26 February 2016 | 9MFY16 Results Review

IJM Corporation Berhad

Earnings jolt from other operating income

***Maintain* Neutral**

***Unchanged* Target Price (TP): RM3.56**

INVESTMENT HIGHLIGHTS

- **IJM's 9MFY16 earnings above expectations**
- **High cumulative 9MFY16 earnings attributable to other operating income**
- **Margin compressed despite all time high orderbook**
- **Maintain NEUTRAL with an unchanged TP of RM3.56**

IJM's 9MFY16 earnings above expectations. IJM Corporation Berhad (IJM)'s 9MFY16 core net earnings (CNI) of RM692m (+96%YoY) soared above our and consensus expectations at 123% and 111% of full year forecasts respectively. We arrived at the CNI after deducting foreign exchange differences of RM57m.

High earnings attributable to other operating income. We were not expecting an insistent recognition of other operating income which surged from RM173.2m in 9MFY15 to RM442m (+155%YoY) in 9MFY16. Under IAS 1, 16 and 21 the provisions of other income are indicative of recognition of unrealised gain and losses through revaluation of buildings, land, net assets of equity investments and disposals of subsidiary especially on group foreign exchange. Differences will arise in the re-translation of subsidiary's net asset or goodwill and consequentially posted to other income in income statement. Similar recognition was done where cumulative other income increased from RM183.7m in 9MFY12 to RM613m in 9MFY13 (+234%YoY). The bulk of recognition mostly are foreign assets with USD denominated debts

Margin compression despite all time high orderbook. Current orderbook of IJM stands at RM7bn with an average 3-year margin of +8.8% against its peers' median of +8.0%. However, the trend of margin compression will slowly but surely show its shape. Although, the construction segment has slightly improved with a modest cumulative 9MFY15 PBT of RM117m (+3.0%YoY), but the 9MFY15 cumulative margin has shrunk to +11.0% from +18.0% (9MFY14). Notable exception is the infrastructure segment of which the PBT increased from RM39.4m (9MFY14) to RM467m (9MFY15) due to disposal of Indian tollways (Jaipur/Swarna) for RM302m and foreign exchange gain of RM104.8m in USD debt.

Earnings forecasts. We maintain our earnings outlook for FYE17/FYE18 as we view the higher 9MFY16 bottomline from high other operating income as non-recurring and will normalize in 2QFY17.

Recommendation. We maintain our **Neutral** recommendation with an unchanged TP of RM3.56 per share which equates to an implied PER of 10x.

RETURN STATS	
Price (25 Feb 2016)	RM3.41
Target Price	RM3.56
Expected Share Price Return	+4.3%
Expected Dividend Yield	+2.2%
Expected Total Return	**+6.5%**

STOCK INFO	
KLCI	1,658
Bursa / Bloomberg	3336/ IJM MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	3582
Par Value (RM)	12,215
Market cap. (RM'm)	1920
Price over NA	0.572
52-wk price Range	RM2.87– RM3.75
Beta (against KLCI)	0.98
3-mth Avg Daily Vol	4.57m
3-mth Avg Daily Value	RM15.4m
Major Shareholders (%)	
EPF	13.9
ASB	7.53
EPF	5.51
KWAP	2.93

SOP VALUATION

Segments	Stake	Basis	Value (RM'm)	Per Share (RM)
Construction	100%	DCF@6.7%	2,841.8	0.80
Industrial	100%	FY16 PER of 14x	2,417.3	0.68
IJM Plantation	55%	MIDFR TP of RM3.65	1,433.7	0.40
Property				
Malaysia	Various	DCF@6.8%	5,252.0	1.45
JVs			899.2	0.25
Overseas			486.5	0.13
Concessions Assets				
Kuantan Port	60%	DCF@6.7%	1,200.2	0.34
Highways	Various	DCF@6.7%	1,638.2	0.46
GVK Gautami Power Limited	20%	Book value	336.0	0.09
Hexacon Construction	46%	Book value	305.8	0.09
Keuro	26%	Market Cap at RM0.98	253.6	0.07
Scomi Group	24%	Market cap at 22sen	79.6	0.02
Total value			**17,143.9**	**4.81**
(Net debt) / net cash			-4,366.1	-1.22
SOP per share				**3.564**
No. of shares outstanding (mil)				3,565.6

Source: MIDFR

INVESTMENT STATISTICS

FYE March	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	6,006	5,448	6,277	7,102
EBIT (RM'm)	1,788	1,292	1,366	1,293
Pre-tax Profit (RM'm)	1,416	1,019	980	1,068
Normalised PATAMI (RM'm)	539	489	561	635
FD EPS (sen)	38	31	32	36
EPS growth (%)	25	-19	3	13
PER (x)	10	11	22	20
Net Dividend (sen)	25	15	16	18
Net Dividend Yield (%)	2.4	2.5	2.2	2.5

Source: MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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RESULTS REVIEW

FYE March (RM'm)	Quarterly Results					Cumulative		
	3Q16	3Q15	2Q16	YoY	QoQ	9M16	9M15	YoY
Revenue	**1,440**	**1,339.4**	**1,338**	8%	8%	**3,961**	**4,005.4**	**-1%**
Other operating income	170	71.4	40	138%	326%	442	173.2	**+155%**
Foreign exchange differences	37	6.2	-7	499%	-617%	57	-8.7	**+755%**
Tender, sell & distribt expenses	-54	-52.7	-46	2%	17%	-139	-136.4	**-2%**
Admin expenses	-91	-97.1	-83	-6%	10%	-260	-249.7	**-4%**
Other operating expenses	-16	-13.5	-20	19%	-20%	-62	-48.9	**-27%**
EBIT	**414**	**330.3**	**283**	25%	46%	**1,177**	**972.4**	**+221%**
Finance Cost	-41	-59.8	-61	-32%	-33%	-155	-189.6	**-18%**
Associates	1	-3.5	-4	-134%	-130%	-3	-5.7	**-47%**
JVs Income	-2	11.2	4	-118%	-150%	2	-2.4	**+182%**
PBT	**373**	**278.1**	**221**	34%	69%	**1,020**	**774.7**	**+32%**
Taxation	-78	-66.9	-47	17%	66%	-181	-212.9	**-15%**
Minority Interest	38	-73.4	-18	-152%	-312%	90	-179.2	**-50**
Normalised PATAMI	**256**	**137.8**	**156**	86%	64%	**692**	**382.7**	**+81%**
FD EPS (sen)	7.07	4.0	4.0	77%	77%	21	11.6	**+78%**
	3Q16	**3Q15**	**2Q16**	**pts**	**pts**	**9M16**	**9M15**	**+/- ppts**
EBIT margin	29%	25%	21%	4.1	28.8	-30%	24%	-54
PBT margin	26%	21%	17%	5.1	25.9	26%	19%	6
PATAMI margin	18%	10%	12%	7.5	17.8	19%	10%	9
Effective tax rate	21%	24%	21%	-3.1	20.9	18%	27%	-10
	Segmental Breakdown						-	
Revenue (RM'm)	**3Q16**	**3Q15**	**2Q16**	**pts**	**pts**	**9M16**	**9M15**	**YoY**
Construction	485	193.6	360	151%	35%	1,059	700.3	51%
Property	306	519.7	285	-41%	8%	884	1,510.1	-41%
Industry	232	219.5	248	6%	-6%	765	694.4	10%
Plantation	156	183.4	145	-15%	7%	443	534.9	-17%
Infrastructure	261	223.2	301	17%	-13%	811	565.5	43%
Investment & others	0.1	0.0	0.2	9%	-75%	0	0.3	-9%
TOTAL	**1,440**	**1,339.4**	**1,338**	7%	8%	**3,961**	**4,005.4**	**-1%**
PBT (RM'm)				**pts**	**pts**	**9M16**	**9M15**	**YoY**
Construction	35	19.6	42	78%	-17%	117	113.7	3%
Property	21	139.4	84	-85%	-76%	155	366.3	-58%
Industry	23	26.6	38	-15%	-40%	101	96.0	5%
Plantation	54	38.7	-32	38%	-267%	47	104.2	-55%
Infrastructure	261	5.6	-38	4583%	-790%	467	39.4	1085%
Investment & others	-20	48.2	128	-142%	-116%	134	55.1	143%
TOTAL	**373**	**278.1**	**222**	34%	68%	**1,021**	**774.7**	**31.7%**
PBT margin (RM'm)				**pts**	**pts**	**9M16**	**9M15**	**+/- ppts**
Construction	7%	10%	12%	-3	7	11%	16%	-518%
Property	7%	27%	30%	-20	7	18%	24%	-675%
Industry	10%	12%	15%	-2	10	13%	14%	-64%
Plantation	34%	21%	-22%	13	34	11%	19%	-886%
Infrastructure	100%	2%	-13%	97	100	58%	7%	5063%

Source: Bloomberg, MIDFR

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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 to be <-15% 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.