

29 June 2018 | Corporate Update

## IJM Corporation Berhad

### Share Price Compression Prompts Adjustments

**Maintain BUY**

**Adjusted Target Price (TP): RM2.45**  
**From RM3.90**


#### INVESTMENT HIGHLIGHTS

- Share price compression reveals grim backdrop
- Orderbook replenishment risk expected
- Thus, reducing forecast is apt to over-optimism
- Overall, we maintain our BUY recommendation with an adjusted TP of RM2.45

**IJM's share price compression reveals a grim backdrop.** The recent sweeping of risk-aversion through the FBMKLCI reveals a grim backdrop for IJM. Its stock dropped 42.06% from the high of RM3.11 per share to its current level and consequently presents an opportunity to adjust valuation metric and earnings assumptions.

**Earnings estimates adjusted to reflect orderbook replenishment risk.** Although IJM's orderbook is RM9.7bn over 36-months. Thus, staid consideration must be highlighted in orderbook replenishment risk. The Government has scrapped LRT3, postponed HSR and leaving ECRL for cost revision. Hence, the outlook is grim for construction sector. As a result, we may see less robust infrastructure project awards for FYE18-FYE23 compared to the period of FY13-FY18. In our previous projection, IJM needs c.RM2.0bn orderbook replenishment rate annually which proves to be optimistic considering the current 'rationalisation phase' of government's expenditure as 'public-led investment is inefficient' according to the Finance Minister.

**Thus, reducing forecast is apt to over-optimism.** As a result, it is apt for us to trim our earnings forecast. In our projection we reduced; a) FYE19's earnings forecast from RM510.0m to RM348.0m (-31.7%) based on FYE19's adjusted revenue - from RM6.25bn to RM5.8bn (-7.2%) and b) FYE20's earnings forecast from RM550.0m to RM354.0 (-35.6%) based on FYE20's adjusted revenue - from RM6.4bn to RM5.9bn (-7.8%). (Figure 1)

**Our View.** Due to its diversified business model, we believe the best valuation multiple is price-to-book ratio (PBR) as it reduces the risks of forward-looking metric in the event of prolonged earnings blip or not meeting our earnings/consensus' projections. Thus, we revise IJM's TP to **RM2.45** per share implying a discount of 36% from its current PBR of 0.64x 

| RETURN STATS                 |               |
|------------------------------|---------------|
| Price (28 June 2018)         | RM1.79        |
| Target Price                 | RM2.45        |
| Expected Share Price Return  | +26.9%        |
| Expected Dividend Yield      | +4.4%*        |
| <b>Expected Total Return</b> | <b>+31.3%</b> |

Share price drop= (Expected Dividends/Share Price)

| STOCK INFO             |                     |
|------------------------|---------------------|
| KLCI                   | 1,665.15            |
| Bursa / Bloomberg      | 3336/ IJM MK        |
| Board / Sector         | Main / Construction |
| Syariah Compliant      | Yes                 |
| Issued shares (mil)    | 3588.3              |
| Par Value (RM)         | 1.00                |
| Market cap. (RM'm)     | 6499.31             |
| Price over NA          | 0.69                |
| 52-wk price Range      | RM1.6– RM3.53       |
| Beta (against KLCI)    | 1.22                |
| 3-mth Avg Daily Vol    | 6.51m               |
| 3-mth Avg Daily Value  | RM13.7m             |
| Major Shareholders (%) |                     |
| EPF                    | 14.48               |
| ASB                    | 6.86                |
| LTH                    | 6.45                |
| KWAP                   | 5.11                |

## INVESTMENT STATISTICS

| FYE March                | FY15  | FY16  | FY17  | FY18  | FYE19 | FYE20 |
|--------------------------|-------|-------|-------|-------|-------|-------|
| Revenue (RM'm)           | 5,448 | 5,128 | 6,065 | 6,146 | 5,800 | 5,900 |
| Pre-tax Profit (RM'm)    | 1,019 | 1,155 | 1,010 | 988   | 693   | 736   |
| Normalised PATAMI (RM'm) | 489   | 788   | 653.7 | 494   | 348   | 354   |
| FD EPS (sen)             | 31    | 22    | 18    | 34    | 10    | 10    |
| EPS growth (%)           | -27   | -29   | -99   | 90    | -71.8 | 2.1   |
| PER (x)                  | 5.86  | 8.14  | 10.00 | 5.26  | 18.65 | 18.27 |
| Net Dividend (sen)       | 15    | 16    | 18    | 17    | 8     | 8     |
| Net Dividend Yield (%)   | 2.5   | 2.2   | 2.5   | 2.5   | 4.4   | 4.4   |

Source: MIDF

## FIGURE 1: ADJUSTMENTS TO EARNINGS & REVENUE ESTIMATES

|                      | Previous | Current | Adjustment | Previous | Current | Adjustment |
|----------------------|----------|---------|------------|----------|---------|------------|
|                      | FYE19    | FYE19   | (%)        | FYE20    | FYE20   | (%)        |
| <b>Revenue</b>       | 6250.0   | 5800.0  | -7.2       | 6400.0   | 5900.0  | -7.8       |
| <b>Profit</b>        | 510.0    | 348.0   | -31.7      | 550.0    | 354.0   | -35.6      |
| <b>Profit Margin</b> | 7.9      | 6.0     | 1.9ppts    | 8.6      | 6.0     | 2.6ppts    |

Source: MIDF

## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

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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 to be <-15% 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. |