IJM Corporation Berhad

(3336 | IJM MK) Main | Construction

Starting FY23 on the right note

Maintain BUY

***Unchanged* Target Price: RM2.18**

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 core earnings rose +27.3%yoy to RM76.5m, coming in within our expectation**
- **Construction earnings lower by -34.7%yoy to RM19.5m due to lower construction activities; newer projects still in early stages**
- **Manufacturing and quarrying earnings increased four fold to RM31.3m**
- **Strong contender of MRT3 main packages**
- **Maintain BUY and unchanged TP of RM2.18**

Within Expectations. IJM Corporation Berhad (IJM)'s 1QFY23 normalised earnings rose +27.3%yoy to RM76.5m, after removing the impact of unfavourable foreign currency movement. This came in within ours and consensus expectations, making up 20% and 23% respectively of full year estimates.

Lower construction numbers. IJM's construction segment posted a lower revenue by -28.9%yoy while the profit before tax (PBT) declined -34.7%yoy to RM19.5m. This was due to lower construction activities as certain projects were completed in FY22, while newer projects are still in its early stages. Its outstanding order book now stands at RM3.94b, providing earnings visibility up to FY24. About 71% of its order book are building projects, 25% road projects and 4% of infrastructure projects. The group expects the roll-out of large-scale infrastructure projects by the Government to bolster its order book replenishment for the financial year.

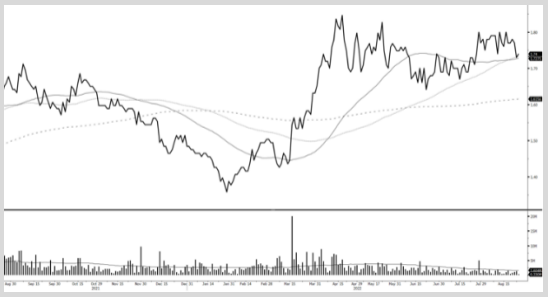
Higher work progress in property development. Revenue from the property development segment rose +3.9%yoy to RM345m while the PBT risen accordingly by +3.8%yoy to RM33.9m. This is attributable to higher work progress for its ongoing projects. IJM recorded RM400m of property sales for the quarter, 73% of which came from the central region. This is in line with its FY23 sales target of RM1.8b. The group has RM2.2b of unbilled property sales.

Stellar growth in manufacturing and quarrying. This segment posted a significant improvement in revenue by +52.6%yoy to RM249.3m, while its PBT quadrupled to RM31.3m, backed by higher deliveries of piles and ready-mixed concrete, coupled with stronger margins from its piles business. We expect the division's strong performance to sustain, in line with the pick up in construction activities. Its balance orders of ICP piles are north of 1 million tonnes.

Infrastructure hit by foreign exchange losses. Despite a stronger revenue of +30.4%yoy to RM210.1m for the quarter, PBT saw a -77.5%yoy decline to RM2.8m, attributable to its net unrealised foreign exchange losses to the tune of RM33m on its US Dollar denominated borrowings.

RETURN STATISTICS	
Price @ 24th August 2022 (RM)	**1.74**
Expected share price return (%)	**+25.3**
Expected dividend yield (%)	**+2.8**
Expected total return (%)	**+28.1**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.6	0.7
3 months	0.6	4.1
12 months	1.8	8.9

KEY STATISTICS	
FBM KLCI	1,467.26
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆☆☆
Issue shares (m)	3532.16
Estimated free float (%)	48.35
Market Capitalisation (RM'm)	6,133.65
52-wk price range	RM1.39 - RM1.92
Beta vs FBM KLCI (x)	0.80
Monthly velocity (%)	0.00
Monthly volatility (%)	21.54
3-mth average daily volume (m)	1.65
3-mth average daily value (RM'm)	2.89
Top Shareholders (%)	
Amanah Saham Nasional Bhd	17.05
Employees Provident Fund Board	16.41
KWAP	8.27

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Operations wise, IJM's toll business has recovered to pre-pandemic levels and it is optimistic of a stronger financial performance for the year.

MRT3 tenders. We believe that the rollout of the MRT3 contracts will give IJM's order book a boost this year, as we expect it to be among the potential front runners. Like Sunway Construction, IJM has previously voiced its interest to tender for packages CMC302 and CMC301, which could come up to RM13.94b and RM2.79b respectively. As a company is only allowed to take on only one package, even the smaller portion in the form of CMC301 would aid greatly in replenishing IJM's order book. Tenders for CMC301 closes on Aug 30 while CMC302 has been extended to Sept 30. Results are expected to be announced by 4QFY22. IJM's vast experience in rail projects with its involvement in MRT1, MRT2 and LRT3 places it in an advantageous position to secure an MRT3 package.

Earnings estimates. We are maintaining our earnings estimates for FY23E and FY24F.
Target Price. We are retaining our TP of RM2.18, which was arrived by pegging the group's FY23 EPS of 10.6sen to its three-year mean PER of 20.6x.
Maintain BUY. We remain sanguine on the group's earnings momentum moving forward and we reiterate that IJM remains one of our top BUY picks for the construction sector. With a net cash position estimated at about RM327m, the group's balance sheet remains strong to take on mega infrastructure projects that may require private finance initiatives (PFIs) as all new highway projects in Malaysia will no longer receive financial assistance from the government and will instead be fully funded by concessionaires. We also like IJM for its ability to sustain its construction margins as most of its newer contracts have variation of price clauses.

INVESTMENT STATISTICS

Income Statement	2020A	2021A	2022A	2023E	2024F
Revenue	6,605.1	4,893.2	4,680.7	6,105.1	6,701.1
Gross Profit	1,235.0	928.5	868.5	1,117.5	1,274.1
Net Operating Expenses	(364.7)	(24.6)	(244.9)	(307.7)	(306.9)
Operating Profit	870.3	904.0	623.6	809.8	967.1
Finance Costs	(290.4)	(203.5)	(191.4)	(241.6)	(264.3)
JV and Associates	(62.1)	(74.0)	(31.3)	0.0	0.0
Profit Before Tax	517.8	626.4	401.0	568.3	702.9
Tax Expense	(189.6)	(106.3)	(204.2)	(185.5)	(201.0)
Reported Net Profit	250.2	397.0	794.9	382.8	501.8
Core Net Profit	412.5	232.7	244.3	382.8	501.8
Reported EPS	6.9	8.8	2.9	10.5	13.8
Core EPS	11.0	6.4	6.7	10.5	13.8
Core PER	13.1	24.9	24.0	20.8	20.8
DPS	3.0	6.0	21.0	6.0	6.0
Dividend Yield	2.0%	3.8%	13.1%	2.8%	2.8%

Source: Company, MIDFR

IJM CORPORATION BHD: 1QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
Income Statement	**Q123**	**Q422**	**Q122**	**QoQ**	**YoY**
Revenue	1,072.7	1,232.5	1,034.2	**-13.0%**	**3.7%**
Gross Profit	234.8	262.8	165.7	**-10.7%**	**41.7%**
Net Operating Expenses	(86.5)	(121.1)	(30.2)	**28.5%**	**>-100%**
Operating Profit	148.3	141.8	135.5	**4.6%**	**9.5%**
Finance Costs	(51.3)	(50.0)	(44.9)	**-2.6%**	**-14.1%**
JV and Associates	(5.8)	(23.0)	(6.8)	**74.6%**	**14.3%**
Profit Before Tax	91.2	68.8	83.7	**32.6%**	**8.9%**
Tax Expense	(42.3)	(79.0)	(34.8)	**46.4%**	**-21.7%**
Minority Interest	3.9	(22.6)	33.5	**>+100%**	**-88.3%**
Perpetual sukuk	11.6	11.5	11.6	**0.7%**	**0.0%**
Reported Net Profit	33.4	1.5	65.7	**>+100%**	**-49.1%**
Core Net Profit	76.5	99.1	60.1	**-22.9%**	**27.3%**

Source: Company, MIDF

Segmental Results	**Q123**	**Q422**	**Q122**	**QoQ**	**YoY**
Revenue:					
Construction	268.3	377.6	377.5	**-29.0%**	**-28.9%**
Property development	345.0	396.7	332.1	**-13.0%**	**3.9%**
Manufacturing and quarrying	249.3	229.7	163.3	**8.5%**	**52.6%**
Plantation	-	-	271.7	-	**-**
Infrastructure	210.1	228.4	161.2	**-8.0%**	**30.4%**
Investment and others	0.1	0.0	0.1	**100.0%**	**24.6%**
Total Revenue	1,072.7	1,232.5	1,305.9	**-13.0%**	**-17.9%**
PBT:					
Construction	19.5	48.6	29.9	**-59.8%**	**-34.7%**
Property development	33.9	20.0	32.7	**69.5%**	**3.8%**
Manufacturing and quarrying	31.3	25.2	7.6	**24.4%**	**>+100%**
Plantation	-	0.5	83.1	-	**-**
Infrastructure	2.8	(28.0)	12.2	**>+100%**	**-77.5%**
Investment and others	3.6	3.0	1.2	**22.7%**	**>+100%**
Total PBT	91.2	68.8	166.8	**32.6%**	**-45.3%**
EBITDA:					
Construction	41.9	69.7	55.2	**-39.9%**	**-24.2%**
Property development	43.0	33.7	39.4	**27.8%**	**9.2%**
Manufacturing and quarrying	45.1	38.0	20.4	**18.8%**	**>+100%**
Plantation	-	0.5	116.1	-	**-**
Infrastructure	90.6	60.5	85.1	**49.7%**	**6.5%**

Source: Company, MIDF

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology