

10 June 2014 | Corporate Update

## IJM Corp Berhad

*Privatisation of IJM Land Berhad*

**Downgrade to NEUTRAL**

**Unchanged Target Price (TP): RM7.26**

### INVESTMENT HIGHLIGHTS

- **RM1.98b for 36% stake in IJML. Offer price is fair.**
- **The exercise would allow IJML to fully leverage on IJMC's strong financial position.**
- **The proposed privatisation is expected to increase IJMC's FY15 and FY16 PATAMI by approximately 25% each but per share impact moderated by higher share base.**
- **Pursuant to recent run-up in IJMC's share price, we downgrade IJMC to NEUTRAL with an unchanged TP of RM7.26.**

**RM1.98b offer.** IJM Corp Bhd (IJMC) announced yesterday that it has made an RM1.98b offer to acquire the remaining 36% equity interest in IJM Land Bhd (IJML) which the Group does not own. The offer price of RM3.55 per IJML share will be satisfied by RM0.20 cash (RM112m) and issuance of 0.5 new IJMC share at the issue price of RM6.70 per share (RM1.87b for 279m new shares).

**Fair price.** The offer price of RM3.55 per share for the 36% stake in IJML is fair due to following reasons: (1) The offer price is valued at approximately 1.7x price-to-book value (PBV) which is comparable to its peers, i.e. Mah Sing Group Bhd and MKH Bhd which are trading at 1.7x PBV, (2) We estimate the offer price to be at IJML's FY15 PER of only 13x, which is lower than MKH Bhd's PER multiple of 14x, and (3) The offer price almost matches our IJML's TP of RM3.56.

**Positive impact.** Management verified that the proposed privatisation will contribute positively to the IJM Group as follows:

- It will enhance the balance sheet, earnings and future cash flows of IJMC in view of synergistic benefits and positive future prospects of IJML. Upon completion of the privatisation, we believe it is expected to reduce net gearing from 0.53 times to 0.46 times.
- Property developers generally face stringent requirements when raising funds. Thus, this privatisation is expected to improve IJML fund raising ability and funding terms by leveraging on IJMC's strong balance sheet. Hence we expect the exercise will be able to lower IJML borrowing costs.
- In addition, IJML shareholders are able to cash out partially while continue to participate in the future of IJM Group by swapping into IJMC shares which have higher liquidity. In fact, shareholders will also benefit from issuance of IJMC new shares at a discount of 4.3% from the current price of RM7.00.

RETURN STATS	
Price (5 <sup>th</sup> June 2014)	RM7.00
Target Price	RM7.26
Expected Share Price Return	+3.7%
Expected Dividend Yield	+1.8%
<b>Expected Total Return</b>	<b>+5.5%</b>

STOCK INFO	
KLCI	1,863.69
Bursa / Bloomberg	3336/IJM MK
Board / Sector	Main/Construction
Syariah Compliant	Yes
Issued shares (mil)	1,449.1
Par Value (RM)	1.00
Market cap. (RM'm)	10,143.4
Price over NTA	1.50x
52-wk price Range	RM5.38–RM7.03
Beta (against KLCI)	0.89x
3-mth Avg Daily Vol	4.56m
3-mth Avg Daily Value	RM28.97m
Major Shareholders	
EPF	10.87%
ASB	8.63%
KWAP	7.10%
LTH	5.15%


## INVESTMENT STATISTICS

FYE March	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	4,517.9	4,663.4	6,006.5	6,173.2	6,686.1
EBIT (RM'm)	972.5	1,019.3	1,787.9	1,347.3	1,479.8
Pretax Profit (RM'm)	801.6	835.8	1,416.3	1,177.6	1,279.2
Net Profit (RM'm)	550.5	562.2	1,075.7	745.1	863.7
PATAMI (RM'm)	409.1	420.9	829.6	544.9	640.7
PATAMI Margin (%)	9.1	9.0	13.8	8.8	9.6
FD EPS (sen)	29.2	29.9	57.8	37.9	44.6
EPS growth	25.0	2.6	93.1	-34.3	17.6
PER (x)	18.9	17.9	10.4	18.5	15.7
Net Dividend (sen)	12.0	13.0	25.0	12.5	19.0
Net Dividend Yield (%)	2.1	2.4	2.4	1.8	2.7

Source: Company data, forecasts by MIDFR

**Higher earnings but per share value moderated by dilution effect.** We estimate the additional 36% stake in IJML's net profit would add approximately 26.5% and 25.1% to IJMC's FY15 and FY16 PATAMI respectively. However, given the bigger share base, the proposed privatisation is expected to dilute IJMC's Sum-of-Parts valuation of RM7.26 per share.

**Earnings unchanged.** Although this exercise would dilute our TP of IJMC to RM7.15 upon completion, we believe it is still a positive move as IJMC will reap the benefits of the privatisation in FY16 onwards. We maintain our earnings forecasts on IJMC pending the deal completion.

**Downgrade to NEUTRAL.** Overall, we are still positive on IJMC due to the following: (1) outstanding order book of more than RM5b, (2) potential order book replenishment from remaining WCE packages worth RM2.2b, (3) construction of NDWT Phase 1 in Kuantan worth RM1.5b, (4) strong unbilled property sales of approximately RM2b, and (5) strong highway concession assets base which will provide steady recurring income. Nonetheless, pursuant to recent run-up in IJMC's share price, we downgrade our recommendation to NEUTRAL with an unchanged TP of RM7.26. 

## SUM-OF-PARTS VALUATION

	Stake	Method	Value (RM'm)
Construction	100%	FY15PER of 15x	2,246.3
Manufacturing & quarrying	100%	FY15PER of 10x	1,377.4
IJM Plantation	55%	MIDFR TP of RM3.12	1,380.3
IJM Property	66%	MIDFR TP of RM3.56	3,686.4
Concessions Assets	Various	DCF (WACC: 9% - 10%)	5,018.4
Keuro	25%	Market cap at RM1.22	175.5
Scomi Group	8%	Market cap at 44.5sen	53.0
(+ / -) Net debt			(3,620.5)
<b>Total value (RM)</b>			<b>10,326.7</b>
No. of shares (m)			1,422.3
<b>SOP per share (RM)</b>			<b>7.26</b>

Source: Forecasts by MIDFR

## IJM CORP's DAILY PRICE CHART



## IJM LAND's DAILY PRICE CHART

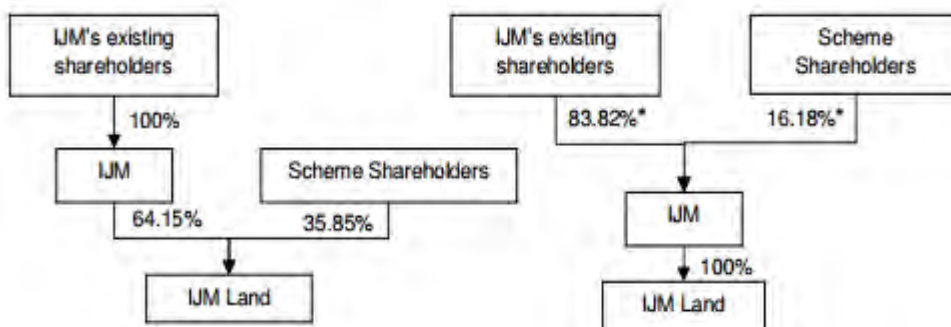


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## Appendix

### Before Proposed Privatisation

### After Proposed Privatisation



MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
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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.