costs, negative forex and derivative impacts. We cut our EPS forecasts by 2% in FY17-19E to reflect the lower plantation earnings.

Still a HOLD

Prospects to replenish its high order book of RM8.7bn is good as it will bid for the LRT Line 3, East Coast Rail Link and Klang Valley building projects. But prospects for its other divisions are challenging due to industry-specific reasons. We reduce our RNAV-based TP to RM3.70 from RM3.75 to reflect the lower plantation and other investment valuations.

Earnings & Valuation Summary

FYE 31 Mar	2016	2017	2018E	2019E	2020E
Revenue (RMm)	5,128	6,065	6,617	7,440	8,223
EBITDA (RMm)	1,164	1,118	1,193	1,349	1,598
Pretax profit (RMm)	1,156	1,010	939	1,083	1,291
Net profit (RMm)	794	654	625	728	850
EPS (sen)	22.2	18.1	17.4	20.2	23.6
PER (x)	15.1	18.5	19.3	16.6	14.2
Core net profit (RMm)	510	506	625	728	850
Core EPS (sen)	14.3	14.0	17.4	20.2	23.6
Core EPS growth (%)	(15.8)	(1.7)	23.8	16.5	16.7
Core PER (x)	23.5	23.9	19.3	16.6	14.2
Net DPS (sen)	10.0	7.5	10.0	10.0	10.0
Dividend Yield (%)	3.0	2.2	3.0	3.0	3.0
EV/EBITDA (x)	7.4	7.3	8.1	6.7	5.1
Chg in EPS (%)			(2.4)	(2.2)	(2.2)
Affin/Consensus (x)			0.9	1.0	1.1

Source: Company, Affin Hwang estimates, Bloomberg

IJM Corp

IJM MK

Sector: Construction & Infra

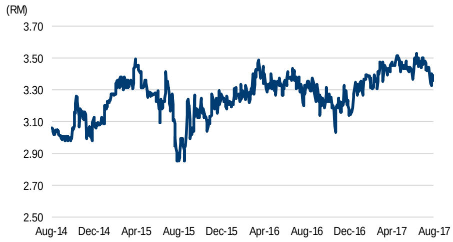
RM3.36 @ 23 Aug 2017

HOLD (maintain)

Upside:10.1%

Price Target: RM3.70

Previous Target: RM3.75



Price Performance

	1M	3M	12M
Absolute	-4.0%	-4.0%	-1.2%
Rel to KLCI	-4.7%	-4.3%	-6.2%

Stock Data

Issued shares (m)	3,627.8
Mkt cap (RMm)/(US$m)	12189.3/2849
Avg daily vol - 6mth (m)	4.9
52-wk range (RM)	3.07-3.61
Est free float	60.6%
BV per share (RM)	2.63
P/BV (x)	1.3
Net cash/ (debt) (RMm) (1Q18)	(3,927)
ROE (FY18E)	6.1%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

EPF	14.6%
LTH	5.8%
SASB	5.6%

Source: Affin Hwang, Bloomberg

Loong Chee Wei CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

Infrastructure, manufacturing and property challenges

We expect earnings to be lower for its infrastructure division in 2HFY17 due to an expected drop in port cargo throughput due to the seizing of bauxite stockpiles recently. Higher raw material costs and lower ready-mixed concrete volumes adversely affected manufacturing earnings despite higher delivered tonnage of piles (-4.9% yoy) and quarry products (-17.4% yoy). Outlook for its property development division remains challenging on the back of weak consumer sentiment, stringent mortgage approval and incoming supply of new launches and competing properties. But high unbilled sales of RM1.7bn coupled with new launches in strategic locations should sustain its earnings.

Risks

Key risks to our call: stronger/weaker-than-expected property sales and stronger/weak-than-expected plantation production.

Fig 1: Results comparison

FYE 31 Mar (RMm)	1Q17	4Q17	1Q18	% QoQ	% YoY	1Q18 Comment
Revenue	**1,313.2**	**1,669.3**	**1,468.3**	***(12.0)***	***11.8***	Higher revenue for all divisions.
Operating costs	(1,097.4)	(1,328.3)	(1,192.8)	*(10.2)*	*8.7*	
EBITDA	**215.8**	**341.0**	**275.5**	***(19.2)***	***27.6***	
EBITDA margin (%)	*16.4*	*20.4*	*18.8*	*(1.7ppt)*	*2.3ppt*	
Depreciation	(61.2)	(109.1)	(80.0)	*(26.7)*	*30.7*	
EBIT	**154.7**	**231.9**	**195.5**	***(15.7)***	***26.4***	
Interest income	22.5	43.4	29.1	*(33.0)*	*29.1*	
Interest expense	(31.1)	(49.4)	(45.1)	*(8.8)*	*44.9*	
Associates	22.0	22.9	22.2	*(2.9)*	*0.9*	
Forex gain (loss)	(5.9)	15.4	(3.6)	*NA*	*(38.5)*	
Exceptional gain/(loss)	12.4	111.0	(0.6)	*NA*	*NA*	Impairment of receivables.
Pretax profit	**174.6**	**375.2**	**197.5**	***(47.4)***	***13.1***	Higher PBT for infrastructure (+211%), property (+23%) and construction (+16%) but lower PBT for manufacturing (-16%) and plantation (-36%).
Core pretax	**168.1**	**248.8**	**201.8**	***(18.9)***	***20.0***	
Taxation	(44.7)	(78.0)	(53.7)	*(31.2)*	*20.2*	
Tax rate (%)	*25.6*	*20.8*	*27.2*	*6.4ppt*	*1.6ppt*	Higher tax rate due to non-deductible expenses.
Minority interests	(14.4)	(61.2)	(17.4)	*(71.5)*	*21.2*	
Net profit	**115.5**	**236.0**	**126.4**	***(46.4)***	***9.4***	Below expectations.
EPS (sen)	3.2	6.5	3.5	*(46.6)*	*8.4*	
Core net profit	**109.1**	**109.6**	**130.7**	***19.2***	***19.8***	Better operating performance.

Source: Company, Affin Hwang estimates

Fig 2: Segmental pre-tax profit

FYE 31 Mar (RMm)	1Q17	2Q17	3Q17	4Q17	1Q18	QoQ % chg	YoY % chg
Construction	50.1	58.5	48.8	59.3	58.1	*(2.0)*	*16.0*
Property devt	19.9	32.5	41.9	209.0	24.5	*(88.3)*	*23.2*
Industry	26.7	39.3	39.7	36.7	22.4	*(38.9)*	*(16.2)*
Plantation	38.6	64.1	28.9	36.9	24.8	*(32.9)*	*(35.9)*
Investment & others	18.4	49.2	51.4	(2.2)	3.0	*NA*	*(83.5)*
Infrastructure	20.8	15.8	(9.7)	35.5	64.6	*82.0*	*211.3*
Total	**174.6**	**259.3**	**200.9**	**375.2**	**197.5**	***(47.4)***	***13.1***

Source: Company, Affin Hwang estimates

Fig 3: Segmental pre-tax profit margin

FYE 31 Mar (%)	1Q17	2Q17	3Q17	4Q17	1Q18	QoQ ppt chg	YoY ppt chg
Construction	10.1	10.5	7.9	12.3	10.9	*(1.4)*	*0.8*
Property devt	6.8	12.0	13.5	37.0	8.2	*(28.8)*	*1.4*
Industry	10.7	12.5	13.5	13.3	8.1	*(5.2)*	*(2.5)*
Plantation	27.7	31.8	13.1	19.2	13.4	*(5.8)*	*(14.3)*
Infrastructure	15.2	11.0	(6.4)	22.7	36.6	*13.8*	*21.4*
Total	**13.3**	**17.4**	**12.6**	**22.5**	**13.5**	***(9.0)***	***0.2***

Source: Company, Affin Hwang estimates

Fig 4: Change in RNAV and target price

Segment	Stake (%)	Valuation method	New value (RMm)	Old value (RMm)
Construction	100	Maintainable net profit of RM160m @ 16x PE	2,560	2,560
Concrete products	100	Maintainable net profit of RM120m @ 16x PE	1,920	1,920
Sungai Besi Highway concession	100	DCF @ 8% WACC	434	434
New Pantai Expressway concession	100	DCF @ 8% WACC	1,196	1,196
Kuantan Port concession	60	DCF @ 8% WACC	314	314
West Coast Expressway concession	38	DCF @ 10% WACC	584	584
Indian concession assets	13-100	DCF @ 14% WACC	1,158	1,158
Value of unlisted assets			**8,165**	**8,165**
Grupo Concesionario del Oeste	15	Market value @ ARS36.45	108	19
IJM Plantations	56	Target price of RM3.05 @ 22x FY18E EPS	1,507	1,648
IJM Land	100	RNAV	4,361	4,361
Kumpulan Europlus	26	Market value @ RM1.34	355	400
Scomi Group	25	Market value @ RM0.12	56	129
Value of listed assets			**6,387**	**6,558**
Revised gross asset value (RGAV)			**14,553**	**14,723**
Co. net cash/(debt)			(1,274)	(1,274)
Revised net asset value (RNAV)			**13,279**	**13,449**
No. of shares			3,585	3,585
RNAV/share (RM)			**3.70**	**3.75**
Target price			**3.70**	**3.75**

Source: Affin Hwang estimates

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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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com