2QFY23 Results Review (Below)| Tuesday, 29 November 2022

IJM Corporation Berhad

(3336 | IJM MK) Main | Construction

Core divisions moving strongly

Maintain BUY

***Revised* Target Price: RM1.93**

(previously RM2.18)

KEY INVESTMENT HIGHLIGHTS

- **2QFY23 core earnings rebounded to RM25.9m, 6MFY22 core earnings of RM102.3m below expectations**
- **Construction earnings surged 2.5x to RM24.4m due to higher margins from completed projects**
- **Property development back in the black; RM3b sales target intact**
- **Outstanding construction order book at RM4.81b**
- **Maintain BUY with revised TP of RM1.93**

Below Expectations. IJM Corporation Berhad (IJM)'s 2QFY23 normalised earnings rebounded into the black at RM25.9m as compared to the same quarter in the FY22. For the cumulative 1HFY23, the group registered a core net profit of RM102.3m, which is below ours and consensus expectations, making up only 26.7% and 31.7% respectively of full year estimates.

Stronger construction margins. IJM's construction segment posted a lower revenue by -22.6%yoy to RM268.8m but its profit before tax (PBT) surged 2.5 times to RM24.4m mainly due to higher margins recognized upon finalization of accounts of completed projects. The lower revenue was due to lower construction activities resulting from certain projects being completed in the previous financial year while new projects are still at initial stages. The outstanding order book stands at a healthy RM4.81b, of which RM1.4b was secured in 1HFY23. Management is optimistic on its replenishment prospects that would come from infrastructure jobs, such as the MRT3. Management revealed that they submitted tenders for all the three main construction packages.

Higher work progress in property development. Higher work progress doubled the revenue from property development to RM326.6m, giving it a PBT of RM29.3m, as compared to a loss of -RM14.8m in the previous year's corresponding quarter. It has recorded RM1.7b of new sales up to 1HFY23, out of which RM1b come from land sales from Malaysia and London. Management is keeping to its RM3b target for FY23. IJM has RM3.1b of unbilled sales, which underpins its near-term performance.

Stellar growth in manufacturing and quarrying. This segment delivered handsomely with a +23.3%yoy jump in revenue to RM259.3m, giving it a PBT of RM50.6m, which was a 2.7x increase. This is mainly due to higher deliveries of piles, quarry products and ready-mixed concrete that yielded better margins. Even after removing a one-off RM7.6m gain on disposal of assets for the quarter, the PBT would have still been a 2.3x increase. Management guided that prospects were encouraging due to local industrial developments and it is a business that allows IJM to pass on any price increase to customers and margins are not expected to normalise anytime soon. It currently has a balance order book above 1 million tonnes.

RETURN STATISTICS	
Price @ 25th Nov 2022 (RM)	**1.58**
Expected share price return (%)	**+22.15**
Expected dividend yield (%)	**+3.11**
Expected total return (%)	**+25.26**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.6	-3.4
3 months	-5.4	-7.6
12 months	-3.4	-1.4

KEY STATISTICS	
FBM KLCI	1,486.54
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆☆☆
Issue shares (m)	3532.16
Estimated free float (%)	47.90
Market Capitalisation (RM'm)	5,551.05
52-wk price range	RM1.39 - RM1.92
Beta vs FBM KLCI (x)	0.78
3-mth average daily volume (m)	1.70
3-mth average daily value (RM'm)	2.70
Top Shareholders (%)	
Employees Provident Fund Board	17.17
Amanah Saham Nasional Bhd	16.66
Kumpulan Wang Persaraan Diperbadankan	8.31

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Infrastructure hit by foreign exchange losses. Despite a stronger revenue of +34.7%yoy to RM217.2m, PBT slipped into the red again to -RM16.6m due to higher net unrealised foreign exchange losses of -RM35.3m on its US dollar denominated borrowings and higher maintenance cost. This was partly cushioned by the higher profit contributions from IJM's Malaysia tollways, which recorded a PBT of RM32.7m for quarter. Traffic on the Lekas Highway is not higher than pre-pandemic while the NPE and Besraya are almost at pre-pandemic levels. IJM's Kuantan Port registered a +24.3%yoy growth to RM9.2m, but management guided that throughput was lower due to higher freight charges, which led manufacturers in the vicinity to readjust its procurement strategies by sourcing more materials such as steel and iron ore locally instead of importing.

Acquisition of Radiant Pillar. IJM Properties Sdn Bhd, a wholly-owned subsidiary of IJM Land, which in turn is a wholly-owned by IJM, is acquiring the remaining 40% of Radiant Pillar Sdn Bhd from KEB Builders Sdn Bhd and KEB Management Sdn Bhd for a cash consideration of RM494m. Radiant Pillar owns Bandar Rimbayu Sdn Bhd, the developer of Bandar Rimbayu. This gives IJM full control and complete beneficial interest in Radiant Pillar and commensurate with Bandar Rimbayu being IJM Land's flagship township development.

Earnings estimates. We are adjusting our earnings estimates for FY23 lower by -12.3% to RM335.8m to account for the weaker than expected results, affected by its foreign infrastructure.

Target Price. We are revising our TP to RM1.93, which was arrived by pegging the group's FY23 EPS of 9.5sen to its three-year mean PER of 20.3x.

Maintain BUY. We remain positive on IJM's earnings prospects moving forward as it is well-positioned to ride the potential wave of infrastructure project rollouts in Malaysia. With a net cash position estimated at about RM600.5m, the group's balance sheet remains strong to take on mega infrastructure projects that may come with PFI/PPP requirements. We expect the IJM to be among the front runners of the upcoming MRT3 contracts. The group is also able to effectively manage its building material costs and labour supply constraints. We also like that it has the pricing power for is quarrying and mining segment and the strong demand it is enjoying. All factors considered, we are retaining our **BUY** recommendation on IJM.

INVESTMENT STATISTICS

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	4,893.2	4,680.7	6,105.1	6,701.1	6,868.5
Gross Profit	928.5	868.5	1,117.5	1,274.1	1,266.5
Net Operating Expenses	(24.6)	(244.9)	(307.7)	(306.9)	(346.2)
Operating Profit	904.0	623.6	809.8	967.1	920.3
Finance Costs	(203.5)	(191.4)	(241.6)	(264.3)	(267.0)
JV and Associates	(74.0)	(31.3)	0.0	0.0	0.0
Profit Before Tax	626.4	401.0	568.3	702.9	653.4
Tax Expense	(106.3)	(204.2)	(185.5)	(201.0)	(222.9)
Reported Net Profit	397.0	794.9	335.8	415.5	412.1
Core Net Profit	232.7	244.3	335.8	415.5	412.1
Reported EPS (sen)	8.8	2.9	9.5	11.8	11.7
Core EPS (sen)	6.4	6.7	9.5	11.8	11.7
Core PER	24.9	24.0	20.3	20.3	20.3
DPS	6.0	21.0	6.0	6.0	6.0
Dividend Yield	3.8%	13.1%	3.1%	3.1%	3.1%

Source: Company, MIDFR

IJM CORPORATION BHD: 2QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q223**	**Q123**	**Q222**	**QoQ**	**YoY**	**6M23**	**6M22**	**YoY**
Revenue	1,071.9	1,072.7	874.2	**-0.1%**	**22.6%**	2,144.6	1,908.4	**12.4%**
Gross Profit	256.9	234.8	119.1	**9.4%**	**>+100%**	491.8	284.8	**72.7%**
Net Operating Expenses	(100.6)	(86.5)	(42.8)	**-16.3%**	**<-100%**	(187.1)	(73.0)	**<-100%**
Operating Profit	156.4	148.3	76.3	**5.4%**	**>+100%**	304.7	211.8	**43.8%**
Finance Costs	(58.6)	(51.3)	(48.9)	**-14.2%**	**-19.7%**	(109.9)	(93.9)	**-17.0%**
JV and Associates	(9.0)	(5.8)	(20.7)	**-54.4%**	**56.6%**	(14.8)	(27.5)	**46.2%**
Profit Before Tax	88.8	91.2	6.7	**-2.6%**	**>+100%**	180.0	90.4	**99.1%**
Tax Expense	(45.7)	(42.3)	(24.1)	**-7.9%**	**-89.2%**	(88.0)	(58.9)	**-49.4%**
Minority Interest	4.3	3.9	0.1	**10.0%**	**>+100%**	8.2	5.6	**48.0%**
Perps.	11.8	11.6	11.8	**2.0%**	**0.0%**	23.3	23.3	**0.0%**
Reported Net Profit	27.0	33.4	(29.3)	**-19.1%**	**>+100%**	60.4	2.6	**>+100%**
Core Net Profit	25.9	76.5	(25.3)	**-66.2%**	**>+100%**	102.3	0.0	**>+100%**

Source: Company, MIDFR

Segmental Results	**Q223**	**Q123**	**Q222**	**QoQ**	**YoY**	**6M23**	**6M22**	**YoY**
Revenue:								
Construction	268.6	268.3	347.2	**0.1%**	**-22.6%**	536.9	724.7	**-25.9%**
Property development	326.6	345.0	160.8	**-5.3%**	**103.1%**	671.5	492.9	**36.2%**
Manufacturing and quarrying	259.3	249.3	210.3	**4.0%**	**23.3%**	508.6	373.6	**36.1%**
Plantation	-	-	155.5	-	**-**	-	427.2	**-**
Infrastructure	217.2	210.1	161.2	**3.3%**	**34.7%**	427.3	322.3	**32.6%**
Investment and others	0.3	0.1	0.4	**208.1%**	**-34.6%**	0.4	0.5	**-25.9%**
Total Revenue	1,071.9	1,072.7	874.2	**-0.1%**	**22.6%**	2,144.6	2,180.1	**-1.6%**
PBT:								
Construction	24.4	19.5	9.6	**24.6%**	**154.9%**	43.9	39.5	**11.2%**
Property development	29.3	33.9	(14.8)	**-13.5%**	**298.3%**	63.3	17.9	**253.3%**
Manufacturing and quarrying	50.6	31.3	18.5	**61.4%**	**173.6%**	82.0	26.1	**213.5%**
Plantation	-		698.9	-	**-**	-	782.0	**-**
Infrastructure	(16.6)	2.8	(8.8)	**-703.9%**	**-89.3%**	(13.9)	3.5	**-499.8%**
Investment and others	1.1	3.6	2.2	**-68.8%**	**-48.3%**	4.8	3.4	**38.7%**
Total PBT	88.8	91.2	705.6	**-2.6%**	**-87.4%**	180.0	872.4	**-79.4%**
EBITDA:								
Construction	46.7	41.9	32.0	**11.6%**	**46.3%**	88.6	87.2	**1.7%**
Property development	41.2	43.0	(0.7)	**-4.1%**	**5934.4%**	84.3	38.7	**117.8%**
Manufacturing and quarrying	64.3	45.1	30.8	**42.6%**	**108.5%**	109.4	51.2	**113.7%**
Plantation			721.9	-	**-**	-	838.0	**-**
Infrastructure	73.5	90.6	71.5	**-18.9%**	**2.8%**	164.1	156.5	**4.8%**
Investment and others	1.1	3.6	2.2	**-68.6%**	**-48.1%**	4.8	3.5	**38.4%**
EBITDA	226.9	224.3	857.7	**1.2%**	**-73.5%**	451.1	1,175.1	**-61.6%**

Source: Company, MIDFR

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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