

05 February 2018 | Corporate Update

## IJM Corporation Berhad

### Strong Working Capital Sets the Stage

**Maintain BUY**

Target Price (TP): RM4.00

#### INVESTMENT HIGHLIGHTS

- Working capital still in surplus
- EBITDA growth emanated from strong working capital
- EBITDA set to rebound
- Overall, we maintain our BUY recommendation with an unchanged TP of RM4.00

**Working capital surplus...** Since 2013, IJM's has recorded an average working capital (WCap) of RM5.3bn, the WCap surplus is an anchor and a leading indicator to the company's profitability. For example, in Q2FY14 to Q3FY14 WCap recorded an increase from RM3.4bn to RM4.8bn (+41.1%QoQ). This is followed by another bump-up in the WCap surplus in Q3FY14 to Q4FY14 from RM4.8bn to RM5.9bn (+22.9%QoQ). (Figure 1)

**...evolved into EBITDA growth.** The steady rise of WCap evolved into the EBITDA growth in 4Q14-2Q15. During the same period IJM's share price advanced and its fundamentals improved developing a positive spread between ROIC\* and WACC\*. The spread indicates the importance of WCap in determining the direction of IJM's profitability. The constructive surge in ROIC from Q2FY14 to Q2FY15 in an impact of earnings crystallization through surplus working capital of the corresponding period. (Figure 2).

**EBITDA set to rebound.** Furthermore, weighing that construction segment has contributed to c. 30.0% of revenue for the past 4 years, Wcap is an important ingredient to for IJM to clinch projects and maintaining its profitability and maintaining construction's segmental revenue. Moving forward, WCap levels may seem to be stagnating for the past 3 quarters but we see this as an inherent strategy by the management to beef up the working capital by building quality receivables. IJM's current outstanding orderbook is RM9.3bn which will set the stage for a rebound in its EBITDA level should the current working capital of RM6.9bn increases by +20.0% to RM8.28bn. The working capital growth signals the increase in EBITDA (Figure 3) thus we believe that the crystallization of IJM's orderbook to its working capital potentially will be reflected in 2QFY19's earnings.

**Prospect.** We are positive that IJM will continue to replenish its orderbook by another RM1.0bn for FYE18. Evaluating its key position in Malaysia-China Kuantan Industrial Park (MCKIP) and the Kuantan Port we reckon that IJM would potentially bag civil works related to ECRL in Gambang vicinity in 4QFY18.

RETURN STATS	
Price (02 February 2018)	RM3.01
Target Price	RM4.00
Expected Share Price Return	24.8%
Expected Dividend Yield	+2.2%
<b>Expected Total Return</b>	<b>+27.0%</b>

STOCK INFO	
KLCI	1,870.48
Bursa / Bloomberg	3336/ IJM MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	3628.38
Par Value (RM)	1.00
Market cap. (RM'm)	10,921
Price over NA	1.15
52-wk price Range	RM2.71– RM3.61
Beta (against KLCI)	0.85
3-mth Avg Daily Vol	4.61m
3-mth Avg Daily Value	RM13.7m
Major Shareholders (%)	
EPF	14.43
ASB	6.51
LTH	6.47
ASW	5.18

\*Return of Invested Capital (ROIC) & Weighted Average Cost of Capital

**Recommendation.** We reaffirm our **BUY** recommendation with an unchanged SOP-based TP of **RM4.00** per share. We think that the current share price dip presents a good buying opportunity.

## SOP VALUATION

Segments	Stake	Basis	Value (RM'm)	Per Share (RM)
Construction	100%	DCF@6.7%	3,413.3	0.96
Industrial	100%	FY18 PER of 14x	2,071.9	0.58
IJM Plantation	55%	MIDFR TP of RM3.53	1,735.0	0.49
<b>Property</b>				
Malaysia	Various	DCF@6.7%	5,252.0	1.47
JVs			899.2	0.25
Overseas			388.0	0.11
<b>Concessions Assets</b>				
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
				5.09
<b>Total value</b>			<b>18,072.0</b>	<b>5.07</b>
(Net debt) / net cash			-3,724.0	-1.04
<b>SOP per share</b>				<b>4.00</b>
No. of shares outstanding (mil)				3,565.6

Source: MIDF

## INVESTMENT STATISTICS

FYE March	FY15	FY16	FY17	FYE18	FYE19	FYE20
Revenue (RM'm)	5,448	5,128	6,065	6,146	6,250	6,400
EBIT (RM'm)	1,292	1,301	1,081	1,131	1,117	1,202
Pre-tax Profit (RM'm)	1,019	1,155	1,010	988	990	1,051
Normalised PATAMI (RM'm)	489	788	653.7	494	510	550
FD EPS (sen)	31	22	18	34	29	31
EPS growth (%)	-27	-29	-99	90	-14.7	6.9
PER (x)	9.85	13.68	16.82	8.85	10.38	9.71
Net Dividend (sen)	15	16	18	17	20	20
Net Dividend Yield (%)	2.5	2.2	2.5	2.7	2.5	2.5

Source: MIDF

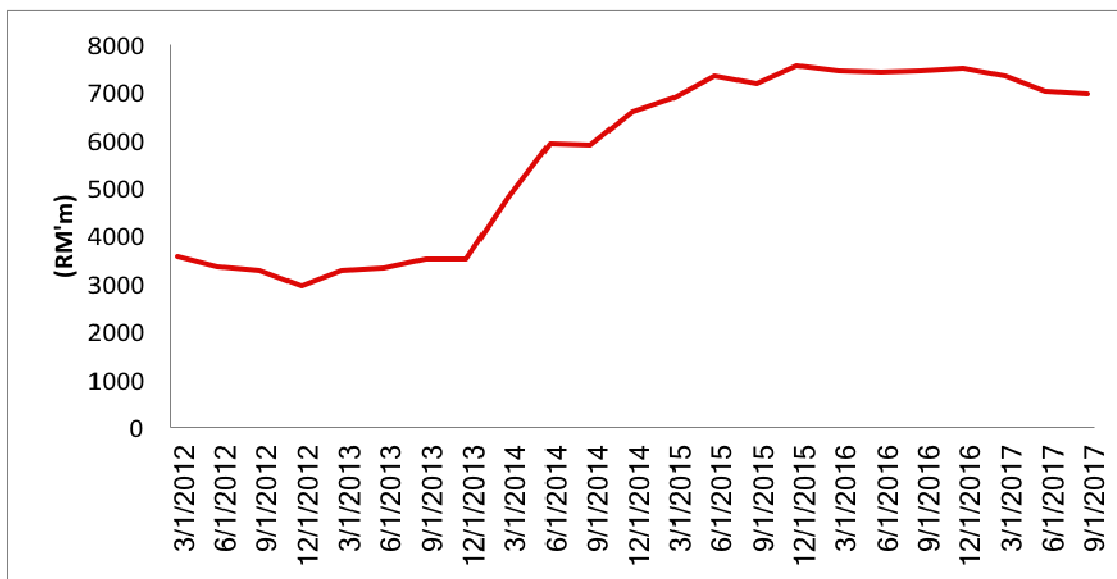
## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

## FIGURE 1: STRONG WORKING CAPITAL



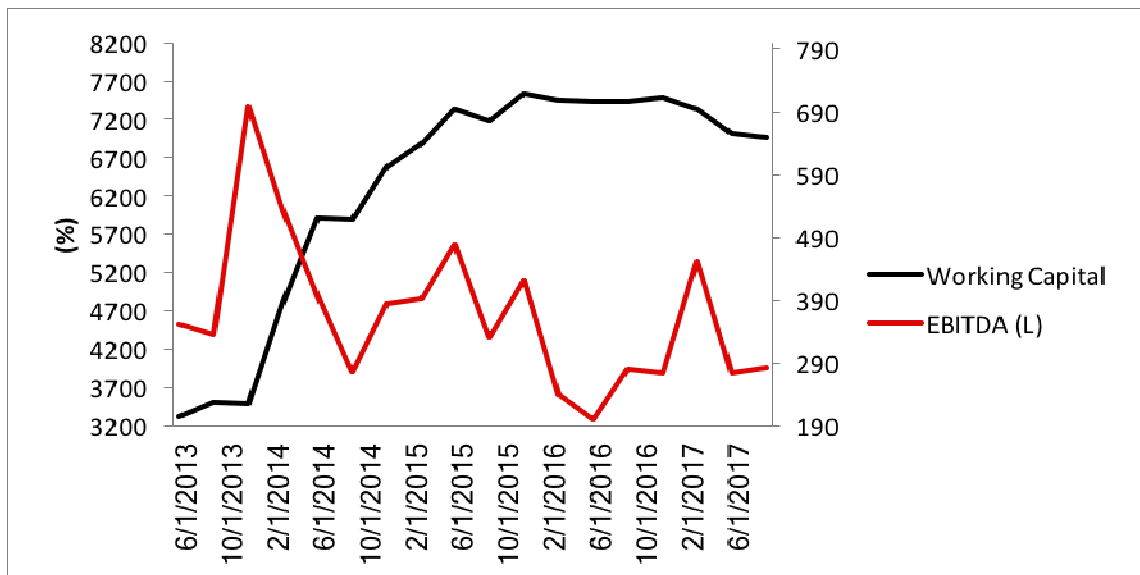
Source: Bloomberg, MIDFR

**FIGURE 2: SPREAD BETWEEN ROIC & WACC**



Source: Bloomberg, MIDFR

**FIGURE 3: WORKING CAPITAL GROWTH SIGNALS EBITDA ADVANCEMENT**



Source: Bloomberg, 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.