

# IJM Corporation Berhad

(3336 | IJM MK) Main | Construction

## Property division disappoints

### KEY INVESTMENT HIGHLIGHTS

- **Earnings below expectations**
- **Plantation sector a key contributor to IJM's revenue**
- **Infrastructure division revenue was up +9.1%yoy**
- **Construction segment remains flattish**
- **Property development income disappoints**
- **Maintain NEUTRAL with TP of RM1.95**

**Earnings below expectations.** IJM Corp Berhad reported a slight 0.7%yoy rise in total PATAMI to RM179.3m in 9QFY20 from RM178.1m in previous corresponding period. The figure missed expectations at 48.4% and 41.5% of our and consensus full year estimates respectively.

**In the quarter, all divisions except property development and manufacturing & quarrying saw positive growth.** Segments which recorded growth in earnings were plantation (+66.5%yoy), infrastructure (+9.1%yoy) and construction (+0.6%yoy).

**Plantation sector being the key contributor to IJM's revenue,** recorded a +66.5%yoy topline growth in 3QFY20. Its bottom line was buoyed by improved PBT margins which expanded by +15.4ppts. The better performance was underpinned by higher CPO sales volume and prices. Moreover, FFB production increased +11.6%yoy due to (1) crop recovery from the FY15/FY16 El Nino, and (2) peak cropping cycle.

**Infrastructure division revenue was up +9.1%yoy to RM202.7m in 3QFY20** backed by an expansion of cargo throughput handled by the Group's port concession which grew by +14%yoy. Moreover, infrastructure division's pre-tax profit climbed +10.7%yoy in 9MFY20 mainly due to higher contributions from (1) IJM's wholly owned local tolls & port concessions, and (2) lower net unrealised foreign exchange loss of RM6.0 million on the US Dollar denominated borrowings as compared to unrealised foreign exchange loss of RM36.1 million in FY19.

**Construction segment remains flattish.** In 3QFY20, the revenue registered under this segment increased by merely +0.6%yoy to RM482.2m while its pre-tax profit period decreased by -16.9%yoy which was attributable to the decline in overall construction margin and increased finance cost. IJM's current order book stood at RM4.5b. The construction division expects a challenging year ahead due to (1) subdued property market, (2) reduced infrastructure spending by the Government, (3) reduced availability of new construction jobs in the local market, as well as (4) more competitive tender environment.

**Maintain NEUTRAL**  
**Unchanged Target Price : RM1.95**

### RETURN STATISTICS

Price @ 25 <sup>th</sup> Feb 2020 (RM)	RM 2.15
Expected share price return (%)	-9.30
Expected dividend yield (%)	2.33
<b>Expected total return (%)</b>	<b>-6.98</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-6.11	-1.61
3 months	-0.92	7.53
12 months	14.36	31.41

### KEY STATISTICS

FBM KLCI	1500.88
Syariah compliant	Yes
Issue shares (m)	3626.6
Estimated free float (%)	59.3
Market Capitalisation (RM'm)	7803.32
52-wk price range	RM1.76 - RM2.51
Beta vs FBM KLCI (x)	1.5
Monthly velocity (%)	11.0
Monthly volatility (%)	21.5
3-mth average daily volume (m)	2.96
3-mth average daily value (RM'm)	6.49
Top Shareholders (%)	
Employees Provident Fund Board	15.63
Kumpulan Wang Persaraan Diperbadan	7.55
Skim Amanah Saham Bumiputera	6.96

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**Property development income disappoints.** In 3QFY20, revenue dropped by -32.3%yoy to RM325.1m from RM479.9m in the previous year. This topline contraction was attributable to (1) completion of certain development projects, and (2) sale of commercial land that took place in FY19, and (3) new launches for the current quarter are being realigned due to product adjustments. Moving forward, with the potential conversion of unbilled sales of about RM1.9m, the property segment is anticipated to be a better contributor to IJM's earnings underpinned by the strategic locations of its properties and the brand premium that it has established.

**Maintain NEUTRAL.** We slashed earnings by -30.4% for FY20 and but kept FY21 numbers unchanged after factoring weaker performance from property development segment. We maintain our TP of RM1.95 (pegging the FY21 BVPS to 0.7x PBV). On that account, we maintain our NEUTRAL call. 

## INVESTMENT STATISTICS

FYE March	FY17	FY18	FY19	FY20E	FY21F	FYE22F
Revenue (RM'm)	6,065.30	6,146.04	5,655.70	4,293.33	6,628.00	6,666.52
Pre-tax Profit (RM'm)	1,010.00	987.75	761.00	558.13	662.80	666.65
Normalised PATAMI (RM'm)	653.70	494.00	531.90	257.60	437.45	439.99
FD EPS (sen)	18.0	13.6	11.6	7.1	12.1	12.1
EPS growth (%)	-17.0	-24.4	-14.8	-38.8	69.8	0.6
PER (x)	11.6	15.4	18.0	29.4	17.3	17.2
Net Dividend (sen)	7.5	6.0	4.0	4.0	5.0	6.0
Net Dividend Yield (%)	3.6	2.9	1.9	1.9	2.4	2.9

Source: Company, MIDFR

## 3QFY20 RESULTS REVIEW

FYE March (RM'm)	Quarterly Results					Cumulative		
	3QFY20	3QFY19	2QFY20	YoY	QoQ	9MFY20	9MFY19	YoY
Revenue	1,440.4	1,507.2	1,574.2	-4.4%	-8.5%	4,558.1	4,260.7	7.0%
Cost of sales	-1,084.8	-1,201.5	-1,306.5	-9.7%	-17.0%	-3,691.2	-3,450.6	7.0%
<b>Gross Profit</b>	<b>355.6</b>	<b>305.7</b>	<b>267.8</b>	16.3%	32.8%	<b>866.9</b>	<b>810.1</b>	7.0%
Other operating income	42.8	38.4	43.9	11.7%	-2.5%	173.8	166.3	4.5%
Foreign exchange differences	33.1	45.4	-14.8	-27.0%	-324.3%	7.9	-59.2	-113.4%
Tender, sell & distribt expenses	-36.1	-30.6	-34.1	17.9%	5.9%	-94.2	-91.3	3.1%
Admin expenses	-99.1	-88.1	-75.3	12.5%	31.5%	-233.0	-256.6	-9.2%
Other operating expenses	-48.6	-19.0	27.8	155.5%	-275.1%	-74.5	-83.8	-11.0%
<b>EBIT</b>	<b>247.7</b>	<b>251.7</b>	<b>215.2</b>	<b>-1.6%</b>	<b>15.1%</b>	<b>646.9</b>	<b>485.6</b>	<b>33.2%</b>
Finance Cost	-54.5	-68.7	-60.0	-20.7%	-9.2%	-169.1	-185.3	-8.8%
Associates	-27.2	-0.6	-62.3	4102.0%	-56.3%	-73.8	30.8	-339.9%
JVs Income	-2.4	-5.1	21.3	-52.4%	-111.4%	17.1	-14.6	-217.3%
<b>PBT</b>	<b>163.6</b>	<b>177.3</b>	<b>114.2</b>	<b>-7.7%</b>	<b>43.2%</b>	<b>421.2</b>	<b>316.4</b>	<b>0.3</b>
Taxation	-77.9	-76.1	-30.1	2.3%	159.1%	-170.9	-142.6	19.8%
Perpetual Sukuk	11.7	NA	-9.5	NA	NA	31.8	NA	NA
Minority Interest	24.2	7.8	-4.5	-74.1%	-634.3%	39.2	4.3	812.7%
<b>PATAMI</b>	<b>49.8</b>	<b>93.4</b>	<b>70.1</b>	<b>-46.7%</b>	<b>-29.0%</b>	<b>179.3</b>	<b>178.1</b>	<b>0.7%</b>
FD EPS (sen)	1.4	2.57	1.9	-46.7%	-29.0%	4.9	4.9	0.0
	<b>3QFY20</b>	<b>3QFY19</b>	<b>2QFY20</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>9MFY20</b>	<b>9MFY19</b>	<b>+/- ppts</b>
EBIT margin	17.2%	16.7%	13.7%	0.5	3.5	14.2%	11.4%	2.8
PBT margin	11.4%	11.8%	7.3%	-0.4	4.1	9.2%	7.4%	1.8
PATAMI margin	3.5%	6.2%	4.5%	-2.7	-1.0	3.9%	4.2%	-0.2
Effective tax rate	-47.6%	-42.9%	-26.3%	-4.7	-21.3	-40.6%	-45.1%	4.5

Segmental Breakdown								
Revenue (RM'm)	3QFY20	3QFY19	2QFY20	YoY	QoQ	9MFY20	9MFY19	YoY
Construction	482.2	479.3	594.2	0.6%	-18.9%	1594.3	1536.2	3.8%
Property	325.1	479.9	376.0	-32.3%	-13.5%	1163.4	1070.2	8.7%
Industry	192.5	219.2	227.8	-12.2%	-15.5%	651.5	671.1	-2.9%
Plantation	237.8	142.9	172.9	66.5%	37.6%	543.7	466.1	16.7%
Infrastructure	202.7	185.7	203.1	9.1%	-0.2%	604.5	516.5	17.0%
Investment & others	0.2	0.2	0.4	7.1%	-56.2%	0.7	0.6	24.2%
<b>TOTAL</b>	<b>1,440.4</b>	<b>1,507.3</b>	<b>1,574.2</b>	<b>-4.4%</b>	<b>-8.5%</b>	<b>4558.1</b>	<b>4260.7</b>	<b>7.0%</b>
PBT (RM'm)	3QFY20	3Q19	2QFY20	YoY	QoQ	9MFY20	9MFY19	YoY
Construction	28.5	34.2	38.5	-16.9%	-26.1%	107.6	112.4	-4.3%
Property	63.5	65.2	37.2	-2.6%	70.7%	146.6	132.0	11.0%
Industry	13.1	15.0	17.9	-12.2%	-26.7%	46.2	44.2	4.6%
Plantation	33.3	-2.0	-5.0	-1756.9%	-772.2%	23.0	-60.0	-138.3%
Infrastructure	27.5	63.4	35.2	-56.6%	-21.9%	107.2	96.8	10.7%
Investment & others	-2.3	1.5	-9.7	-256.6%	-75.9%	-9.3	-9.1	2.6%
<b>TOTAL</b>	<b>163.6</b>	<b>177.3</b>	<b>114.2</b>	<b>-7.7%</b>	<b>43.2%</b>	<b>421.2</b>	<b>316.4</b>	<b>33.1%</b>
PBT margin (RM'm)	3QFY20	3QFY19	2QFY20	+/- ppts	+/- ppts	9MFY20	9MFY19	+/- ppts
Construction	5.9%	7.1%	6.5%	-1.2	-0.6	6.7%	7.3%	-0.6
Property	19.5%	13.6%	9.9%	6.0	9.6	12.6%	12.3%	0.3
Industry	6.8%	6.8%	7.9%	0.0	-1.0	7.1%	6.6%	0.5
Plantation	14.0%	-1.4%	-2.9%	15.4	16.9	4.2%	-12.9%	17.1
Infrastructure	13.6%	34.1%	17.3%	-20.6	-3.8	17.7%	18.7%	-1.0
Average	12.0%	12.1%	7.7%	-0.1	4.2	9.7%	6.4%	3.3

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.