28 May 2014 | 4QFY14 Results Review

IJM Corp Berhad

Outstanding orderbook at historical high of RM5.2b

***Reaffirm* BUY**

***Revised* Target Price (TP): RM7.26**

(*from* RM6.90)

INVESTMENT HIGHLIGHTS

- **IJM Corp's full year PATAMI outpaced ours and consensus estimates.**
- **The results were driven by strong revenue and earnings growth in property, construction and rejuvenated plantation.**
- **Moving forward, we expect construction, property and infrastructure earnings to ramp up.**
- **We reaffirm our BUY recommendation on IJM Corp with a revised target price of RM7.26 based on FY15 sum-of parts (SOP) valuation.**

Full year PATAMI outpaced expectation. In 4QFY14, IJM Corp posted revenue of RM1.7b (+31.6%yoy and 7.1%qoq) and PATAMI of RM8.2m (-87.2%yoy and -98.4%qoq). For the full year FY14, the Group recorded PATAMI of RM829.6m as compared to RM420.9m profit in prior year. EBIT and net margins stood at 29.8% and 14.2% respectively (FY13: 21.9% and 9%). Overall, the results came in above ours (+19%) and market consensus (+50%). Stripping one-off net gains of RM290.6m, the full year core earnings stood at RM539.0m (28.1%yoy).

Property sales remain intact. IJM Land's FY14 core earnings grew +106.7%yoy to RM444.6m on the back of (i) strong revenue growth of +63.7%yoy, and (ii) a -6.6ppts lower effective tax rate. Main contributors to its revenue were projects in Penang (30%) and the Klang Valley (30%). Sales of c.RM500m was secured in 4QFY14, bringing total FY14 sales up to a hefty RM2.9b (including RM700m worth of sales from the Group's Royal Mint Garden in London). Moving into FY15, IJML is planning to launch RM3-3.5b worth of developments. Some projects to look forward to are phase 1 of Pantai Sentral Hillpark (RM180m GDV), the remainder of phase 3 of Bandar Rimbayu (RM190m GDV), and Sebana Cove in Johor (~RM250m GDV)

Limited FFB growth in near term. IJM Plantations' (IJMP) 4QFY14 increased +136.1%yoy to RM52.8m and which raised FY14 revenue to RM647m (+33.0%). This was attributable to higher CPO sales volume from Malaysian and Indonesian operations. However, about 47.4% of IJMP's planted area is now below 3 years and bear no fruits. With this situation, we do not foresee a significant FFB growth for IJMP in the next 6-12 months. However, as more areas coming into maturity, we believe these young trees will help to accelerate IJMP's revenue in the next couple of years.

RETURN STATS	
Price (27th May 2014)	RM6.60
Target Price	RM7.26
Expected Share Price Return	+10.0%
Expected Dividend Yield	+1.9%
Expected Total Return	**+11.9%***

* Maintain BUY as we may further raise our TP after imputing the DCF value of SILK

STOCK INFO	
KLCI	1,867.57
Bursa / Bloomberg	3336/IJM MK
Board / Sector	Main/Construction
Syariah Compliant	Yes
Issued shares (mil)	1,444.7
Par Value (RM)	1.00
Market cap. (RM'm)	9,535.2
Price over NTA	1.41x
52-wk price Range	RM5.38–RM6.69
Beta (against KLCI)	0.91x
3-mth Avg Daily Vol	4.50m
3-mth Avg Daily Value	RM28.14m
Major Shareholders	
EPF	10.11%
ASB	8.65%
KWAP	7.88%
LTH	5.16%

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

INVESTMENT STATISTICS

FYE March	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	4,517.9	4,663.4	5,788.5	6,173.2
Pretax Profit (RM'm)	801.6	835.8	1,137.9	1,177.6
Net Profit (RM'm)	409.1	420.9	717.1	745.1
Net Profit Margin (%)	9.1	9.0	12.4	12.1
FD EPS (sen)	29.2	29.9	50.5	52.5
EPS growth	25.0	2.5	24.0	3.9
PER (x)	18.9	17.9	13.1	12.6
Net Dividend (sen)	11.0	13.0	12.0	12.5
Net Dividend Yield (%)	2.1	2.4	1.8	1.9

Source: Company data, forecasts by MIDFR

Construction earnings to ramp up. In FY14, the segment's revenue and pre-tax profit rose 15.4%yoy and 45.7%yoy respectively, anchored by improvement in construction progress and improvement in margins following the completion of several sizeable projects particularly Besraya Highway extension. With its current outstanding orderbook at historical high of RM5.2b following the WCE (RM2.8b) job award, this will provide earnings visibility to the Group for the next four to five years. We understand that Sections 3 and 4 of WCE construction works is anticipated to start in June or July this year. The Management also indicated that they are looking to tender for (i) the remaining six packages of WCE, (ii) new toll highwayss (Kidex, Suke and Dash) and (iii) the Warisan Merdeka tower.

Infrastructure segment to improve further. The infrastructure segment revenue jumped 25.9%yoy to RM597.2 in FY14 driven by higher cargo throughput at the Kuantan Port and improvement in traffic growth for its wholly owned toll concessions. We expect the recently opened Besraya Highway extension would boost traffic growth and eventually increase its revenue by at least 3% in FY15. We also would see revenue growth from the Kuantan Port additional 600m berth capacity in the next two years. Meanwhile, the segment's pre-tax profit in current quarter posted losses of RM199.4m mainly due to (i) impairment of RM187.3m in Vijayawada Tollway, (ii) impairment of RM81.2m in Lekas Highway, and (iii) unrealized forex losses of RM47.3m.

Fair cash value acquisition of Kajang-SILK Highway. In a separate announcement, IJM Corp has entered into Head of Agreement with SILK Holdings Bhd for the proposed acquisition of 100% stake in Kajang-SILK Highway (SILK) for a total cash of RM398m. We are positive on this deal as it could enhance the Group's future recurring income. We deemed the deal is fair to both parties on the basis of 1.8 times of price-to-book value and/or at 13 times of EV/EBIDA. We believe SILK is set to benefit from the construction of Kuala Lumpur Outer Ring Road (KLORR) which will provide a surge in traffic volume. Apart from that, it will improve connectivity and complimenting the Group's Besraya, NPE and Lekas Highway.

Manufacturing and quarrying businesses look sustainable. Revenue for its industry product segment was flattish in FY14. This was mainly attributable to competitive sales for piles and deliveries of aggregates, albeit improved sales for quarry products and ready-mixed concrete. Nonetheless, the current orderbook especially in piles is expected to last for five months. Moreover, demand for the segment products will increase once WCE, Pengerang and Kuantan Port projects kick off.

Earnings unchanged. We maintain our earnings forecasts pending the completion of SILK acquisition. Upon the completion of the acquisition, we believe it will contribute between RM5m and RM8m to IJM Corp's FY15 and FY16 earnings. Accordingly, we may further raise our Target Price after imputing the DCF value of SILK.

SUM-OF-PARTS VALUATION

	Stake	Method	Value (RM'm)
Construction	100%	PER of 15x	2,246.3
Manufacturing & quarrying	100%	PER of 10x	1,377.4
IJM Plantation	55%	MIDFR Fair Value of RM3.12	1,380.3
IJM Property	66%	MIDFR Fair Value of RM3.56	3,686.4
Concessions Assets	Various	DCF (WACC: 9% - 10%)	5,018.4
Keuro	25%	Market cap at RM1.22	175.5
Scomi Group	8%	Market cap at 44.5sen	53.0
(+ / -) Net debt			(3,620.5)
Total value (RM)			**10,326.7**
No. of shares (m)			1,422.3
SOP per share (RM)			**7.26**

Source: Forecasts by MIDFR

Maintain BUY. Overall, we are still positive on IJM Corp due to the following: (1) outstanding order book of more than RM5b, (2) potential order book replenishment from remaining WCE packages worth RM2.2b, (3) construction of NDWT in Kuantan worth RM1.5b for phase 1, and (4) strong unbilled property sales of approximately RM2b. We removed the 5% discount applied to FY15 SOP as the risk of delay in the WCE project is eliminated with the appointment of IJM Corp as the main contractor. Hence we reaffirm our BUY recommendation on IJM Corp at a higher Target Price of RM7.26.

4QFY14 RESULTS SUMMARY

FYE March (RM'm)	Quarterly Results			Cumulative		Comments
	4Q14	YoY	QoQ	12M14	YoY	
Revenue	**1,651.0**	**31.6%**	**7.1%**	**6,006.5**	**28.8%**	**Accounted 104% of ours estimates**
Other operating income	292.1	>100%	-35.7%	905.4	>100%	
Foreign exchange differences	75.0	>-100%	>-100%	-1.5	-93.7%	
Tender, sell & distribt expenses	-46.8	10.1%	15.8%	-153.5	18.2%	
Admin expenses	-95.9	46.6%	44.2%	-307.9	24.6%	
Other operating expenses	-199.4	>100%	176.0%	-314.9	>100%	
EBIT	**548.2**	**95.3%**	**-19.2%**	**1,787.9**	**75.4%**	**YoY: Higher revenue contribution from key segments**
Finance Cost	-99.7	145.3%	115.5%	-231.2	39.4%	
Associates	-1.6	-92.6%	-57.3%	2.9	-85.7%	
JVs Income	-149.2	>100%	>-100%	-143.3	>100%	
Pre-tax profit	**297.7**	**39.0%**	**-54.5%**	**1,416.3**	**69.4%**	**After all one-offs and fx gain/losses**
Taxation	-162.0	42.1%	86.6%	-340.7	24.5%	
Minority Interest	-127.4	256.8%	151.1%	-246.1	74.1%	
PATAMI	**8.2**	**-87.2%**	**-98.4%**	**829.6**	**97.1%**	
FD EPS (sen)	0.6	-87.3%	-98.4%	57.8	93.0%	
	4Q14	**+/- ppts**	**+/- ppts**	**12M14**	**+/- ppts**	
EBIT margin	33.2%	10.8	-10.8	29.8%	7.9	
Pre-tax margin	18.0%	1.0	-24.4	23.6%	5.7	
Net profit margin	0.5%	-4.6	-33.0	13.8%	4.8	
Effective tax rate	54.4%	1.2	41.2	24.1%	-8.7	

Segmental breakdown						
Revenue (RM'm)	**4Q14**	**YoY**	**QoQ**	**12M14**	**YoY**	**Comments**
Construction	371.4	3.7%	-28.6%	1,802.3	15.4%	Improved construction progress
Property	703.5	83.1%	47.2%	2,075.7	60.7%	Higher billing progress
Industry	215.0	-12.7%	-0.6%	883.7	4.1%	
Plantation	188.0	39.2%	7.2%	647.0	33.0%	Increase in sales volume of CPO
Infrastructure	172.8	32.4%	13.3%	597.2	25.9%	Higher contribution from Kuantan Port
Investment & others	0.3	8.7%	>100%	0.7	-9.1%	
Total	**1,651.0**	**31.6%**	**7.1%**	**6,006.5**	**28.8%**	
Pre-tax profit (RM'm)	**4Q14**	**YoY**	**QoQ**	**12M14**	**YoY**	
Construction	80.6	123.3%	60.3%	168.2	45.7%	Higher margin achieved
Property	305.7	>100%	53.0%	748.7	131.8%	Higher profit margin
Industry	33.8	-20.4%	-1.4%	146.2	5.0%	
Plantation	78.8	167.6%	152.7%	109.1	-30.3%	
Infrastructure	-199.4	>-100%	>-100%	189.1	126.0%	Losses due to impairment assets
Investment & others	-1.8	-124.2%	>-100%	55.1	>100%	
Total	**297.7**	**39.0%**	**-54.5%**	**1416.3**	**69.4%**	
Pre-tax margin (RM'm)	**4Q14**	**+/- ppts**	**+/- ppts**	**12M14**	**+/- ppts**	
Construction	21.7%	11.6	12.0	9.3%	1.9	
Property	43.5%	19.6	1.6	36.1%	11.1	
Industry	15.7%	-1.5	-0.1	16.5%	0.1	
Plantation	41.9%	20.1	24.1	16.9%	-15.3	
Infrastructure	-115.4%	-120.8	-318.3	31.7%	14.0	

Source: Company, MIDFR

DAILY PRICE CHART



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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.