

IJM Corporation Berhad

(3336 | IJM MK) Main | Construction

Maintain BUY


Pestech Deal Falls Through

Unchanged Target Price: RM3.89

DEVELOPMENT

- The proposed acquisition of a 44.83% stake in Pestech International has been called off, a year after the proposal was announced in Jul-23. The subscription agreement was mutually terminated due to non-fulfilment on conditions precedent in the agreement.
- This however, does not affect the existing JV between IJM Construction Sdn Bhd and Pestech for the KLIA automated people mover project amounting to RM176m

OUR VIEW

- **There is clarity now that the deal has been terminated.** The proposed acquisition should have been completed by 4QCY23 but has gone through several rounds of extensions. IJM Corp would have spent RM124m for 800m shares in Pestech. IJM had intended to tap on Pestech's expertise in energy transmission and rail electrification via the proposed acquisition
- **In its 2QFY24 as of 31st March, Pestech recorded a net loss of -RM33.6m**, which brings the cumulative net loss for 1HFY24 to -RM72.8m. Its net gearing is high at about 2.6x. We view the termination of the deal as a positive for IJM, which would have to account for Pestech's losses.
- **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.
- **Reiterate BUY.** We remain optimistic on IJM Corp's outlook in FY25. There will be no impact on its financials and our views and **TP of RM3.89** remain intact as we did not factor in any earnings contribution from Pestech. We expect IJM to be among the key beneficiaries of the positive prospects for the construction sector, on the back of a strong pipeline of jobs that can be expected in 2HCY24 onwards with more civil job flows, on top of private jobs and industrial building projects. 

INVESTMENT STATISTICS

Annual Standardized Year end 31 Mar	2022A	2023A	2024F	2025F	2026F
Revenue	4,409.0	4,572.5	5,918.8	6,868.5	7,074.6
Gross profit	762.1	1,179.9	1,550.2	1,820.2	1,911.2
Operating profit	537.5	740.9	1,272.8	1,476.7	1,565.0
Net interest	(188.3)	(255.3)	(307.1)	(295.5)	(288.5)
Profit before tax	317.9	483.0	964.2	1,133.3	1,190.0
Tax	(182.9)	(271.4)	(299.0)	(343.4)	(360.6)
PATAMI	102.1	158.3	600.3	583.8	620.2
Core PATAMI	200.2	294.1	505.2	583.8	620.2

Source: Company, 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