IJM Corporation Berhad

(3336 | IJM MK) Main | Construction

All Set for Stronger FY24

***Maintain* BUY**

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

(previously RM1.90)

KEY INVESTMENT HIGHLIGHTS

- **FY23 core earnings rose +46.9% to RM294.1m**
- **PBT came in -25.2% lower at RM91.0m due to lower construction activities**
- **Property development PBT jumped 3.7x to RM366.7m from higher profit margins from its ongoing projects**
- **Maintain BUY with a revised TP of RM1.93**

FY23 within estimates. IJM Corporation Berhad (IJM) registered a core earnings of RM112.9m in 4QFY23 (after removing one-offs), which came in -14.0%yoy lower. For FY23 ending March, the group's core earnings rose +46.9% to RM294.1m, which came in within expectations, surpassing our estimates by only +3.2% and coming behind consensus estimates by only -0.4%.

Construction. IJM's construction segment achieved a revenue of RM1.07b in FY23, a decline of -30.0%yoy. PBT came in -25.2%yoy lower at RM91.0m. This was due to lower construction activities as newly secured projects were at its initial stages of construction progress, as compared to the completion of some major jobs in FY22. Margins declined slightly from 7.3% to 6.9% on the back of higher material prices in FY23. Outstanding order book of RM4.5b provides IJM with near term earnings visibility. Management guided that their FY24 replenishment target is RM3b.

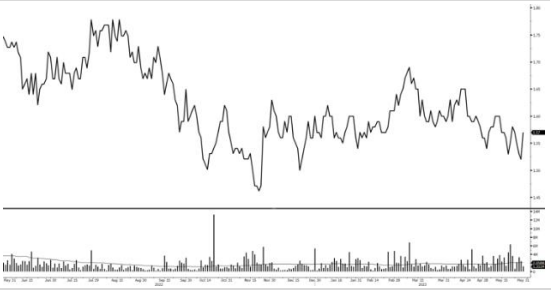
Property development. Revenue for the financial year grew +26.8%yoy to RM1.62b while PBT jumped 3.7x to RM366.7m, on the back of higher profit margins from its ongoing development projects and gains from the sale of an industrial land in Bandar Rimbayu, coupled with major reviews and cost finalisation of completed projects. IJM has unbilled sales of RM3.0b and has targetted RM2b of sales in FY24. It has a total of RM2.9b of new launches planned for FY24.

Manufacturing and quarrying. The segment's revenue gained +16.9% to RM1.00b, delivering a PBT of RM152.2m, which slightly more than doubled. This can be attributed to the stronger demand and higher selling prices of piles which led to improved margins from 8.0% to 15.2%, on top of better productivity at its manufacturing plants. IJM is able to pass through the building material cost escalations to its clients. The segment has a balance order book of about 1m tonnes, with encouraging prospects from local and export markets.

Infrastructure. IJM's Malaysian tolls, Kuantan Port and other overseas infrastructure posted a +18.2%yoy stronger revenue of RM885.0m but recorded a loss before tax of -RM142.8m. This was due to higher unrealised foreign exchange losses of -RM69.0m and higher maintenance cost. There was also the impact of -RM133m of expected credit losses from a financial instrument related to the West Coast Expressway. These

RETURN STATISTICS	
Price @ 29th May 2023 (RM)	1.57
Expected share price return (%)	+22.93
Expected dividend yield (%)	3.11
Expected total return (%)	**+26.04**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.6	1.4
3 months	-1.9	0.9
12 months	-12.8	-4.2

INVESTMENT STATISTICS

FYE Mar	2023A	2024F	2025F
Revenue	4,572.5	5,213.6	6,868.5
Operating Profit	740.9	748.4	978.7
Profit Before Tax	483.0	536.3	642.4
Core PATAMI	294.1	323.2	412.1
Core EPS	8.4	9.2	11.7
DPS	6.0	6.0	6.0
Dividend Yield	3.1%	3.1%	3.1%

KEY STATISTICS	
FBM KLCI	1,404.93
Issue shares (m)	3532.16
Estimated free float (%)	47.73
Market Capitalisation (RM'm)	5,515.26
52-wk price range	RM1.47-RM1.84
3-mth average daily volume (m)	2.10
3-mth average daily value (RM'm)	3.37
Top Shareholders (%)	
Employees Provident Fund Board	17.62
Amanah Saham Nasional Bhd	16.46
KWAP	8.44

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were cushioned by stronger contributions from the Besraya, NPE and Lekas highways, which have seen traffic volumes rising to pre-MCO levels. PBT from the Kuantan Port declined -65.5%yoy to RM34.2m despite achieving the same throughput of 22.7m tonnes as in FY22, due to adjustments of certain provisions that gave FY22 the bottom line uplift. Management expects throughput volume to remain strong in FY24 post China reopening.

Scouting for opportunities in the East. Management is pursuing some infrastructure projects from the government and it is starting to explore more opportunities in East Malaysia, especially Sarawak, in line with the government's commitment to develop both Sabah and Sarawak. Beyond that, IJM is also exploring its chances in Indonesia, to ride on the development of Nusantara as the capital city. It is currently considering a private finance initiative (PFI) project there. Management also has plans to set up manufacturing facilities in East Malaysia and Indonesia.

Earnings estimates. We are making no changes to our earnings estimates as the FY23 results were within expectations and we have forecasted a stronger FY24.

Target price. We are revising our **TP** slightly upwards to **RM1.93** from RM1.90 as we peg its FY24E EPS of 9.2 sen to a three-year historical mean PER of 21.0x.

Maintain BUY. We remain optimistic on IJM's outlook in FY24 on the back of expectations of stronger construction job flows, including opportunities in East Malaysia and Kalimantan that the group plans to tap on. Building material costs remain manageable and the easing labour supply constraints bodes well for the group's operations. Note that IJM is also among the main contenders of the upcoming MRT3, with tenders submitted for all the three main packages. With a strong construction order book of RM4.5b and an unbilled property sales of RM3.0b, we expect IJM to perform better in FY24.

IJM CORP: 4QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**4Q23**	**3Q23**	**4Q22**	**QoQ**	**YoY**	**FY23**	**FY22**	**YoY**
Revenue	1,326.8	1,101.1	1,232.5	20.5%	7.6%	4,572.5	4,409.0	3.7%
Gross Profit	405.6	282.5	262.8	43.6%	54.3%	1,179.9	762.1	54.8%
Net Operating Expenses	(194.5)	(57.5)	(121.1)	-238.0%	-60.6%	(439.1)	(224.6)	-95.5%
Operating Profit	211.2	225.0	141.8	-6.1%	49.0%	740.9	537.5	37.8%
Finance Costs	(83.8)	(61.7)	(50.0)	-35.8%	-67.5%	(255.3)	(188.3)	-35.6%
JV and Associates	27.8	(15.3)	(23.0)	282.1%	221.2%	(2.3)	(31.3)	92.8%
Profit Before Tax	155.3	147.8	68.8	5.1%	125.7%	483.0	317.9	52.0%
Tax Expense	(124.7)	(58.8)	(79.0)	-112.2%	-57.9%	(271.4)	(182.9)	-48.4%
Minority Interest	(22.6)	2.5	(22.6)	-1016.6%	0.0%	(11.9)	(13.7)	12.7%
Perps.	11.5	11.7	11.5	-2.2%	0.0%	46.6	46.5	0.0%
Reported Net Profit	23.1	74.8	1.0	-69.2%	2173.2%	158.3	102.1	55.1%
Core Net Profit	112.9	78.7	131.3	43.5%	-14.0%	294.1	200.2	46.9%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Revenue	4,893.2	4,409.0	4,572.5	5,213.6	6,868.5
Gross profit	928.5	762.1	1,179.9	964.2	1,254.6
Operating profit	904.0	537.5	740.9	748.4	978.7
Net interest	(203.5)	(188.3)	(255.3)	(212.1)	(269.8)
Profit before tax	626.4	317.9	483.0	536.3	642.4
Tax	(106.3)	(182.9)	(271.4)	(153.5)	(221.7)
PATAMI	397.0	102.1	158.3	323.2	412.1
Core PATAMI	232.7	200.2	294.1	323.2	412.1

Balance Sheet (RM'm)	2021A	2022A	2023A	2024F	2025F
Fixed assets	7147.9	5682.0	5207.2	4946.8	5095.2
Intangible assets	94.8	93.6	125.4	112.9	101.6
Non-current assets	**10885.8**	**8653.1**	**8676.1**	**8403.2**	**8540.3**
Cash	2406.2	2908.7	2825.2	2713.4	2769.3
Trade debtors	1707.8	1301.9	1261.8	1564.1	2060.6
Current assets	**12600.6**	**12358.9**	**11834.5**	**12746.5**	**12634.3**
Trade creditors	2932.6	2676.1	2679.8	2545.8	2494.9
Short-term debt	1825.1	1609.6	1696.6	1600.0	1600.0
Current liabilities	**5146.9**	**4562.5**	**4800.8**	**4836.7**	**4733.3**
Long-term debt	4942.2	3904.6	3650.8	4189.6	3905.8
Non-current liabilities	**5880.0**	**4716.3**	**4490.0**	**5028.8**	**4745.0**
Share capital	6117.1	6127.7	6132.4	6132.4	6132.4
Retained earnings	3916.8	4000.1	4024.6	4347.8	4759.9
Equity	**12188.4**	**11460.7**	**10961.0**	**11284.2**	**11696.3**

Cash Flow (RM'm)	2021A	2022A	2023A	2024F	2025F
PBT	626.4	317.9	483.0	536.3	642.4
Operating cash flow	**1338.5**	**1217.4**	**1276.0**	**1277.0**	**1383.1**
Capital expenditure	-631.1	-414.7	-195.7	-200.0	-200.0
Investing cash flow	**-572.3**	**1202.4**	**-159.0**	**-163.3**	**-163.3**
Debt raised/(repaid)	-69.8	-417.9	-156.3	-155.0	-155.0
Dividends paid	-108.7	-750.6	-211.4	-211.4	-211.4
Financing cash flow	**-459.9**	**-1909.4**	**-1199.0**	**-1197.7**	**-1197.7**
Net cash flow	**306.3**	**510.3**	**-82.0**	**-84.0**	**22.1**
Beginning cash flow	**2071.2**	**2381.0**	**2887.5**	**2807.8**	**2723.8**
Ending cash flow	**2381.0**	**2887.5**	**2807.8**	**2723.8**	**2745.9**

Profitability Margins	2021A	2022A	2023A	2024F	2025F
Gross profit margin	19.0%	17.3%	25.8%	19.0%	19.0%
Operating profit margin	18.5%	12.2%	16.2%	14.4%	14.2%
PBT margin	12.8%	7.2%	10.6%	10.3%	9.4%
PAT margin	8.1%	2.3%	6.0%	6.2%	4.8%
Core PAT margin	4.8%	4.5%	6.0%	6.2%	4.8%

Source: Bloomberg, 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