

## IJM Corporation Berhad

(3336 | IJM MK) Main | Construction

### Capturing Synergistic Opportunities

#### KEY INVESTMENT HIGHLIGHTS

- **IJM acquiring 44.83% stake in Pestech International for RM124m**
- **Vertical expansion into energy transmission and rail electrification, strengthening IJM's competitive advantage**
- **Pestech's presence in the region eases IJM's plans for geographical expansion**
- **Maintain BUY with an unchanged TP of RM1.93**

**Acquiring stake in Pestech.** IJM Corporation Berhad (IJM) is subscribing to 800m of new shares in Pestech International Berhad (Pestech) for 15.5 sen each, totalling RM124m in a restricted issue which will see IJM owning a 44.83% stake of the enlarged share capital. IJM will be entitled to two board seats in Pestech. The proposed subscription is subject to approval by Pestech's shareholders.

**Buying at a low.** The restricted issue will dilute Pestech's number of shares from 984.6m to 1.78b units. Based on an adjusted EPS of about 3 sen, the amount that IJM is subscribing at 15.5 sen works up to a PE multiple of only about 5.2x. Pestech intends to use the proceeds from IJM for working capital requirements (68.55%) and for the repayment of bank borrowings (35%). The remaining is for the estimated expenses of the restricted issue.

**Pestech's finances.** For the 9MFY23 ended Mar-23, Pestech posted a net loss of -RM132.0m, as compared to a net profit of RM25.7m in the same period a year ago. This was mainly due to one-off loss arising from the fair value adjustment related to the disposal of the 230-kilovolt Kampong Cham-Kratie Transmission System concession assets to Cambodian Transmission II Co. Ltd by Diamond Power Limited, a 60%-owned indirect subsidiary of the Company, and out-of-court settlement for its litigation case. Meanwhile, the group's net gearing is high at 163.3%. Pestech has been facing operational challenges such as fluctuations in material and equipment prices, supply chain disruptions, foreign exchange fluctuations and an increase in funding costs, leading to its weak financial performance in recent years. As at Mar-23, Pestech has an outstanding order book of RM1.56 billion, providing earnings visibility in the near term.

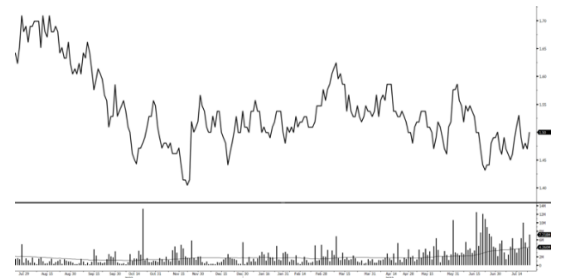
**Problems in 1HCY23.** It has been a rough six months for Pestech, especially when its key management personnel were charged by the MACC for alleged misappropriation of assets and bribery. All charges have since been withdrawn but before that, it has led to a cascade of financing facilities that were either being withheld or pulled back, adding towards the group's working capital and growth constraints. Another spanner in the works was when Syarikat Pembinaan Yeoh Tiong Lay Sdn Bhd (SPYTL) terminated its RM399m subcontract job for the JB-Gemas double-track project on the grounds that Pestech was insolvent and breached an anti-corruption obligation. The legal case is ongoing. Pestech

**Maintain BUY**
**Unchanged Target Price: RM1.93**

#### RETURN STATISTICS

Price @ 25 <sup>th</sup> July 2023 (RM)	1.50
Expected share price return (%)	+28.67
Expected dividend yield (%)	4.15
<b>Expected total return (%)</b>	<b>+32.82</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.4	-1.9
3 months	0.7	-5.8
12 months	-12.1	-10.1

#### INVESTMENT STATISTICS

FYE Mar	2023A	2024F	2025F
Revenue	4,572.5	5,213.6	6,868.5
Operating Profit	740.9	748.4	978.7
Profit Before Tax	483.0	536.3	642.4
Core PATAMI	294.1	323.2	412.1
Core EPS	8.4	9.2	11.7
DPS	8.0	8.0	8.0
Dividend Yield	4.2%	4.2%	4.2%

#### KEY STATISTICS

FBM KLCI	1,436.79
Issue shares (m)	3647.57
Estimated free float (%)	47.68
Market Capitalisation (RM'm)	5,259.25
52-wk price range	RM1.43-RM1.80
3-mth average daily volume (m)	4.15
3-mth average daily value (RM'm)	6.37
Top Shareholders (%)	
Employees Provident Fund Board	17.62
Amanah Saham Nasional Bhd	16.50
KWAP	8.44

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has made a 70% progress in the project and has received about RM230m from SPYTL, with an unclaimed amount of about RM20m.


**Vertical expansion.** About 70% of Pestech's business today is in energy transmission, 25% in rail electrification and signalling and 5% in solar. The acquisition will grant IJM with immediate entry into the energy transmission business, which management noted as a rapidly growing sector as the electricity demand and integration of Southeast Asia's power grid system requires the upgrade of power grids projected at USD1.2 trillion until 2040. IJM will also be able to tap on Pestech's expertise in rail electrification and signalling. We view that this will enhance IJM's capabilities and competitiveness in upcoming rail projects, on top of the group's extensive track record in rail projects in Malaysia. Upcoming rail projects include the MRT3, Penang LRT and the KL-Singapore High Speed Rail (HSR).

**Geographical footprint expansion.** IJM's stake in Pestech also allows it to tap on Pestech's transmission line concession in Cambodia and other similar opportunities in other developing countries in the region. Pestech also owns a 20MW large scale photovoltaic solar plant (LSS) in Bavet City, Cambodia with a power purchase agreement for 21 years. It comes with a levelized tariff of USD0.076/kWh, relatively higher than Malaysia's at less than 20sen/kWh for the latest LSS projects. Pestech's presence in other countries such as the Philippines, Thailand and Papua New Guinea also serves as a gateway to ease IJM's expansion strategy in the region.

**Nusantara job.** On a separate note, IJM is given four months to submit a proposal for the construction of government housings for civil servants in Nusantara, after receiving a letter to proceed from the Indonesian government. We gather that the contract size would be north of RM1b. This will mark IJM's maiden job in Nusantara, which will open up opportunities for further job wins in the future capital of Indonesia.

**Earnings estimates.** We are making no changes to our earnings estimates.

**Target price.** We are maintaining our **TP** at **RM1.93** we peg IJM's FY24E EPS of 9.2 sen to a three-year historical mean PER of 21.0x.

**Maintain BUY.** We remain optimistic on IJM's outlook in FY24 on the back of expectations of stronger construction job flows, including opportunities in East Malaysia and Kalimantan that the group plans to tap on. IJM has already made inroads in Kalimantan as mentioned above and we remain optimistic about the potential jobs that the group can participate in the future. We believe IJM's investment in Pestech will enable it to benefit from the synergistic opportunities in terms of rail electrification and the entry into the energy transmission business that IJM intends to tap on. The group currently has an outstanding order book of about RM5.0b and unbilled property sales of RM3.0b. 

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Revenue	4,893.2	4,409.0	4,572.5	5,213.6	6,868.5
Gross profit	928.5	762.1	1,179.9	1,199.1	1,254.6
Operating profit	904.0	537.5	740.9	748.4	978.7
Net interest	(203.5)	(188.3)	(255.3)	(212.1)	(269.8)
Profit before tax	626.4	317.9	483.0	536.3	642.4
Tax	(106.3)	(182.9)	(271.4)	(153.5)	(221.7)
PATAMI	397.0	102.1	158.3	323.2	412.1
Core PATAMI	232.7	200.2	294.1	323.2	412.1
Balance Sheet (RM'm)	2021A	2022A	2023A	2024F	2025F
Fixed assets	7147.9	5682.0	5207.2	4946.8	5095.2
Intangible assets	94.8	93.6	125.4	112.9	101.6
<b>Non-current assets</b>	<b>10885.8</b>	<b>8653.1</b>	<b>8676.1</b>	<b>8403.2</b>	<b>8540.3</b>
Cash	2406.2	2908.7	2825.2	2713.4	2769.3
Trade debtors	1707.8	1301.9	1261.8	1564.1	2060.6
<b>Current assets</b>	<b>12600.6</b>	<b>12358.9</b>	<b>11834.5</b>	<b>12746.5</b>	<b>12634.3</b>
Trade creditors	2932.6	2676.1	2679.8	2545.8	2494.9
Short-term debt	1825.1	1609.6	1696.6	1600.0	1600.0
<b>Current liabilities</b>	<b>5146.9</b>	<b>4562.5</b>	<b>4800.8</b>	<b>4836.7</b>	<b>4733.3</b>
Long-term debt	4942.2	3904.6	3650.8	4189.6	3905.8
<b>Non-current liabilities</b>	<b>5880.0</b>	<b>4716.3</b>	<b>4490.0</b>	<b>5028.8</b>	<b>4745.0</b>
Share capital	6117.1	6127.7	6132.4	6132.4	6132.4
Retained earnings	3916.8	4000.1	4024.6	4347.8	4759.9
<b>Equity</b>	<b>12188.4</b>	<b>11460.7</b>	<b>10961.0</b>	<b>11284.2</b>	<b>11696.3</b>
Cash Flow (RM'm)	2021A	2022A	2023A	2024F	2025F
PBT	626.4	317.9	483.0	536.3	642.4
<b>Operating cash flow</b>	<b>1338.5</b>	<b>1217.4</b>	<b>1276.0</b>	<b>1277.0</b>	<b>1383.1</b>
Capital expenditure	-631.1	-414.7	-195.7	-200.0	-200.0
<b>Investing cash flow</b>	<b>-572.3</b>	<b>1202.4</b>	<b>-159.0</b>	<b>-163.3</b>	<b>-163.3</b>
Debt raised/(repaid)	-69.8	-417.9	-156.3	-155.0	-155.0
Dividends paid	-108.7	-750.6	-211.4	-211.4	-211.4
<b>Financing cash flow</b>	<b>-459.9</b>	<b>-1909.4</b>	<b>-1199.0</b>	<b>-1197.7</b>	<b>-1197.7</b>
<b>Net cash flow</b>	<b>306.3</b>	<b>510.3</b>	<b>-82.0</b>	<b>-84.0</b>	<b>22.1</b>
<b>Beginning cash flow</b>	<b>2071.2</b>	<b>2381.0</b>	<b>2887.5</b>	<b>2807.8</b>	<b>2723.8</b>
<b>Ending cash flow</b>	<b>2381.0</b>	<b>2887.5</b>	<b>2807.8</b>	<b>2723.8</b>	<b>2745.9</b>
Profitability Margins	2021A	2022A	2023A	2024F	2025F
Gross profit margin	19.0%	17.3%	25.8%	19.0%	19.0%
Operating profit margin	18.5%	12.2%	16.2%	14.4%	14.2%
PBT margin	12.8%	7.2%	10.6%	10.3%	9.4%
PAT margin	8.1%	2.3%	6.0%	6.2%	4.8%
Core PAT margin	4.8%	4.5%	6.0%	6.2%	4.8%

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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology