

29 August 2018 | 3MFY19 Results Review

IJM Corporation Berhad

Margins compression may be short-lived

INVESTMENT HIGHLIGHTS

- **3MFY19 results lower than expected**
- **Margins from key segments eroded**
- **Reaffirm earnings estimates on the back of sturdy orderbook of RM8.8bn**
- **Altogether, we maintain our BUY recommendation with TP of RM3.30 per share**

3MFY19 results disappointing. IJM's 3MFY19 earnings of RM62.7m (-50%YoY) came in lower than expectations. Its net profit accounted for 18.0% and 14.1% of ours and consensus' full-year forecasts respectively. The weak result is in tandem with its 3MFY19's revenue which tapered to RM1.44bn (-2.0%YoY) as it was scuppered by higher expenses, namely (i) forex differences of RM71.0m, and (ii) administrative expenses of RM85.4m.

Depressed margins from key segments. As a results of higher expenses, overall PATAMI margin was eroded registering only 4.0% (-5ppts). Margins were significantly compressed as results of lower billing recognition and lower cargo throughput in Kuantan Port. Its construction segment recorded RM39.6m (-32.0%YoY) at PBT level while infrastructure segment only inked RM24.8m (-62.0%YoY). Furthermore, plantation segment also recorded a humdrum result of RM-26.2m loss (-206.0%YoY) due to forex losses of USD denominated debt. Nonetheless, we believe that marginal compression will be short-lived as the company will likely be able to recover on the back of its track record and management's experience.

Reaffirm earnings estimates on the back of sturdy orderbook. We maintain our earnings estimates on the back of sturdy orderbook; IJM's total outstanding orderbook is currently RM8.8bn (which is approximately 48 months or FYE19 1.5x revenue cover).

Maintain BUY. We reiterate our **BUY** recommendation with an SOP-based TP of RM3.30 per share.

Maintain BUY

Unchanged Target Price (TP): RM3.30

RETURN STATS	
Price (28 Aug 2018)	RM1.93
Target Price	RM3.30
Expected Share Price Return	+46.7%
Expected Dividend Yield	+8.3%
Expected Total Return	+55.0%

STOCK INFO	
KLCI	1826.9
Bursa / Bloomberg	3336/ IJM MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	3630.9
Market cap. (RM'm)	7007.64
Price over NA	0.76
52-wk price Range	RM1.6– RM3.43
Beta (against KLCI)	1.21
3-mth Avg Daily Vol	6.11m
3-mth Avg Daily Value	RM11.2m
Major Shareholders (%)	
EPF	14.52
ASB	6.96
LTH	6.47
KWAP	5.15

INVESTMENT STATISTICS

FYE March	FY16	FY17	FY18	FYE19	FYE20
Revenue (RM'm)	5,128	6,065	6,146	5,800	5,900
Pre-tax Profit (RM'm)	1,155	1,010	988	693	736
Normalised PATAMI (RM'm)	788	653.7	494	348	354
FD EPS (sen)	22	18	34	10	10
EPS growth (%)	-29	-99	90	-71.8	2.1
PER (x)	8.14	10.00	5.26	18.65	18.27
Net Dividend (sen)	16	18	17	15	15
Net Dividend Yield (%)	2.2	2.5	9.4	8.3	8.3

Source: Bloomberg, MIDFR

SOP VALUATION

Segments	Stake	Basis	Value (RM'm)	Per Share (RM)
Construction	100%	DCF@6.7%	2,007.8	0.56
Industrial	100%	FY18 PER of 14x	1,726.6	0.48
IJM Plantation	55%	MIDFR TP of RM2.30	1,117.8	0.31
Property				
Malaysia	Various	DCF@6.7%	5,252.0	1.47
JVs			899.2	0.25
Overseas			388.0	0.11
Concessions Assets				
Kuantan Port	60%	DCF@6.7%	1,200.2	0.34
Highways	Various	DCF@7.5%	1,310.5	0.40
GVK Gautami Power Limited	20%	Book Value	336.0	0.09
Hexacon Construction	46%	Book Value	305.8	0.09
Keuro	26%	Enterprise Value	802.2	0.11
Scomi Group	24%	Enterprise Value	357.8	0.20
				4.42
Total value			15,704.0	4.40
(Net debt) / net cash			-4,100.0	-1.15
SOP per share				3.3
No. of shares outstanding (mil)				3,565.6

Source: Bloomberg, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

3MFY19 RESULTS

FYE March (RM'm)	Quarterly Results					Cumulative		
	1Q19	4Q18	1Q18	QoQ	YoY	3MFY19	3MFY18	YoY
Revenue	1,444.30	1,398.60	1,461.50	3%	-1%	1444.3	1,468.3	-2%
Other operating income	73.6	293.8	51.7	-75%	42%	73.6	52.8	39%
Foreign exchange differences	-71	4.8	-3.6	-1579%	1856%	-71	-3.6	1872%
Tender, sell & distribt expenses	-32.5	-56.8	-34.5	-43%	-6%	-32.5	-41.1	-21%
Admin expenses	-85.4	-104.5	-78	-18%	9%	-85.4	-78	9%
Other operating expenses	-13.8	-30.7	-16.7	-55%	-17%	-13.8	-15.3	-10%
EBIT	159.7	163.5	209.2	-2%	-24%	159.7	220.3	-28%
Finance Cost	-59.8	-41.8	-45	43%	33%	-59.8	-45	33%
Associates	7.3	-28.5	17.2	-126%	-58%	7.3	17.2	-58%
JVs Income	-4	-15.3	5	-74%	-180%	-4	4.9	-182%
PBT	103.2	77.6	186.4	33%	-45%	103.2	197.5	-48%
Taxation	-42.2	-65.2	-50.7	-35%	-17%	-42.2	-53.6	-21%
Minority Interest	3.3	1.2	4.4	175%	-25%	3.3	-17.4	-119%
PATAMI	62.7	11.1	126.3	465%	-50%	62.7	126.3	-50%
FD EPS (sen)	1.73	0.31	3.35	458%	-48%	1.73	3.45	-50%
	1Q19	4Q18	1Q18	pts	pts	3MFY19	3MFY18	+/- ppts
EBIT margin	11%	12%	14%	-0.6	-2	11%	15%	-4%
PBT margin	7%	6%	13%	1.6	-4	7%	13%	-6%
PATAMI margin	4%	1%	9%	3.5	-2	4%	9%	-5%
Effective tax rate	41%	84%	27%	-43.1	0	-29%	27%	-56%
Segmental Breakdown								
Revenue (RM'm)	1Q19	4Q18	1Q18	QoQ	YoY	3MFY19	3MFY18	YoY
Construction	526.9	556.1	532.2	-5%	-1%	526.9	532.9	-1%
Property	334.6	315.3	293.1	6%	14%	334.6	298.6	12%
Industry	231.6	218.2	275	6%	-16%	231.6	275	-16%
Plantation	183.1	141.3	184.5	30%	-1%	183.1	184.5	-1%
Infrastructure	167.7	165.9	176.8	1%	-5%	167.7	176.8	-5%
Investment & others	0.13	1.5	0.63	-91%	-79%	0.13	0.23	-43%
TOTAL	1444.3	1398.6	1461.5	3%	-1%	1444.3	1468.3	-2%
PBT (RM'm)	1Q19	4Q18	1Q18	QoQ	YoY	3MFY19	3MFY18	YoY
Construction	39.6	55.2	56	-28%	-29%	39.6	58.1	-32%
Property	44.8	23.1	24	94%	87%	44.8	24.5	83%
Industry	13.1	13.3	22.4	-2%	-42%	13.1	22.4	-42%
Plantation	-26.2	1.8	16.2	-1556%	-262%	-26.2	16.2	-262%
Infrastructure	24.8	-22.2	64.6	-212%	-62%	24.8	64.6	-62%
Investment & others	6.9	6.2	3	11.2%	130%	6.9	0.3	2200%
TOTAL	103.2	77.6	186.4	33%	-45%	103.2	197.5	-47.70%
PBT margin (RM'm)	1Q19	4Q18	1Q18	pts	pts	3MFY19	3MFY18	Ppts
Construction	8%	10%	11%	1	-1	8%	11%	-3%
Property	13%	7%	8%	6	-18	13%	8%	5%
Industry	6%	6%	8%	0	-3	6%	8%	-2%
Plantation	-14%	1%	9%	-16	10	-14%	13%	-28%
Infrastructure	15%	-13%	37%	28	2	15%	37%	-22%

Source: Bursa, 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 <i>rise</i> 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 <i>fall</i> 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.