09 December 2014 | Corporate Update

IJM Corp Berhad

Monetising Indian highway asset

***Reaffirm* NEUTRAL**

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

INVESTMENT HIGHLIGHTS

- **IJM Corp has entered into a conditional share purchase and debenture subscription agreement (SPDSA) to dispose its 100% stake in Jaipur-Mahua Tollway Private Limited (JMTPL) for approximately RM295m.**
- **The disposal will be done at 2.8 times book value of RM107m, which is fair in opinion. It will result in an estimated gain of RM188m.**
- **At this juncture, we retain our earnings forecast pending the completion of the deal. Hence, we reaffirm our NEUTRAL recommendation on IJM Corp with an unchanged TP of RM7.20.**

RETURN STATS	
Price (8 December 2014)	RM6.57
Target Price	RM7.20
Expected Share Price Return	+9.5%
Expected Dividend Yield	+2.9%
Expected Total Return	**+12.4%**

STOCK INFO	
KLCI	1,740.84
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)	9,784.8
Price over NTA	1.38x
52-wk price Range	RM5.57–RM7.03
Beta (against KLCI)	0.92x
3-mth Avg Daily Vol	2.90m
3-mth Avg Daily Value	RM19.19m
Major Shareholders	
EPF	12.48%
JP Morgan Chase Bank	10.34%
ASB	8.39%

RM295m highway disposal. IJM Rajasthan (Mauritius) Limited, a wholly owned subsidiary of IJM Corporation Bhd, had on 6 December 2014 entered into SPDSA to dispose 100% stake in JMTPL to ISQ Asia Infrastructure I-A Private Limited (IIA) for a total consideration of approximately RM295m, subject to closing audit and adjustments pursuant to the SPDSA. The disposal will initially be for a 74% stake and the remaining 26% will be disposed upon obtaining the approval from the National Highway Authority of India pursuant to a put and call option within a period of two years from the completion of the disposal of the 74% stake.

The estimated gain from the disposal of the 100% stake is approximately RM188m.

Our views. The proposed disposal is another move by IJM Corp to monetize its highway assets in India after fetching a RM56.5m gain from the disposal of its 35.6% stake in Trichy Tollway Pte Ltd in FY13. We opine that the move to take profit is rather favourable, as the disposal price of RM295m would value the asset at 2.8 times its book value of RM107m. Based on our gross estimate discounted future cash flow projection for remaining 16 years, we value the equity value of the asset at a price of RM337.2m, which is about 3.2 times book value. Meanwhile, the management has not indicated any immediate plans pursuant to the disposal. However, with the disposal, IJM Corp can focus more on expanding its highway assets locally. Armed with cash, the Group is in a good position to benefit from imminent implementation of mega highway projects next year.

Earnings unchanged. At this juncture, we retain our earnings forecast pending the completion of the deal. The proposed disposal of 74% stake, worth RM218.3m is expected to complete by March 2015 and thus, the gain should be recognized in the FY15 accounts. Concurrently, it is expected to reduce our FY15/16 earnings forecast by approximately 3%, assuming conservatively that the proceeds is not reinvested.

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
Pre-tax Profit (RM'm)	801.6	835.8	1,416.3	1,147.3	1,279.2
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	17.4	14.6
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

VALUATION AND RECOMMENDATION

Maintain NEUTRAL. We would be comfortable holding **I**JM Corp at current price, due to decent earnings potential from the followings:

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 the New Deepwater Terminal 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;
4) Solid concession assets which will provide steady recurring income;

As such, we reaffirm our NEUTRAL recommendation on IJM with an unchanged TP of RM7.20. If all goes well, our TP will only be reduced to RM7.16 per share.

FY16 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	Target Price 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: Target price and forecasts by MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

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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.