

21 November 2014 | Corporate Update & Result Preview

## IJM Corp Berhad

*RM356m contract ahead of 2QFY15 results*

**Reaffirm NEUTRAL**

**Unchanged Target Price (TP): RM6.98**

### INVESTMENT HIGHLIGHTS

- **IJM Corp has been awarded a contract worth RM356m for the construction of commercial development in Ara Damansara.**
- **Outstanding order book will rise to an estimated RM5.4b**
- **IJM Corp lacks near-term share price catalyst but we remain sanguine on the Group's earnings growth prospects. 2QFY15 results should be strong, but it is in the price.**
- **Reaffirm NEUTRAL with an unchanged TP of RM6.98.**

**Awarded commercial development job.** IJM Construction Sdn Bhd, a wholly-owned subsidiary of IJM Corp, has received letter of acceptance from Utama Lodge Sdn Bhd for the main building works for the proposed commercial development known as "The Potpourri" in Ara Damansara, Petaling Jaya worth RM355.7m. We note that this is IJM Corp's second commercial development job in FY15 after securing the first one in Damansara Utama in April 2014.

Also, the former work scope bears some similarity with the latter, involving the building works of 8 blocks of 11 to 13-storey serviced apartments (712 units) on top of a 3-storey podium comprising of retail outlets, elevated and basement car parks, multi-level club house and rooftop recreational. We understand that the construction period requires 2 years and 2 months to complete.

**Construction backlog increases to RM5.4b.** Including this, IJM Corp's construction backlog increases to an estimated of RM5.4b (3x of FY14 construction revenue); this could easily provide earnings visibility for at least the next five years. Assuming a PBT margin of 7%, we expect this project to contribute RM24.9m spread over 2 years to IJM Corp's PBT.

**1HFY15 results preview.** With the upcoming 2QFY15 results to be announced on 25<sup>th</sup> November 2014, we expect IJM Corp's 1HFY15 PATAMI to come in between RM265m and RM276m that will make up 49-51% of ours and consensus' full-year PATAMI forecast of RM541m and RM660m respectively. The strong earnings will continue to be backed by profit recognition from: (i) construction progress on the Package V5 of MRT, (ii) faster property development progress billings and (ii) stable recurring income from its toll road concessions.

Recall that 1QFY15's PATAMI of RM133.4 was in line with expectation, accounting for 25% of ours but slightly below consensus forecast of FY15 net profit.

RETURN STATS	
Price (20 Nov' 2014)	RM6.72
Target Price	RM6.98
Expected Share Price Return	+3.9%
Expected Dividend Yield	+1.9%
<b>Expected Total Return</b>	<b>+5.8%</b>

STOCK INFO	
KLCI	1,822.29
Bursa / Bloomberg	3336 / IJM MK
Board / Sector	Main/Construction
Syariah Compliant	Yes
Issued shares (mil)	1,489.3
Par Value (RM)	1.00
Market cap. (RM'm)	10,008.1
Price over NTA	1.48x
52-wk price Range	RM5.51–RM7.03
Beta (against KLCI)	0.89x
3-mth Avg Daily Vol	2.83m
3-mth Avg Daily Value	RM18.67m
Major Shareholders	
EPF	11.95%
JP Morgan Chase Bank	10.34%
KWAP	8.39%

## INVESTMENT STATISTICS


FYE March	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	4,517.9	4,663.4	6,006.5	6,182.2	6,686.1
EBIT (RM'm)	972.5	1,019.3	1,787.9	1,349.7	1,479.8
Pretax Profit (RM'm)	801.6	835.8	1,416.3	1,147.3	1,279.2
Net Profit (RM'm)	550.5	562.2	1,075.7	741.2	869.0
Normalised PATAMI (RM'm)	409.1	420.9	539.0	541.0	646.0
PATAMI Margin (%)	9.1	9.0	9.0	8.8	9.7
FD EPS (sen)	29.2	29.9	37.5	37.7	45.0
EPS growth (%)	25.0	2.6	25.4	0.4	19.4
PER (x)	18.9	17.9	10.4	17.8	14.9
Net Dividend (sen)	12.0	13.0	25.0	12.5	19.2
Net Dividend Yield (%)	2.1	2.4	2.4	1.9	2.9

Source: Company data, forecasts by MIDFR

## VALUATION AND RECOMMENDATION

**Earnings unchanged.** At this juncture, we maintain our earnings forecast as the value of the contract is already imputed in our orderbook projections.

**Maintain NEUTRAL with a positive bias.** At this juncture, we reaffirm our NEUTRAL stance on IJM Corp with an unchanged TP of RM6.98. The share price lacks near-term catalyst as market has already priced in the positive newsflow with respect to the unofficial award of RM2.8b WCE construction works. However, we remain upbeat on IJM Corp's earnings growth prospect which should provide an opportunity to accumulate at current level due to the following:

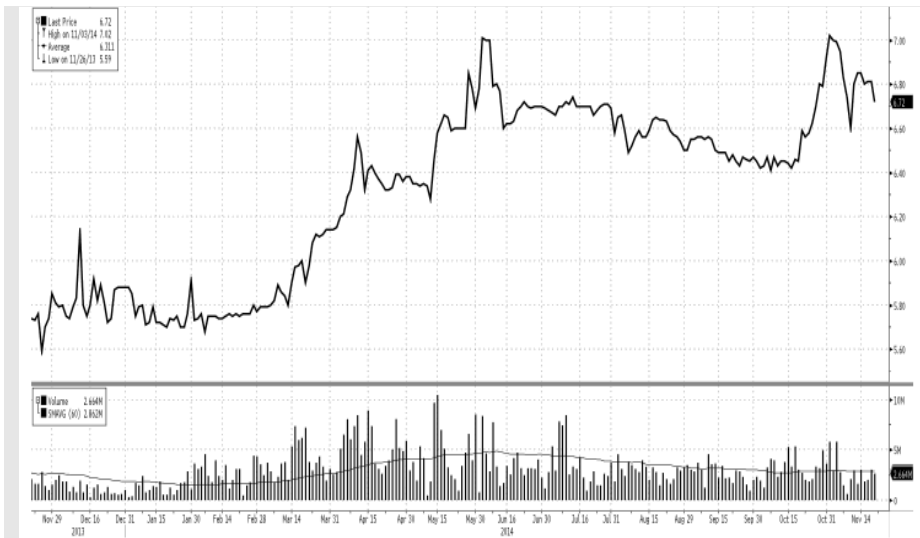
- 1) Healthy construction backlog of RM2.6b with unofficial award of RM2.8b of WCE packages;
- 2) Potential construction backlog replenishment from remaining WCE packages worth RM2.2b and highways that will be implemented next year.
- 3) Strong unbilled property sales of approximately RM2.0b which could sustain earnings for the next two years and undeveloped land of 4,800 acres with an estimated GDV of RM30b;
- 4) Acquisition completion of SILK highway, which could provide additional recurring income in the long-run on top of current concession assets.
- 5) Potential additional earnings contribution from the privatisation of IJM Land. 

## SUM-OF-PARTS VALUATION

Segments	Stake	Basis	Value (RM'm)	Per Share (RM)
Construction	100%	FY15 PER of 15x	2,246.3	1.53
Manufacturing & quarrying	100%	FY15 PER of 10x	1,377.4	0.94
IJM Plantation	54%	MIDFR Fair Value of RM3.00	1,325.6	0.90
IJM Property	66%	MIDFR Fair Value of RM3.56	3,686.4	2.51
Concessions Assets	Various	DCF (WACC: 9% - 10%)	5,018.4	3.41
Keuro	14%	Market Cap at RM1.17	168.2	0.11
Scomi Group	8%	Market cap at 42.5sen	50.6	0.03
<b>Total value</b>			<b>13,872.9</b>	<b>9.44</b>
(+ / -) Net debt			-3,620.5	-2.46
<b>SOP per share</b>				<b>6.98</b>
No. of shares (mil)				1,469.7

Source: Forecasts by MIDFR

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.