

27 November 2018 | 6MFY19 Results Review

IJM Corporation Berhad

Expanded cost structure hit margin

INVESTMENT HIGHLIGHTS

- **6MFY19 earnings were below expectations at 24.3% and 17.4% of our and consensus yearly estimates respectively**
- **The deviation from estimates stemmed from lower than expected margin conversion, against revenue**
- **This was coupled with discouraging performance in the plantation segment, having to incur expanded cost structure**
- **Despite a slowdown in the construction work progress, the revenue recognized was within expectations**
- **Following our earnings adjustments, we downgrade our call to NEUTRAL with lower TP of RM1.92**

Below expectations. The group's 6MFY19 revenue contracted by -10.0% to RM2.8b, from the corresponding period last year. The negative growth was a result of slowdowns in key segments namely construction, industry and plantation. For 6MFY19, these segments recorded decline of -11.7%, -21.3%yoy and -14.9%yoy in revenue respectively. As a result, PATAMI dropped -64.0%yoy to RM84.7m in 6MFY19 which was below ours and consensus' expectations at 24.3% and 17.4% of respective yearly estimates.

What went wrong? We surmised the deviation from our estimates stemmed from the lower than expected margin conversion. Notably, the group's profitability was hit badly due to slower demand in aforementioned segments (i.e. industry and plantation). We should highlight that the industry segment (which comprised piles and quarrying sectors) recorded the biggest drop in revenue (-21.3%yoy), subsequent to lower sales volumes.

This was coupled with dismal performance in the plantation segment, impacted by lower CPO sales and prices. It is notable that average CPO price in 6MFY19 recorded a -14.4% decline at RM2,326/t. The setback in this segment was more pronounced in its Indonesian operations, due to higher production costs stemming from the increase in young mature areas.

Downgrade to NEUTRAL

Adjusted Target Price (TP): RM1.92

(from RM3.10)

RETURN STATS	
Price (26 Nov 2018)	RM1.82
Target Price	RM1.92
Expected Share Price Return	+5.5%
Expected Dividend Yield	+2.2%
Expected Total Return	+7.7%

STOCK INFO	
KLCI	1,701.99
Bursa / Bloomberg	3336/ IJM MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	3,629.24
Market cap. (RM'm)	6,605.22
Price over NA	0.72
52-wk price Range	RM1.39– RM3.19
Beta (against KLCI)	1.36
3-mth Avg Daily Vol	4.09m
3-mth Avg Daily Value	RM6.90m
Major Shareholders (%)	
EPF	14.52
ASB	6.97
LTH	6.50
KWAP	5.06

Construction progress was slower, but within expectations. On average, the construction segment represents the largest chunk of income, accounting about 38% of total revenue. In 6MFY19, revenue recognition was slower (-11.7%yoy) as a result of slowdown in overall construction progress with new projects remained at infancy stages. A notable project win in CY18 was the LRT3 contract worth RM1.1b, which was awarded in March. We noted that the project has run into a delay, subsequent to government's decision to revise the project costs. In the near term, we believe that construction works would pick up pace, following the green light granted by government to continue the project.

Impact on earnings. While the group's revenue recognized was within our expectation, we think it is apt for us to revise our margin assumptions at this juncture. This was subsequent to several factors which have weighed down earnings such as high cost structure, lower sales volumes and the exceptional items. The table below summarizes our latest core net profit estimates for IJM Corp as we factored in those parameters.

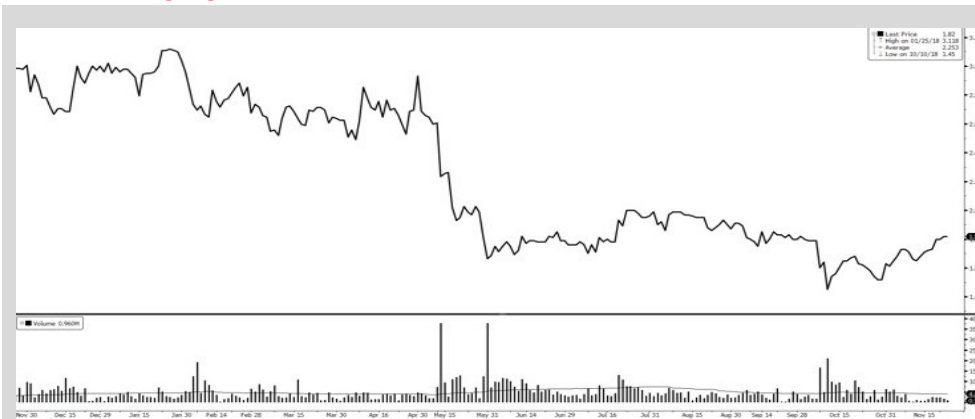
Recommendation. We downgrade our call to **NEUTRAL** on the stock with an adjusted TP of RM1.92. The TP was derived from our multiples valuation, pegging the FY20 BVPS to 0.7x PBV. Despite the downgrade, we believe IJM's portfolio remain attractive for investors who prefer diversified exposure. Hence, we see any potential retracement in share price following the 2QFY19 results shall present buying opportunities for investors. Moving forward, its biggest earnings contributor, namely construction, is expected to stay resilient, leveraging on its long experience and competitive skills set to win quality projects. Its current outstanding order book is estimated at RM8.8b, providing 3.8x income visibility to its 2-year average. In the near term, management is optimistic in clinching more construction packages predicated on potential roll out of hospital and road developments.

INVESTMENT STATISTICS

FYE March	FY14	FY15	FY16	FY17	FY18	FYE19	FYE20
Revenue (RM'm)	6,006.48	5,448.28	5,128.00	6,065.30	6,146.04	5,800.00	5,900.00
Pre-tax Profit (RM'm)	1,477.04	1,019.36	1,155.00	1,010.00	987.75	836.54	885.00
Normalised PATAMI (RM'm)	599.72	488.94	788.00	653.70	494.00	435.00	442.50
FD EPS (sen)	16.5	13.5	21.7	18.0	13.6	12.0	12.2
EPS growth (%)	39.6	-18.5	61.2	-17.0	-24.4	-11.9	1.7
PER (x)	11.0	13.5	8.4	10.1	13.4	15.2	14.9
Net Dividend (sen)	25.0	15.0	10.0	7.5	6.0	4.0	4.0
Net Dividend Yield (%)	13.7	8.2	5.5	4.1	3.3	2.2	2.2

Source: Bloomberg, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

6MFY19 RESULTS

FYE March (RM'm)	Quarterly Results					Cumulative		
	2Q19	2Q18	1Q19	YoY	QoQ	6MFY19	6MFY18	YoY
Revenue	1,309.17	1,599.0	1,444.3	-18.1%	-9.4%	2,753.5	3,060.6	-10.0%
Cost of sales	-1,093.69	-1,266.2	-1,155.4	-13.6%	-5.3%	-2,249.1	-2,437.2	-7.7%
Gross Profit	215.5	332.9	288.9	-35.3%	-25.4%	504.4	623.4	-19.1%
Other operating income	54.263	47.3	73.7	14.6%	-26.4%	128.0	99.1	29.2%
Foreign exchange differences	-33.513	-0.4	-71.0	8772.9%	-52.8%	-104.6	-4.0	2504.1%
Tender, sell & distribt expenses	-28.158	-30.5	-32.5	-7.8%	-13.5%	-60.7	-65.1	-6.8%
Admin expenses	-83.112	-98.9	-85.4	-16.0%	-2.7%	-168.5	-177.0	-4.8%
Other operating expenses	-50.862	-14.9	-13.9	242.1%	266.1%	-64.8	-31.6	104.8%
EBIT	74.1	235.5	159.7	-68.5%	-53.6%	233.8	444.8	-47.4%
Finance Cost	-56.803	-50.3	-59.8	12.8%	-5.1%	-116.6	-95.4	22.2%
Associates	24.036	-3.0	7.4	-910.9%	226.1%	31.4	14.3	119.8%
JVs Income	-5.496	1.7	-4.0	-431.7%	36.2%	-9.5	6.7	-242.8%
PBT	35.8	183.9	103.2	-80.5%	-65.3%	139.1	370.4	-62.5%
Taxation	-24.066	-57.4	-42.4	-58.1%	-43.3%	-66.5	-108.2	-38.6%
Minority Interest	10.152	-12.2	1.9	-182.9%	421.4%	12.1	-26.8	-145.2%
PATAMI	21.9	114.2	62.8	-80.8%	-65.1%	84.7	235.4	-64.0%
FD EPS (sen)	0.6	3.2	1.7	-81.0%	-65.3%	2.3	6.5	-64.0%
	2Q19	2Q18	1Q19	+/- ppts	+/- ppts	6MFY19	6MFY18	+/- ppts
EBIT margin	5.7%	14.7%	11.1%	-9.1	-5.4	8.5%	14.5%	-6.0
PBT margin	2.7%	11.5%	7.1%	-8.8	-4.4	5.1%	12.1%	-7.1
PATAMI margin	1.7%	7.1%	4.3%	-5.5	-2.7	3.1%	7.7%	-4.6
Effective tax rate	-67.2%	-31.2%	-41.1%	-35.9	-26.1	-47.8%	-29.2%	-18.6

Segmental Breakdown								
Revenue (RM'm)	2Q19	2Q18	1Q19	YoY	QoQ	6MFY19	6MFY18	YoY
Construction	530.0	675.3	526.9	-21.5%	0.6%	1,056.9	1,197.2	-11.7%
Property	255.6	269.9	334.6	-5.3%	-23.6%	590.3	574.5	2.7%
Industry	220.2	299.3	231.6	-26.4%	-4.9%	451.9	574.3	-21.3%
Plantation	140.1	196.4	183.1	-28.7%	-23.5%	323.2	380.0	-14.9%
Infrastructure	163.0	157.5	167.7	3.5%	-2.8%	330.7	334.3	-1.1%
Investment & others	0.3	0.6	0.13	-56.8%	111.5%	0.4	0.7	-40.8%
TOTAL	1,309.2	1,599.0	1,444.0	-18.1%	-9.3%	2,753.5	3,061.1	-10.0%
PBT (RM'm)	2Q19	2Q18	1Q19	YoY	QoQ	6MFY19	6MFY18	YoY
Construction	38.5	71.1	39.7	-45.8%	-3.0%	78.2	127.2	-38.5%
Property	21.9	32.4	44.9	-32.4%	-51.2%	66.8	56.5	18.3%
Industry	16.1	27.5	13.1	-41.4%	22.3%	29.2	49.9	-41.4%
Plantation	-31.7	13.3	-26.3	-339.5%	20.9%	-58.0	29.5	-296.4%
Infrastructure	8.5	35.7	24.9	-76.1%	-65.7%	33.4	100.4	-66.7%
Investment & others	-17.5	3.9	6.9	-545.6%	-352.9%	-10.6	6.9	-252.0%
TOTAL	35.8	183.9	103.228	-81%	-65%	139.1	370.4	-62.5%
PBT margin (RM'm)	2Q19	2Q18	1Q19	+/- ppts	+/- ppts	6MFY19	6MFY18	+/- ppts
Construction	7.3%	10.5%	7.5%	-3.3	-0.3	7.4%	10.6%	-3.2
Property	8.6%	12.0%	13.4%	-3.4	-4.8	11.3%	9.8%	1.5
Industry	7.3%	9.2%	5.7%	-1.9	1.6	6.5%	8.7%	-2.2
Plantation	-22.7%	6.7%	-14.3%	-29.4	-8.3	-17.9%	7.8%	-25.7
Infrastructure	5.2%	22.7%	14.8%	-17.4	-9.6	10.1%	30.0%	-19.9
Average	1.1%	12.2%	5.4%	-11.1	-4.3	3.5%	13.4%	-9.9

Source: Bursa, MIDFR

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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.