IJM Corporation Berhad

(3336 | IJM MK) Main | Construction

***Maintain* BUY**

Stronger Construction Progress to Drive 2HFY25

***Unchanged* Target Price: RM3.89**

KEY INVESTMENT HIGHLIGHTS

- **2QFY25 core net profit inched lower by -4.1%yoy to RM135.6m; 6MFY25 core net profit RM234.7m, 40.2% of full year estimates**
- **RM6.4b of outstanding order book; achieved 42% of RM5.0b FY25 replenishment target**
- **Acquiring 50% (effective stake 30%) of JRL in UK for GBP50m, about 6x forward PER**
- **Maintain BUY with an unchanged TP of RM3.89**

Within expectations. IJM Corporation Berhad (IJM) recorded a marginal decline of -4.1%yoy in its 2QFY25 core earnings to RM135.6m, after excluding an unrealised foreign exchange loss of -RM70.0m. The cumulative 6MFY25 core earnings recorded a growth of +12.7%yoy to RM234.7m which came in at 40.2% of ours and 46.3% of consensus' full year estimates. We deem this as within estimates on the back of expectations of stronger construction progress in 2HFY25.

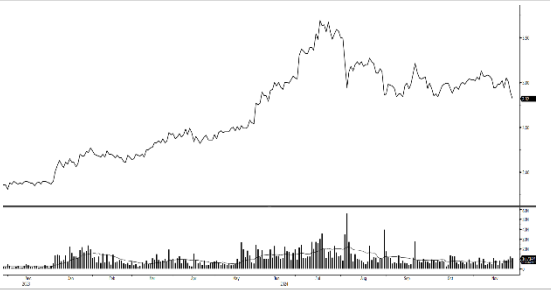
Construction margins to pick up. Construction revenue jumped +49.8%yoy to RM623.3m while PBT soared +87.8%yoy to RM28.7m, attributable to higher construction activities. PBT margin grew to 4.6% from 3.7% in the same quarter last year. This is expected to pick up further in 2HFY25 upon stronger progress of the group's newer construction projects. Three of these projects, namely the Maple Tree Logistic hub, a semiconductor project in Penang and a data centre project in Johor, have yet to reach the 10% threshold.

RM5.0b replenishment target intact. Since Apr-24, IJM has secured RM2.1b of new projects, making up 42.0% of its FY25 target of RM5.0b. In a briefing yesterday, management held on to the target as they aim to secure several projects before the FYE in Mar-25. These include the extension of the New Pantai Expressway (NPE) of about RM1.4-1.5b and a civil housing project in Nusantara with a size of over RM1.0b, which is currently under evaluation by Indonesia's Finance Ministry. Other projects in the tender book are two data centres, two warehouses, several semiconductor projects and the Penang International Airport expansion. IJM is also keen to participate in the upcoming Penang LRT project, for the above sea alignment from Komtar to Penang Sentral.

Property development. Revenue from the division declined -12.6%yoy to RM405.2m, delivering a PBT of RM30.2m (-60.4%yoy). Excluding foreign exchange movements and gains from land sales and gains from land sales in 2QFY24, the segment's PBT for the quarter would have been an increase of +7.5%yoy. Management is scaling back its FY25 sales target of RM2.0b to RM1.6b-1.7b due to a pushback of new property launches as approvals by authorities have been held back. This is due to stringent requirements for more in-depth geotechnical studies/reports to be submitted following the fatal sinkhole incident on Jalan Raja Laut in Aug-24. Property sales at 1HFY25 stood at RM613m. Unbilled sales stand at RM2.0b.

RETURN STATISTICS	
Price @ 27th Nov 2024 (RM)	2.82
Expected share price return (%)	+37.9
Expected dividend yield (%)	+2.8
Expected total return (%)	**+40.7**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	6.6	7.5
3 months	9.8	10.9
12 months	35.6	22.4

INVESTMENT STATISTICS

FYE Mar	2024E	2025F	2026F
Revenue	5,918.8	6,868.5	7,212.0
Operating Profit	1,272.8	1,476.7	1,565.0
Profit Before Tax	964.2	1,133.3	1,190.0
Core PATAMI	505.2	583.8	620.2
Core EPS	14.4	16.7	17.7
DPS	8.0	8.0	8.0
Dividend Yield	2.6%	2.6%	2.6%

KEY STATISTICS	
FBM KLCI	1,604.25
Issue shares (m)	3506.17
Estimated free float (%)	80.40
Market Capitalisation (RM'm)	9,887.39
52-wk price range	RM1.79 -
3-mth average daily volume (m)	8.58
3-mth average daily value (RM'm)	25.62
Top Shareholders (%)	
Employees Provident Fund Board	14.02
Amanah Saham Nasional Bhd	12.92
Kumpulan Wang Persaraan	9.42

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Manufacturing and quarrying. Despite a lower revenue of RM266.7m (-15.6%yoy), the segment remained the top PBT contributor during the quarter, recording an increase of +7.2%yoy to RM47.9m. The lower revenue was due to lower tonnage of piles delivered and ready mixed concrete products while the stronger PBT is attributable to higher operating efficiency, leading to a growth in margin from 14.1% to 18.0%.

Kuantan Port. The ports subdivision saw revenue declining -6.2%yoy to RM114.3m during the quarter while PBT slid -19.3%yoy to RM33.8m, mainly due to lower cargo throughput, which declined to 6.6m tonnes from 6.7m tonnes in the same period last year.

Tolls division. The toll division also saw a decline in revenue, down by -16.9%yoy to RM100.1m, with a loss before tax of -RM1.1m during the quarter. This was due to lower traffic volumes in IJM's overseas tollways where one of the concessions in India has ended. On top of that, there is an absence of compensation income post restructuring of local toll roads.

Acquisition of JRL in UK. IJM has proposed to acquire a 50% stake in JRL Group Holdings Ltd, a diversified construction group in the UK for GBP50m (RM283m) at a forward PE of about 6x. IJM's effective stake in JRL will be 30% which makes it an associate company, as the acquisition will be made through a soon to be set up 60% subsidiary IJM Corporation (UK) Ltd. JRL is no stranger to IJM as its 85% construction arm Midgard, was the main contractor for Royal Mint Gardens Phase 1, IJM Land's maiden property development project in the UK that was completed in 2019. It was also recently appointed as the contractor for Phase 2. Management expects synergistic opportunities with JRL, which has a strong control of the supply chain in the UK at about 80%. JRL has an outstanding order book of GBP1.5b (RM8.5b). JRL was in the red in 2022 and 2023 at -GBP38.3m and -GBP26.6m, mainly due to higher costs of raw material and labour and interest costs on fixed-price contracts. As at Aug-24, JRL has rebounded into the black with a PAT of GBP10.3b. IJM is targeting to complete its due diligence on JRL within three months.

Earnings estimates. We are maintaining our earnings estimates on the back of expectations of better quarters ahead.

Target price. As such, we are also maintaining our **TP** at **RM3.89**, derived by pegging its FY26F EPS of 17.7 sen to a forward PER of 22x, which is +1SD above its seven-year mean.

Maintain BUY. We expect IJM to continue being among the key beneficiaries of the positive prospects for the construction sector, on the back of a strong pipeline of jobs that can be expected to move forward with more civil job flows, which is also expected to drive the demand for its piles and concrete products. Despite the slightly lower target of property sales for FY25, we expect RM2.0b of unbilled sales to aid in the group's performance for the year. All factors considered; we reiterate our **BUY** recommendation on **IJM**.

IJM CORP: 2QFY25 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**2QFY25**	**1QFY25**	**2QFY24**	**QoQ**	**YoY**	**6MFY25**	**6MFY24**	**YoY**
Revenue	1,516.3	1,404.3	1,458.4	**8.0%**	**4.0%**	2,920.6	2,684.2	**8.8%**
Gross Profit	386.8	316.3	416.1	**22.3%**	**-7.1%**	703.1	695.2	**1.1%**
Net Operating Expenses	(148.6)	(82.5)	(146.2)	**-80.1%**	**-1.6%**	(231.1)	(179.1)	**-29.0%**
Operating Profit	238.2	233.8	269.9	**1.9%**	**-11.7%**	472.0	516.1	**-8.5%**
Finance Costs	(72.1)	(76.6)	(77.2)	**5.9%**	**6.7%**	(148.7)	(146.4)	**-1.6%**
JV and Associates	(13.9)	(4.0)	(1.6)	**-247.8%**	**-746.5%**	(17.9)	1.5	**-1302.9%**
Profit Before Tax	152.2	153.1	191.0	**-0.6%**	**-20.3%**	305.3	371.1	**-17.7%**
Tax Expense	(64.4)	(46.5)	(78.6)	**-38.5%**	**18.0%**	(110.9)	(143.9)	**22.9%**
Minority Interest	1.8	8.1	7.0	**-77.4%**	**-73.6%**	9.9	9.6	**3.5%**
Perps.	11.7	11.6	11.8	**1.1%**	**-0.4%**	23.4	23.3	**0.0%**
Reported Net Profit	74.2	86.9	93.7	**-14.6%**	**-20.8%**	161.1	194.3	**-17.1%**
Core Net Profit	135.6	99.1	141.3	**36.9%**	**-4.1%**	234.7	208.2	**12.7%**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	4,409.0	4,572.5	5,918.8	6,868.5	7,074.6
Gross profit	762.1	1,179.9	1,550.2	1,820.2	1,911.2
Operating profit	537.5	740.9	1,272.8	1,476.7	1,565.0
Net interest	(188.3)	(255.3)	(307.1)	(295.5)	(288.5)
Profit before tax	317.9	483.0	964.2	1,133.3	1,190.0
Tax	(182.9)	(271.4)	(299.0)	(343.4)	(360.6)
PATAMI	102.1	158.3	600.3	583.8	620.2
Core PATAMI	200.2	294.1	505.2	583.8	620.2

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Fixed assets	5,682.0	5,207.2	5,861.7	5,095.2	5,350.0
Intangible assets	93.6	125.4	111.8	101.6	101.6
Non-current assets	**8,653.1**	**8,676.1**	**9,212.2**	**8,435.5**	**8,690.3**
Cash	2,908.7	2,825.2	2,870.4	2,769.3	2,407.9
Trade debtors	1,301.9	1,261.8	1,752.3	2,060.6	2,122.4
Current assets	**12,358.9**	**11,834.5**	**12,103.1**	**12,624.2**	**12,579.4**
Trade creditors	2,676.1	2,679.8	2,758.3	2,494.9	2,483.2
Short-term debt	1,609.6	1,696.6	1,723.9	1,600.0	1,600.0
Current liabilities	**4,562.5**	**4,800.8**	**5,014.8**	**4,733.3**	**4,721.6**
Long-term debt	3,904.6	3,650.8	3,800.4	3,821.2	3,897.6
Non-current liabilities	**4,716.3**	**4,490.0**	**4,724.2**	**4,745.0**	**4,821.4**
Share capital	6,127.7	6,132.4	6,132.4	6,132.4	6,132.4
Retained earnings	4,000.1	4,024.6	4,342.2	4,645.0	4,984.2
Equity	**11,460.7**	**10,961.0**	**11,278.6**	**11,581.4**	**11,920.6**

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
PBT	317.9	483.0	964.2	1,133.3	1,190.0
Operating cash flow	**1,217.4**	**1,276.0**	**1,000.0**	**1,169.1**	**1,225.8**
Capital expenditure	(414.7)	(195.7)	70.0	(200.0)	(250.0)
Investing cash flow	**1,202.4**	**(159.0)**	**(135.2)**	**(405.2)**	**(486.2)**
Debt raised/(repaid)	(417.9)	(156.3)	(112.4)	(155.0)	(62.0)
Dividends paid	(750.6)	(211.4)	(280.7)	(280.7)	(280.7)
Financing cash flow	**(1,909.4)**	**(1,199.0)**	**(835.5)**	**(878.1)**	**(785.1)**
Net cash flow	**510.3**	**(82.0)**	**29.3**	**(114.2)**	**219.3**
Beginning cash flow	**2,381.0**	**2,887.5**	**2,807.8**	**2,845.7**	**2,731.5**
Ending cash flow	**2,887.5**	**2,807.8**	**2,845.7**	**2,731.5**	**2,950.8**

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross profit margin	17.3%	25.8%	26.2%	26.5%	27.0%
Operating profit margin	12.2%	16.2%	21.5%	16.6%	17.0%
PBT margin	7.2%	10.6%	16.3%	16.5%	16.5%
PAT margin	2.3%	6.0%	8.5%	8.5%	8.6%
Core PAT margin	4.5%	6.0%	8.5%	8.5%	8.6%

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