27 August 2014 | 1QFY15 Results Review

IJM Corp Berhad

Decent profit for the quarter

***Reaffirm* NEUTRAL**

***Revised* Target Price (TP): RM6.98**

(previously RM7.26)

INVESTMENT HIGHLIGHTS

- **1QFY15 numbers were in line with ours but slightly below market consensus estimates.**
- **PATAMI remained strong at RM133.4m and margin continued to be stable.**
- **IJM Corp lacks near-term catalyst but we remain sanguine on the Group's near-term prospects.**
- **Reaffirm our NEUTRAL recommendation with a revised TP of RM6.98.**

1QFY15 numbers met expectation. 1QFY15's numbers were in line with expectations with PATAMI accounting for 25% of ours but slightly below consensus estimates of FY15 net profit forecasts. Revenue and PATAMI remained strong at RM1.4b and RM133.4m respectively with a net margin of 9.7%.

Construction still showed encouraging numbers. The segment's revenue was lower at RM285.1m (-31.8%yoy) as several projects have been completed in the previous corresponding quarters. However, its PBT growth was more than 100%yoy at RM46.8m with a net margin of 16.4% (+15.1%yoy). The improved PBT was mainly on account of higher margins achieved for its various projects. We expect the segment's performance to accelerate further in the coming quarters on the back of Package V5 of MRT as we believe it has entered into advance execution stages of construction works.

Property sales to remain intact. IJM Land's revenue of RM489.2m continued to improve for the current quarter by 5.1%yoy driven mainly by stronger sales and faster progress works. Although PATAMI of RM76.8m (-6%yoy) lagged expectation due to higher preliminary cost, advertising expenses as well as promotion cost, we deem the shortfall to be only temporary at this initial stage as it undertook new projects. In addition, the Management recently indicated that its revenue will sustain at circa RM2.0b despite the slowdown in the property market.

Limited plantation earnings growth. IJMP's 1QFY15 revenue increased by 32.2%yoy to RM177.8m. The higher revenue was mainly due to higher commodity prices and sales volume. Accordingly, IJMP's earnings surged more than 700%yoy to RM26.1m. Nonetheless, depressed CPO price outlook may offset and even limit the earnings growth of the company moving forward.

RETURN STATS	
Price (26th August 2014)	RM6.57
Target Price	RM6.98
Expected Share Price Return	+6.2%
Expected Dividend Yield	+2.9%
Expected Total Return	**+9.1%**

STOCK INFO	
KLCI	1,861.82
Bursa / Bloomberg	3336 / IJM MK
Board / Sector	Main/Construction
Syariah Compliant	Yes
Issued shares (mil)	1,469.7
Par Value (RM)	1.00
Market cap. (RM'm)	9,665.9
Price over NTA	1.41x
52-wk price Range	RM5.32–RM6.93
Beta (against KLCI)	0.84x
3-mth Avg Daily Vol	3.35m
3-mth Avg Daily Value	RM22.4m
Major Shareholders	
EPF	11.26%
JP Morgan Chase Bank	10.43%
KWAP	7.48%
LTH	5.56%

INVESTMENT STATISTICS

FYE March	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	4,517.9	4,663.4	6,006.5	6,182.2	6,686.1
EBIT (RM'm)	972.5	1,019.3	1,787.9	1,349.7	1,479.8
Pretax Profit (RM'm)	801.6	835.8	1,416.3	1,147.3	1,279.2
Net Profit (RM'm)	550.5	562.2	1,075.7	741.2	869.0
Normalised PATAMI (RM'm)	409.1	420.9	539.0	541.0	646.0
PATAMI Margin (%)	9.1	9.0	9.0	8.8	9.7
FD EPS (sen)	29.2	29.9	37.5	37.7	45.0
EPS growth (%)	25.0	2.6	25.4	0.4	19.4
PER (x)	18.9	17.9	10.4	17.4	14.9
Net Dividend (sen)	12.0	13.0	25.0	12.5	19.2
Net Dividend Yield (%)	2.1	2.4	2.4	1.9	2.9

Source: Company data, forecasts by MIDFR

Infrastructure segment improved further. Its infrastructure segment's revenue of RM166.5m jumped by 21.0%yoy, thanks to the continued traffic growth in its toll road concessions including consolidation of Swarna Tollway Pte Ltd contribution. The segment's PBT was RM36.5m (-51.5%yoy) in 1QFY15. The decline in PBT was due: to (i) lower cargo throughput in the port operations following the disposal of the Kemaman port assets in November 2013, and (ii) the increased expensing of interest cost following the opening of the Besraya tollway's extension. However, after adjusting for a one-off gain of RM56.5m on part disposal of equity interest in Trichy Tollway Pte Ltd in 1QFY14, PBT for the segment in 1QFY15 was higher by circa 100%yoy.

Industry products relatively flattish. Revenue of RM254.4m (+3.4%yoy) for its industry product segment was flattish in the current quarter. We opine this was mainly attributable to competitive sales for piles and deliveries of aggregates. On the other hand, the lower PBT of RM36.4m (-17.3%yoy) was mainly due to lower delivery of higher-margin big-sized marine piles and increased delivery of lower-margin smaller sized piles.

Our views. We believe this result was rather pleasing following (i) higher base effect numbers due to completion of certain construction and property development projects that gave significant contributions and one-off gains, and (ii) numbers are on track to meet our current projections. However, we make marginal revisions to our FY15 earnings forecast following the adjustment in IJM Plantation's forecast numbers.

VALUATION AND RECOMMENDATION

Maintain NEUTRAL with a positive bias. At this juncture, we reaffirm our NEUTRAL stance on IJM Corp with a revised TP of RM6.98 on account of change in IJM Plantation TP and we foresee that the Group lacks near-term catalyst as market has already priced in earlier positive newsflow which was the impending award of RM2.8b WCE construction works. However, we remain upbeat on IJM Corp's near-term prospect which should provide an opportunity to accumulate at current level due to the following:

1) Healthy outstanding order book of RM2.2b with impending RM2.8b of WCE packages;
2) Potential order book replenishment from remaining WCE package worth RM2.2b and construction of NDWT in Kuantan worth RM1.8b for phase 1;
3) Strong unbilled property sales of approximately RM2.0b which could sustain earnings for the next two years and undeveloped land of 4,800 acres with an estimated GDV of RM30b;
4) Solid concession assets which will provide steady recurring income, and
5) Potential additional earnings contribution from the privatisation of IJM Land.

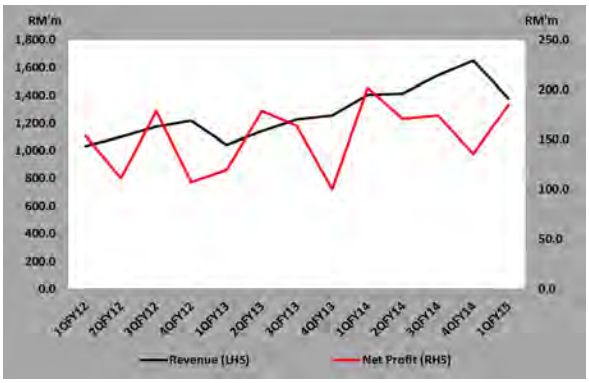
Share price to continue consolidating. Technically, we expect its share price to continue consolidating at circa RM6.49-6.75 after it has been adjusted for dividend exercise in June this year. The stock may trade as high as RM7.00 when it breaches resistance level of RM6.75. We see an immediate support at RM6.49 with a strong support at RM6.38.

SUM-OF-PARTS VALUATION

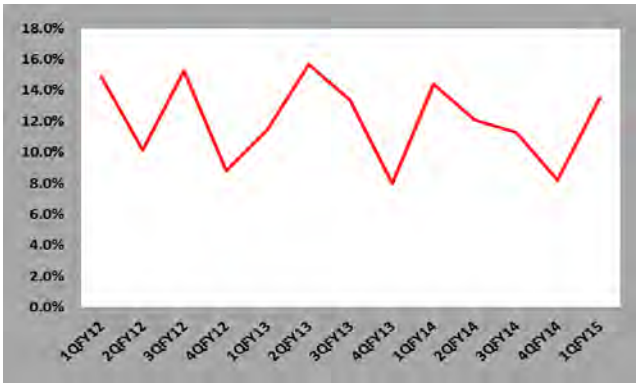
	Stake	Method	Value (RM'm)
Construction	100%	FY15 PER of 15x	2,246.3
Manufacturing & quarrying	100%	FY15 PER of 10x	1,377.4
IJM Plantation	54%	MIDFR Fair Value of RM3.00	1,325.6
IJM Property	66%	MIDFR Fair Value of RM3.56	3,686.4
Concessions Assets	Various	DCF (WACC: 9% - 10%)	5,018.4
Keuro	14%	Market Cap at RM1.17	168.2
Scomi Group	8%	Market cap at 42.5sen	50.6
(+ / -) Net debt			-3,620.5
Total value (RM)			**10,252.4**
No. of shares (mil)			1,469.7
SOP per share (RM)			**6.98**

Source: Forecasts by MIDFR

REVENUE AND EARNINGS TREND

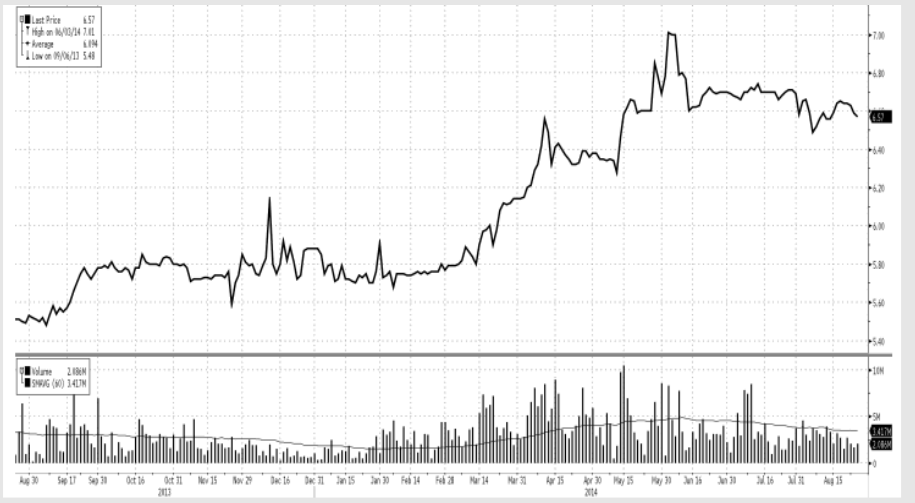


PROFIT MARGIN TREND



Source: Company, MIDFR

DAILY PRICE CHART



Syed Muhammed Kifni | Hafiz Hassan
mohd.hafiz@midf.com.my
03-2772 1668

1QFY15 RESULTS SUMMARY

FYE March (RM'm)	Quarterly Results			Comments
	1Q15	YoY	QoQ	
Revenue	**1,373.0**	**-2.1%**	**-16.8%**	**Dropped due to completion of several construction projects during the quarter but the shortfall offset by other segments**
Other operating income	42.6	-58.0%	-85.4%	
Foreign exchange differences	-7.3	-68.6%	-109.8%	
Tender, sell & distribution expenses	-37.6	28.2%	-19.6%	
Admin expenses	-70.4	-9.7%	-26.5%	
Other operating expenses	-18.5	69.8%	-90.7%	QoQ: Higher preparation cost for new property projects
EBIT	**336.2**	**8.9%**	**-38.7%**	
Finance Cost	-64.7	51.1%	-35.1%	Borrowings stood at RM6.0b
Associates	-5.5	>-100%	>100%	
JVs Income	-7.3	-37.4%	-95.1%	
PBT	**258.6**	**0.7%**	**-13.1%**	
Taxation	-73.2	33.2%	-54.8%	
Minority Interest	-52.0	38.9%	-59.2%	
PATAMI	**133.4**	**-18.8%**	**>100%**	**Earnings remained strong, accounted 25% of ours estimates**
FD EPS (sen)	9.1	-21.4%	>100 %	
	1Q15	**+/- ppts**	**+/- ppts**	
EBIT margin	24.5%	2.5	-8.7	
PBT margin	18.8%	0.5	0.8	
PATAMI margin	9.7%	-2.0	9.2	
Effective tax rate	28.3%	6.9	-26.1	

Segmental breakdown				
Revenue (RM'm)	**1Q15**	**YoY**	**QoQ**	**Comments**
Construction	285.1	-31.8%	-23.2%	
Property	489.2	5.1%	-30.5%	
Industry	254.4	3.4%	18.3%	
Plantation	177.8	32.2%	-5.5%	
Infrastructure	166.5	21.0%	-3.6%	
Investment & others	0.0	-67.4%	-90.7%	
TOTAL	**1,373.0**	**-2.1%**	**-16.8%**	
PBT (RM'm)	**1Q15**	**YoY**	**QoQ**	
Construction	46.8	>100%	-41.9%	YoY: Higher margins being achieved from on-going projects
Property	115.2	-2.2%	-62.3%	QoQ: Lower due to high base effect following gain on remeasurement of additional equity interest in Radiant Pillar Sdn Bhd
Industry	36.4	-17.3%	7.9%	
Plantation	31.1	>100%	-60.5%	
Infrastructure	36.5	-51.5%	>-100%	High base effect as it accounted one-off gain
Investment & others	-7.4	>-100%	>100%	
TOTAL	**258.6**	**0.7%**	**-13.1%**	
PBT margin (RM'm)	**1Q15**	**+/- ppts**	**+/- ppts**	
Construction	16.4%	15.1	-5.3	
Property	23.5%	-1.8	-19.9	
Industry	14.3%	-3.6	-1.4	
Plantation	17.5%	15.3	-24.4	
Infrastructure	21.9%	-32.7	137.3	

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.