IJM Corporation Berhad

(3336 | IJM MK) Main | Construction

Biding its time

Maintain BUY

***Revised* Target Price: RM1.90**

(previously RM1.93)

KEY INVESTMENT HIGHLIGHTS

- **3QFY23 core earnings rose >100% to RM180.2m, but below house and consensus expectations**
- **Construction PBT declined -28.6%yoy to RM52.2m due to lower activities.**
- **Outstanding order book at RM4.6b**
- **Industry segment is outperformer with +165.9%yoy rise in PBT to RM115.1m**
- **Maintain BUY with revised TP of RM1.90**

Below Expectations. IJM Corporation Berhad (IJM)'s 3QFY23 normalised earnings retreated -11.1%yoy to RM77.9m. For the cumulative 9MFY23, the group registered a core net profit of RM180.2m, an increase of +105.7%yoy. This is however, below expectations, making up only 53.7% of our full year estimates and 59.0% of the consensus.

Stable construction margins. Revenue from the construction segment declined -21.3%yoy during the nine-month period to RM979.3m, dragging the PBT down accordingly by -28.6%yoy to RM52.2m. This is due to lower construction activities as some major projects were completed in FY22, whereas the newer projects being undertaken are still at initial stages. Margins are relative stable, albeit a slight reduction from 5.9% to 5.3%. We expect the segment to improve in coming quarters as IJM makes further progress in its newer jobs. The outstanding order book stands at a healthy RM4.6b, of which RM1.4b was secured in 1HFY23.

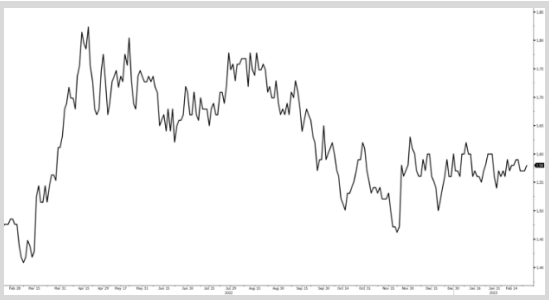
Higher work progress in property development. The segment's revenue rose +11.6%yoy in 9MFY22 to RM1.13b while its PBT surged even higher by +79.1%yoy to RM141.8m, on the back of higher work progress of its ongoing developments and stronger margins. IJM recorded RM2.4b of new sales for the period, mainly from the central region (46%), the east coast (17%) and from international projects (19%). Unbilled sales currently stand at RM3.4b.

Stellar growth in manufacturing and quarrying. IJM's industry segment is still the outperformer, recording a +19.0%yoy increase in revenue to RM749.9m and a +165.9%yoy rise in PBT to RM115.1m on the back of higher deliveries of piles, quarry products and ready-mixed concrete. This is also attributable to higher selling prices as the business allows price increase to be passed on to customers. IJM currently has a healthy 1.3m tonnes of balance order book.

Infrastructure hit by foreign exchange losses. The infrastructure division recorded a +26.2% increase in revenue to RM702.0m while the PBT came in +69.0% higher after removing unrealised foreign exchange losses of -RM76.1m arising from its US dollar denominated borrowings for IJM's India toll operations, on top of higher maintenance cost. The stellar performance from its toll operations in Malaysia (NPE, Besraya and Lekas)

RETURN STATISTICS	
Price @ 23rd Feb 2023 (RM)	**1.58**
Expected share price return (%)	**+20.25**
Expected dividend yield (%)	**+3.16**
Expected total return (%)	**+23.41**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.6	3.6
3 months	-1.3	5.0
12 months	3.3	12.4

KEY STATISTICS	
FBM KLCI	1,457.65
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆☆☆
Issue shares (m)	3532.16
Estimated free float (%)	47.02
Market Capitalisation (RM'm)	5,550.39
52-wk price range	RM1.45 - RM1.92
Beta vs FBM KLCI (x)	0.85
3-mth average daily volume (m)	1.53
3-mth average daily value (RM'm)	2.41
Top Shareholders (%)	
Employees Provident Fund Board	17.42
Amanah Saham Nasional Bhd	17.23
Kumpulan Wang Persaraan Diperbadankan	8.40

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cushioned the impact after its PBT quadrupled to RM100.5m for the nine-month period. Meanwhile, its Kuantan Port operations also posted a lower PBT by -31.1%yoy to RM25.7m. Management guided that the performance of its port operations continues to be dependent on the speed of global trade recovery.

Earnings estimates. We are adjusting our revenue and earnings estimates for FY23 lower by -22.3% and -15% respectively to RM4.75b and RM285.0m. We also adjust our FY24 estimates accordingly to a revenue of RM5.21b and core earnings of RM323.2m.

Target Price. We are revising our TP to RM1.90, which was arrived by pegging the group's FY24 EPS of 9.15 sen to its three-year mean PER of 20.8x.

Maintain BUY. We expect IJM's earnings to pick up in the coming quarters with stronger billings as it makes greater progress in its newer projects. The upcoming Budget announcement should be able to set the tone for the construction sector and we remain cautiously optimistic as the government relook its infrastructure project rollouts, which could result in further delays, such as the MRT3. Recall that IJM bid for all three main construction packages of the mega rail project and we expect it to be among the front runners. With a net cash position estimated at about RM538.5m, the group's balance remains resilient. 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	4,750.0	5,213.6	6,868.5
Gross Profit	928.5	868.5	869.5	991.3	1,266.5
Net Operating Expenses	(24.6)	(244.9)	(239.4)	(238.8)	(346.2)
Operating Profit	904.0	623.6	630.1	752.5	920.3
Finance Costs	(203.5)	(191.4)	(188.0)	(205.6)	(267.0)
JV and Associates	(74.0)	(31.3)	0.0	0.0	0.0
Profit Before Tax	626.4	401.0	442.1	546.8	653.4
Tax Expense	(106.3)	(204.2)	(144.3)	(156.4)	(222.9)
Reported Net Profit	397.0	794.9	285.0	323.2	412.1
Core Net Profit	232.7	244.3	285.0	323.2	412.1
Reported EPS (sen)	8.8	2.9	8.1	9.2	11.7
Core EPS (sen)	6.4	6.7	8.1	9.2	11.7
Core PER	24.9	24.0	20.8	20.8	20.8
DPS	6.0	21.0	6.0	6.0	6.0
Dividend Yield	3.8%	13.1%	3.2%	3.2%	3.2%

Source: Company, MIDFR

IJM CORPORATION BHD: 3QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q323**	**Q223**	**Q322**	**QoQ**	**YoY**	**9M23**	**9M22**	**YoY**
Revenue	1,101.1	1,071.9	1,268.0	**2.7%**	**-13.2%**	3,245.7	3,176.5	**2.2%**
Gross Profit	282.5	256.9	214.5	**10.0%**	**31.7%**	774.3	499.3	**55.1%**
Net Operating Expenses	(57.5)	(100.6)	(30.6)	**42.8%**	**-88.2%**	(244.6)	(103.6)	**<-100%**
Operating Profit	225.0	156.4	183.9	**43.9%**	**22.4%**	529.7	395.7	**33.9%**
Finance Costs	(61.7)	(58.6)	(44.4)	**-5.4%**	**-39.0%**	(171.5)	(138.3)	**-24.1%**
JV and Associates	(15.3)	(9.0)	19.2	**-70.0%**	**<-100%**	(30.1)	(8.4)	**<-100%**
Profit Before Tax	147.8	88.8	158.6	**66.4%**	**-6.9%**	327.8	249.1	**31.6%**
Tax Expense	(58.8)	(45.7)	(45.1)	**-28.6%**	**-30.4%**	(146.8)	(104.0)	**-41.2%**
Minority Interest	2.5	4.3	3.4	**-42.8%**	**-27.4%**	10.7	9.0	**19.4%**
Perps.	11.7	11.8	11.7	**-0.4%**	**0.0%**	35.1	35.1	**0.0%**
Reported Net Profit	74.8	27.0	98.4	**>+100%**	**-24.0%**	135.2	101.1	**33.8%**
Core Net Profit	77.9	25.9	87.5	**>+100%**	**-11.1%**	180.2	87.6	**>+100%**

Source: Company, MIDFR

Segmental Results	**Q323**	**Q223**	**Q322**	**QoQ**	**YoY**	**9M23**	**9M22**	**YoY**
Revenue:								
Construction	266.8	268.6	427.0	**-0.7%**	**-37.5%**	803.7	1,151.7	**-30.2%**
Property development	374.9	326.6	384.0	**14.8%**	**-2.4%**	1,046.4	876.9	**19.3%**
Manufacturing and quarrying	240.1	259.3	253.6	**-7.4%**	**-5.3%**	748.7	627.2	**19.4%**
Plantation	-	-	-	-	**-**	-	427.2	**-**
Infrastructure	219.2	217.2	203.4	**1.0%**	**7.8%**	646.5	525.7	**23.0%**
Investment and others	0.1	0.3	0.1	**-74.3%**	**-2.9%**	0.4	0.5	**-23.0%**
Total Revenue	1,101.1	1,071.9	1,268.0	**2.7%**	**-13.2%**	3,245.7	3,448.2	**-5.9%**
PBT:								
Construction	8.3	24.4	33.6	**-66.1%**	**-75.4%**	52.2	73.1	**-28.6%**
Property development	78.6	29.3	61.3	**>+100%**	**28.2%**	141.8	79.2	**79.1%**
Manufacturing and quarrying	33.2	50.6	17.2	**-34.4%**	**93.3%**	115.1	43.3	**>+100%**
Plantation	-	-	-	-	**-**	-	782.0	**-**
Infrastructure	21.5	(16.6)	46.1	**>+100%**	**-53.4%**	7.7	49.6	**-84.5%**
Investment and others	6.2	1.1	0.4	**>+100%**	**>+100%**	11.0	3.9	**>+100%**
Total PBT	147.8	88.8	158.6	**66.4%**	**-6.9%**	180.0	1,031.0	**-82.5%**
EBITDA:								
Construction	34.0	46.7	35.9	**-27.3%**	**-5.4%**	122.6	123.1	**-0.4%**
Property development	86.3	41.2	90.8	**>+100%**	**-5.0%**	170.5	129.5	**31.7%**
Manufacturing and quarrying	46.4	64.3	30.1	**-27.8%**	**54.3%**	155.8	81.3	**91.7%**
Plantation	-	-	-	-	**-**	-	838.0	**-**
Infrastructure	120.2	73.5	123.1	**63.6%**	**-2.3%**	284.3	279.6	**1.7%**
Investment and others	6.2	1.1	0.4	**>+100%**	**>+100%**	11.0	3.9	**>+100%**
EBITDA	293.1	226.9	280.3	**29.2%**	**4.6%**	744.2	733.5	**1.5%**

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