26 November 2014 | 2QFY15 Results Review

IJM Corp Berhad

No major surprises in 1HFY15 earnings

***Reaffirm* NEUTRAL**

***Revised* Target Price (TP): RM7.20**

(previously RM6.98)

INVESTMENT HIGHLIGHTS

- **1HFY15 earnings were in line with ours but slightly below market consensus estimate.**
- **PATAMI remained strong at RM245m and net profit margin continued to be stable.**
- **We make no changes to our earnings forecasts and remain sanguine on the Group's earnings growth prospects.**
- **We reaffirm our NEUTRAL recommendation on IJM Corp with a revised TP of RM7.20 as we roll over our valuation period to FY16.**

1HFY15 earnings met our expectation. 1HFY15 earnings were within ours but lagged consensus expectations accounting for 45% of ours but only 37% of consensus FY15 net profit forecasts respectively. Revenue and PATAMI remained strong at RM2.6b and RM245m respectively with a stable PATAMI margin of 9.2% in 1HFY15.

Construction earnings remain encouraging. Cumulative revenue was lower for its Construction segment at RM506.7m (-44.4%yoy) following the completion of several sizeable projects, particularly Besraya Highway extension in the previous quarters. However, its PBT grew by more than 100%yoy at RM94.1m with a healthy PBT margin of 18.6% (+14.5ppts yoy). The improved PBT was mainly on account of higher margins achieved from its various projects. We expect the segment's performance to accelerate further in the coming quarters on the account of on-going construction progress of MRT Package V5.

Property sales to remain intact. IJM Land's cumulative revenue of RM990.3m continued to improve by 10.7%yoy contributed from the faster progress works of on-going major projects, i.e. Shah Alam 2 and Bandar Rimbayu. Excluding forex impact, the company's cumulative PBT grew to RM233.6m (+1.9%yoy). Meanwhile, we understand that its property sales target remains at RM2.0b. This is despite the slowdown in the property market.

Higher FFB production. The increase in IJMP's 1HFY15 revenue of 23.9%yoy to RM351.5m lifted its 1HFY15 net profit higher by more than eight times to RM53.2m. The significant improvement in earnings was mainly due: (i) higher FFB production, (ii) higher sales volume, and (iii) lower net unrealized FX loss from the US Dollar borrowings. Excluding the FX translation impact, IJMP's earnings growth remained intact. However, its Indonesian operations were still in the red for the quarter reviewed.

RETURN STATS	
Price (25 Nov' 2014)	RM6.70
Target Price	RM7.20
Expected Share Price Return	+7.4%
Expected Dividend Yield	+2.9%
Expected Total Return	**+10.3%**

STOCK INFO	
KLCI	1,838.56
Bursa / Bloomberg	3336 / IJM MK
Board / Sector	Main/Construction
Syariah Compliant	Yes
Issued shares (mil)	1,489.3
Par Value (RM)	1.00
Market cap. (RM'm)	9,978.3
Price over NTA	1.40x
52-wk price Range	RM5.51–RM7.03
Beta (against KLCI)	0.90x
3-mth Avg Daily Vol	2.83m
3-mth Avg Daily Value	RM18.67m
Major Shareholders	
EPF	12.06%
JP Morgan Chase Bank	10.34%
ASB	8.39%
KWAP	4.90%

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

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
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	17.8	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 to improve further. Its infrastructure segment's cumulative revenue jumped by 26%yoy to RM342.3m, thanks to the continued traffic growth at its toll road concessions and the consolidation of Swarna Tollway Pte Ltd's contributions since October 2013. However, the segment's PBT was lower at RM33.8m (-57.2%yoy) due to: (i) increased major maintenance provisions of RM8.3m, (ii) amortization of RM9.7m due to the increase of fair value of Swarna Tollway, as well as (iii) higher financing expense following the opening of the Besraya tollway's extension. After adjusting for a one-off gain of RM56.5m from the partial disposal of equity interest in Trichy Tollway Pte Ltd in 1HFY14, PBT for the segment in 1HFY15 was higher by 50%yoy.

SILK highway acquisition terminated. We are neutral on the termination of the proposed highway as there will be no near-term impact to the Group' earnings. Nonetheless, we believe the Group should prioritise on its existing highways to control the expenses which will generate stable earnings to the Group.

Industry products relatively flattish. Revenue of RM474.8m (+5%yoy) for its industry product segment was flattish in 1HFY15. We opine this was mainly attributable to competitive sales for piles and deliveries of aggregates. The segment's weaker PBT of RM69.4m (-11.3%yoy) was mainly due to lower delivery of higher-margin big-sized marine piles while delivery of smaller sized piles which carry lower margins increased.

Interim single tier dividend of 4sen declared. Management has declared a single tier first interim dividend of 4 sen per share in 2QFY15. The dividend will be paid on 23rd December 2014.

VALUATION AND RECOMMENDATION

Maintain NEUTRAL. At this juncture, we maintain our forecast as earnings were within our expectation. We continue to like IJM Corp due to the following:

1) Healthy outstanding order book of RM2.3b with impending award of RM2.8b worth of WCE construction works;
2) Potential order book replenishment from construction of NDWT in Kuantan worth RM1.1b for phase 1 in February 2015;
3) Strong unbilled property sales of approximately RM1.8b 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, which should raise our current valuation higher. Completion of the privatisation exercise is expected to be in 1Q2015.

Earnings catalysts. We view that the Group lacks near-term catalyst as the market has already priced in earlier positive newsflows such as the impending award of RM2.8b worth of WCE construction works. Nonetheless, we understand that IJM has been pre-qualified for Warisan Merderka tower, LRT3 jobs and is also keen to participate in the implementation of MRT Line 2 and highways next year. Should they secure those packages, we expect earnings contribution to begin in FY17. As such, we reaffirm our NEUTRAL recommendation on IJM with a revised TP of RM7.20 as we roll over our valuation period to FY16 based on sum-of-parts valuation.

SUM-OF-PARTS VALUATION

Segments	Basis	Value (RM'm)	Per Share (RM)
Construction	FY16 PER of 17x	2,393.9	1.64
IJM Property	FY16 PER of 14x	3,062.4	2.10
Industrial	FY16 PER of 12x	1,182.9	0.81
IJM Plantation	MIDFR TP of RM3.30	1,500.0	1.03
Concessions Assets	DCF (WACC: 9% - 10%)	6,122.4	4.20
Keuro	Market Cap at RM1.18	304.0	0.21
Scomi Group	Market cap at 28sen	33.3	0.02
Total value		**14,598.9**	**10.02**
(Net debt) / net cash		-4,108.1	-2.82
SOP per share			**7.20**
Enlarged share cap (mil)			1,457.5

Source: Forecasts by MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

Hafiz Hassan
mohd.hafiz@midf.com.my
03-2772 1668

2QFY15 RESULTS SUMMARY

FYE March (RM'm)	Quarterly Results			Cumulative	
	2Q15	YoY	QoQ	6M15	YoY
Revenue	**1,293.0**	**-8.4%**	**-5.8%**	**2,666.0**	**-5.2%**
Other operating income	59.3	2.7%	39.3%	101.9	-36.0%
Foreign exchange differences	-7.6	-78.2%	3.0%	-14.9	-74.3%
Tender, sell & distribt expenses	-46.1	24.8%	22.6%	-83.7	26.3%
Admin expenses	-82.1	21.6%	16.6%	-152.6	4.8%
Other operating expenses	-17.0	-47.7%	-8.2%	-35.4	-18.2%
EBIT	**305.9**	**21.3%**	**-9.0%**	**642.1**	**14.5%**
Finance Cost	-65.1	53.5%	0.6%	-129.7	52.3%
Associates	3.4	-40.4%	-161.1%	-2.1	-126.3%
JVs Income	-6.3	-20.4%	-14.3%	-13.6	-30.6%
PBT	**238.0**	**14.7%**	**-8.0%**	**496.6**	**7.0%**
Taxation	-72.7	97.5%	-0.6%	-146.0	59.0%
Minority Interest	-53.8	76.7%	3.3%	-105.8	55.8%
PATAMI	**111.5**	**-36.3%**	**-16.4%**	**244.9**	**-20.0%**
FD EPS (sen)	7.4	-24.0%	-17.9%	16.5	-22.7%
	2Q15	**+/- ppts**	**+/- ppts**	**6M15**	**+/- ppts**
EBIT margin	23.7%	5.8	-0.8	24.1%	4.1
PBT margin	18.4%	3.7	-0.4	18.6%	2.1
PATAMI margin	8.6%	-3.8	-1.1	9.2%	-1.7
Effective tax rate	30.6%	12.8	2.3	29.4%	9.6
Segmental breakdown					
Revenue (RM'm)	**2Q15**	**YoY**	**QoQ**	**6M15**	**YoY**
Construction	221.6	-55.0%	-22.3%	506.7	-44.4%
Property	501.1	16.8%	2.4%	990.3	10.7%
Industry	220.4	6.8%	-13.4%	474.8	5.0%
Plantation	173.7	16.5%	-2.3%	351.5	23.9%
Infrastructure	175.8	30.9%	5.6%	342.3	25.9%
Investment & others	0.3	14.3%	814.3%	0.3	-8.4%
TOTAL	**1,293.0**	**-8.4%**	**-5.8%**	**2,666.0**	**-5.2%**
PBT (RM'm)	**2Q15**	**YoY**	**QoQ**	**6M15**	**YoY**
Construction	47.3	49.3%	1.2%	94.1	152.1%
Property	118.4	-5.6%	2.8%	233.6	1.9%
Industry	32.9	-3.5%	-9.6%	69.4	-11.3%
Plantation	34.4	>-100%	10.5%	65.5	>-100%
Infrastructure	-2.6	-166.6%	-107.2%	33.8	50.0%
Investment & others	14.2	-12.0%	>-100%	6.9	-74.9%
TOTAL	**244.7**	**17.9%**	**-5.4%**	**503.3**	**27.8%**
PBT margin (RM'm)	**2Q15**	**+/- ppts**	**+/- ppts**	**6M15**	**+/- ppts**
Construction	21.4%	14.9	4.9	18.6%	14.5
Property	23.6%	-5.6	0.1	23.6%	-2.0
Industry	14.9%	-1.6	0.6	14.6%	-2.7
Plantation	19.8%	22.4	2.3	18.6%	19.0
Infrastructure	-1.5%	-4.4	-23.4	9.9%	1.6

Source: Company data, 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.