midf RESEARCH

11 May 2016 | Corporate Update

IJM Corporation Berhad

Share price consolidation a blessing in disguise

***Maintain* BUY**

Target Price (TP): RM4.00

INVESTMENT HIGHLIGHTS

- **IJM's share price consolidation reveals a bargain**
- **Highest orderbook of RM7.0bn in big-cap segment**
- **Earnings estimates for FYE16/FYE17 intact anchored by diversified business model**
- **Overall, we maintain our BUY recommendation with an unchanged TP of RM4.00**

IJM's share price consolidation a blessing in disguise. The recent bout of risk-aversion sweeping through the equity market reveals a bargain in IJM stock. Its price dropped -5% from the high of RM3.64 per share to its current level and consequently offers a more attractive upside and an appealing risk-reward profile.

Highest orderbook of RM7.0bn in big-cap segment. The orderbook level of RM7.0bn is a saving grace from the weaker inflow on construction projects in Q1FY16. The orderbook backlog provides ample earnings visibility for the next 3 years. Having said that, we are concerned on margin erosion as it tumbled to 8.8%. Nonetheless, it is still higher than its 10-year average of 7.14%. Furthermore, we reckon that the expansion on the 30%-40% content of industrialised building system (IBS) in its construction projects could help to uphold its current margin profile. Additionally, its industrial concrete manufacturing segment which contributes 12.3% to its PBT could potentially grow by +8%. This could arguably provide a support to its revenue stream and stave off blips in earnings.

Earnings estimates for FYE16/FYE17 intact anchored by diversified business model. We reiterate our earnings assumptions for FYE16/FYE17 and continue to favour IJM due to its (i) diversified business model which promotes earnings resilience through the contribution from various revenue streams such as concessions and concrete manufacturing segment, (ii) 5-year CAGR trend of 16% for net working capital (*Figure 1*), (iii) cash flow yield of 35%, and (iv) steady 5-year cash flow from operations profile despite gaps between projects (*Figure 2*). Thus, it is not a surprise when RAM Ratings recently has reaffirmed the AA3/Stable rating for IJM's RM3bil Sukuk citing resilient performance and diversified business model as key factors.

Our View. We reckon IJM's reward factor outweighs it risk pursuant to the recent share price pullback. Overall, its fundamentals remain intact.

Recommendation. We reaffirm our BUY recommendation with an unchanged SOP-based TP of RM4.00 per share with an undemanding implied PER of 11x which equates to the lower end of its peers' in KL Construction Index.

RETURN STATS	
Price (10 May 2016)	RM3.46
Target Price	RM4.00
Expected Share Price Return	15.6%
Expected Dividend Yield	+2.2%
Expected Total Return	**+17.8%**

STOCK INFO	
KLCI	1,632.19
Bursa / Bloomberg	3336/ IJM MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	3588.3
Par Value (RM)	1.00
Market cap. (RM'm)	12,415
Price over NA	1.38
52-wk price Range	RM2.87– RM3.65
Beta (against KLCI)	0.96
3-mth Avg Daily Vol	5.64m
3-mth Avg Daily Value	RM19.6m
Major Shareholders (%)	
EPF	13.44
ASB	8.03
LTH	5.31
ASW	2.92

SOP VALUATION

Segments	Stake	Basis	Value (RM'm)	Per Share (RM)
Construction	100%	DCF@6.7%	3,955.4	1.11
Industrial	100%	FY16 PER of 14x	2,417.3	0.68
IJM Plantation	55%	MIDFR TP of RM3.57	1,735.0	0.49
Property				
Malaysia	Various	DCF@6.7%	5,252.0	1.47
JVs			899.2	0.25
Overseas			486.5	0.14
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			**18,558.8**	**5.20**
(Net debt) / net cash			-4,366.1	-1.22
SOP per share				**3.980**
No. of shares outstanding (mil)				3,565.6

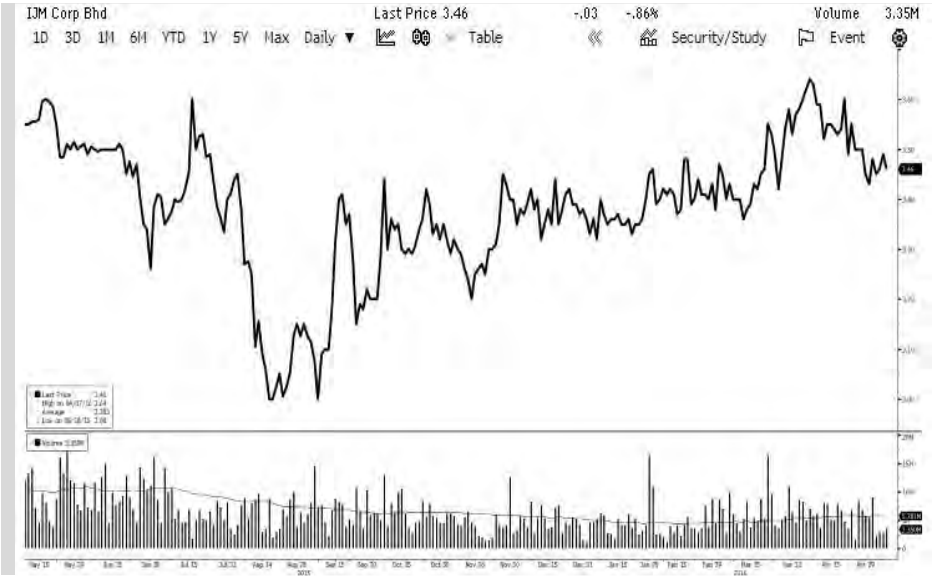
Source: MIDF

INVESTMENT STATISTICS

FYE March	FY14	FY15	FY16F	FY17F	FY18F
Revenue (RM'm)	6,006	5,448	6,277	7,002	6,146
EBIT (RM'm)	1,849	1,292	1,396	1,293	1,131
Pre-tax Profit (RM'm)	1,477	1,019	1,077	1,174	988
Normalised PATAMI (RM'm)	600	489	617	698	494
FD EPS (sen)	42	31	32	36	34
EPS growth (%)	40	-27	3	13	-4
PER (x)	10	11	22	20	11
Net Dividend (sen)	25	15	16	18	17
Net Dividend Yield (%)	2.4	2.5	2.2	2.5	2.7

Source: MIDF

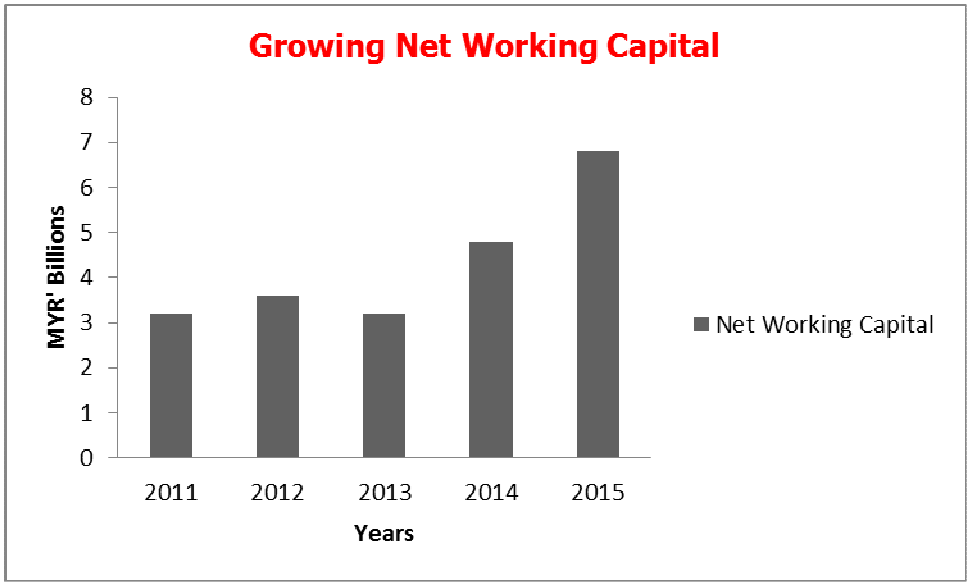
DAILY PRICE CHART



Syed Muhammed Kifni
Fadhli Dzulkifly
abdul.fadhli@midf.com.my
03-2772 8462

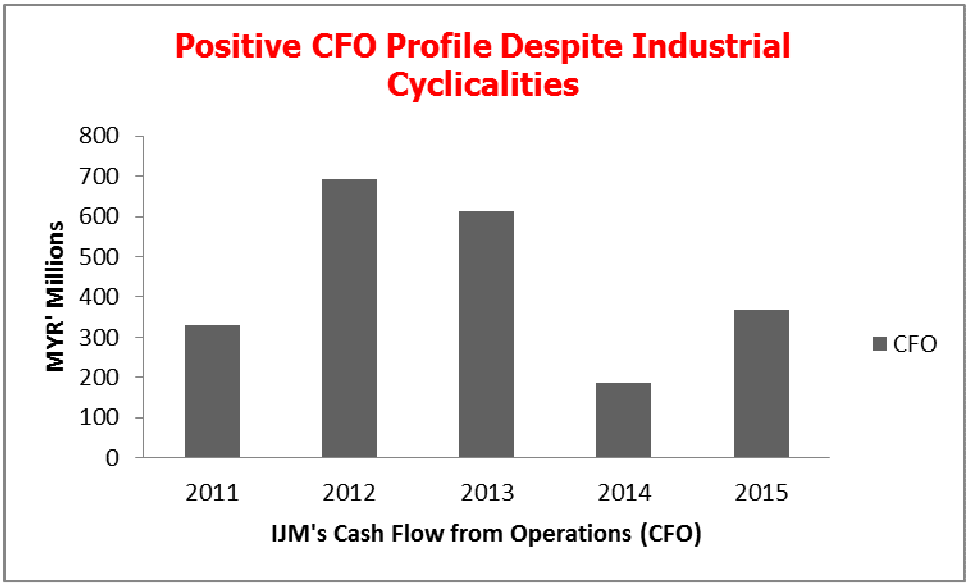
Source: Bloomberg, MIDFR

FIGURE 1: GROWING NET WORKING CAPITAL



Source: MIDFR

FIGURE 1: POSITIVE CFO PROFILE



Source: 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 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.