

30 May 2019

# IJM Corporation

## Above Expectations

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**FY19 CNP of RM415.9m came in above expectations, making up 114%/106% of our/consensus full-year estimates. A 2.0 sen dividend was declared, bringing the full-year dividend to 4.0 sen which is below our expectation of 5.0 sen. No changes to FY20E earnings, introduce FY21E earnings of RM471.6m. Maintain UP with an unchanged SoP-driven TP of RM1.80.**

**Above expectations.** FY19 CNP of RM415.9m came in above expectations, making up 114%/106% of our/consensus full-year estimates. The positive variance was driven by better-than-expected earnings from its property development division and IJMPLANT's CNL, which is lower than our initial expectation. A 2.0 sen dividend was declared, bringing the full-year year dividend to 4.0 sen, which is below our expectation of 5.0 sen.

**Results highlight.** FY19 CNP is flattish at -1%, YoY amid lower revenue (-6%). While most of its division registered negative growth or swung into losses, its property development division registered 83% growth in pre-tax profit underpinned by 15% growth in revenue. That said, its infrastructure division also registered positive performance as compared to losses back in FY18. Lower tax and minority interest contribution also help cushioned the impact from the decline in revenue. **QoQ**, 4Q19 CNP was up 104% despite a lower revenue (-7%) as it saw sharp improvements in pre-tax margins to 24% (+12ppt), driven by improvements in most of its division. Its construction pre-tax profit increased by 81%, due to margin expansion to 14% (+7ppt).

**Outlook.** IJM's outstanding order-book currently stands at c.RM7.8b, while its property unbilled sales are c.RM2.1b with visibility for the next 3-4 years, and management is on-track to meet our/their target sales of RM1.6b as they have registered RM1.6b sales in FY19. As for its plantation division, we continue to expect high production costs to crimp into margins in the near-term due to full overhead charges on its very young estates in Indonesia.

**Earnings downgrade.** No changes to our FY20E earnings, introduce FY21E CNP of RM471.6m.

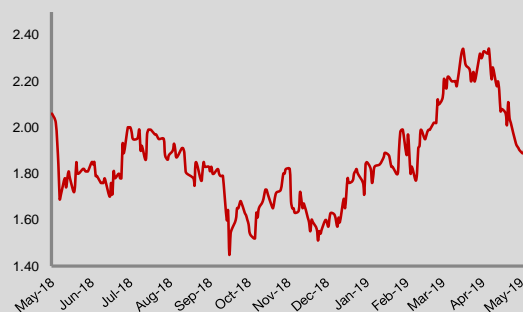
**Maintain UP with unchanged SoP-driven TP of RM1.80**, as we believe that the recent share price rebound has fully priced in the positives, coupled with the uninspiring outlook on the sectors that IJM is involved in (i.e. construction, property, industry, and plantation) have been impacted by various factors. Our TP implies FY20E PER of 14.1x which is above KLCON's 10-year average of 13.3x.

**Key upside risks for our call are:** (i) higher-than-expected margins, and (ii) higher than expected progress in construction works.

## UNDERPERFORM ↔

Price : RM2.01  
Target Price : RM1.80 ↔

### Share Price Performance



KLCI 1,623.67  
YTD KLCI chg -4.0%  
YTD stock price chg 24.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJM MK EQUITY
Market Cap (RM m)	7,288.2
Shares Outstanding	3,626.0
52-week range (H)	2.37
52-week range (L)	1.39
3-mth avg daily vol:	5,066,083
Free Float	71%
Beta	1.5

### Major Shareholders

Employees Provident Fund Board	15.5%
Skim Amanah Saham Bumiputera	7.0%
Urusharta Jamaah Sdn Bhd	6.3%

### Summary Earnings Table

FYE Mar (RM m)	2019A	2020E	2021E
Turnover	5655.7	6945.7	7084.6
EBIT	712.2	713.8	730.0
PBT	648.0	785.0	799.0
Net Profit (NP)	423.9	461.7	471.6
Core net profit (NP)	415.9	461.7	471.6
Consensus (NP)	N.A.	460.1	499.6
Earnings Revision	0%	0%	0%
Core EPS (sen)	11.5	12.8	13.1
Core EPS growth (%)	1.6%	11.0%	2.2%
DPS (sen)	4.0	5.0	5.0
BVPS (RM)	2.70	2.78	2.86
PER	17.5	15.7	15.4
Price/NTA (x)	0.7	0.7	0.7
Net Gearing (x)	0.3	0.5	0.5
Dividend Yield (%)	2.0%	2.5%	2.5%



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Results Highlight								
Y/E : Mar (RM mn)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY Chg
<b>Turnover</b>	<b>1,394.9</b>	<b>1,507.2</b>	<b>-7%</b>	<b>1,398.6</b>	<b>0%</b>	<b>5,655.7</b>	<b>6,026.9</b>	<b>-6%</b>
<b>EBIT</b>	<b>259.8</b>	<b>241.2</b>	<b>8%</b>	<b>163.5</b>	<b>59%</b>	<b>712.2</b>	<b>819.7</b>	<b>-13%</b>
Interest expense	-39.8	-68.7	-42%	-41.9	-5%	-225.1	-185.7	21%
Associates	111.8	-0.6	n.m.	-28.5	-492%	142.6	5.5	2473%
Exceptional items	112.8	30.6	269%	-50.8	-322%	-19.6	-68.5	-71%
<b>Pretax profit</b>	<b>331.6</b>	<b>177.3</b>	<b>87%</b>	<b>77.7</b>	<b>327%</b>	<b>625.4</b>	<b>629.6</b>	<b>-1%</b>
Taxation	-64.7	-76.1	-15%	-65.3	-1%	-207.3	-238.9	-13%
<b>Profit after tax</b>	<b>267.0</b>	<b>101.2</b>	<b>164%</b>	<b>12.4</b>	<b>2052%</b>	<b>418.1</b>	<b>390.7</b>	<b>7%</b>
Minority interest	26.1	7.8	237%	1.2	2046%	21.8	40.9	-47%
<b>Net profit</b>	<b>240.8</b>	<b>93.4</b>	<b>158%</b>	<b>11.2</b>	<b>2052%</b>	<b>396.3</b>	<b>349.8</b>	<b>13%</b>
<b>Core net profit</b>	<b>128.0</b>	<b>62.8</b>	<b>104%</b>	<b>62.0</b>	<b>106%</b>	<b>415.9</b>	<b>418.3</b>	<b>-1%</b>
EPS (sen)	3.6	1.8		1.7		11.6	11.7	
DPS (sen)	2.0	0.0		3.0		4.0	6.0	
EBIT margin	19%	16%		12%		13%	14%	
Pretax margin	24%	12%		6%		11%	10%	
Effective tax rate	20%	43%		84%		33%	38%	

Source: Company, Kenanga Research

Segmental Breakdown								
Y/E : Mar (RM mn)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
<b>Revenue</b>								
Construction	444.9	479.3	-7%	556.1	-20%	1,981.2	2,325.9	-15%
Property	357.1	479.9	-26%	315.4	13%	1,427.3	1,244.9	15%
Industry	212.2	219.2	-3%	218.3	-3%	883.4	1,054.0	-16%
Plantation	164.8	142.9	15%	141.3	17%	630.9	747.2	-16%
Infrastructure	215.7	185.7	16%	166.0	30%	732.2	652.1	12%
Investment & Others	0.2	0.2	17%	1.6	-88%	0.8	2.8	-73%
<b>Group Revenue</b>	<b>1,394.9</b>	<b>1,507.2</b>	<b>-7%</b>	<b>1,398.6</b>	<b>0%</b>	<b>5,655.7</b>	<b>6,026.9</b>	<b>-6%</b>
<b>Pre-tax Profit</b>								
Construction	61.9	34.2	81%	55.3	12%	174.4	226.0	-23%
Property	70.0	65.2	7%	23.2	202%	202.0	110.6	83%
Industry	14.8	15.0	-1%	13.3	11%	59.0	82.5	-28%
Plantation	16.7	-2.0	-932%	1.9	788%	-43.3	77.3	n.m.
Infrastructure	171.4	63.4	170%	-22.2	-871%	268.3	-181.9	n.m.
Investment & Others	-3.3	1.5	-322%	6.2	-153%	-12.4	13.1	n.m.
<b>Group Pre-tax Profit</b>	<b>331.6</b>	<b>177.3</b>	<b>87%</b>	<b>77.7</b>	<b>327%</b>	<b>648.0</b>	<b>629.6</b>	<b>3%</b>
<b>Pre-tax margin (%)</b>	<b>4Q19</b>	<b>3Q19</b>		<b>4Q18</b>		<b>FY19</b>	<b>FY18</b>	
Construction	14%	7%		10%		9%	10%	
Property development	20%	14%		7%		14%	9%	
Concrete products & manufacturing	7%	7%		6%		7%	8%	
Plantation	10%	-1%		1%		-7%	10%	
Infrastructure	79%	34%		-13%		37%	-28%	
<b>Group Pre-tax Profit</b>	<b>24%</b>	<b>12%</b>		<b>6%</b>		<b>11%</b>	<b>10%</b>	

Source: Company, Kenanga Research

Sum-Of-Parts valuation-IJM Corporation Berhad					
	Mkt Cap/value	Stake (%)	Value (RMm)	Value per share (RMm)	Remarks
Construction	1,877.9	100%	1,877.9	0.53	9x FY20E PER
Infrastructure	3,420.5	mix	3,420.5	0.97	DCF (WACC of 8-10%)
Industrial	735.7	100%	735.7	0.21	7x FY20E PER
Property	3,655.2	100%	1,096.6	0.31	70% discount on acquisition price
Plantation	1,232.7	55%	678.0	0.19	Kenanga's Fair Value on IJM Plant of RM1.40
WCE	511.0	22%	110.9	0.03	Current Mkt Cap
<b>Total</b>			<b>7,919.5</b>	<b>2.24</b>	
Discount				20%	
<b>Fair value</b>				<b>1.80</b>	Based on Enlarged Share Base of 3,542m shares

Source: Company, Kenanga Research



Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>																	
EVERSENDAL CORP BHD	0.430	335.8	Y	12/2019	-7.3%	-3.2%	-10.9%	-2.1%	5.3	6.0	6.1	0.3	0.3	5.6%	0.0%	N.A.	CEASED
GAMUDA BHD	3.35	8,270.6	Y	07/2019	-20.8%	0.3%	-27.7%	1.3%	10.1	14.0	13.8	1.1	1.1	7.7%	3.6%	2.85	UP
GEORGE KENT (MALAYSIA) BHD	1.08	581.7	Y	01/2020	14.4%	-0.3%	4.9%	33.1%	7.7	7.3	5.5	1.2	1.1	16.0%	4.6%	1.15	UP
HOCK SENG LEE BERHAD	1.36	747.3	Y	12/2019	18.7%	15.6%	31.6%	10.3%	13.9	10.6	9.6	1.0	0.9	8.8%	1.9%	1.40	MP
IJM CORP BHD	2.01	7,288.2	Y	03/2020	22.8%	2.0%	11.0%	2.2%	17.5	15.7	15.4	0.7	0.7	4.7%	2.5%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.24	1,529.2	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.1	10.0	9.8	1.6	1.4	14.9%	2.4%	1.20	UP
KIMLUN CORP BHD	1.39	461.3	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	7.3	7.4	7.2	0.7	0.7	9.0%	2.6%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.345	306.9	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	6.9	11.7	13.2	0.4	0.4	3.3%	4.3%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.77	1,335.2	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	8.2	8.5	8.1	1.2	1.1	14.8%	2.5%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	1.94	2,506.6	Y	12/2019	-6.1%	21.9%	-12.2%	22.3%	18.0	20.5	16.8	4.1	3.8	19.4%	2.8%	1.40	UP
WCT HOLDINGS BHD	0.905	1,250.2	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	10.0	11.6	9.7	0.4	0.4	3.4%	0.0%	0.815	UP
<b>Simple Average</b>					<b>4.7%</b>	<b>3.4%</b>	<b>-4.5%</b>	<b>7.6%</b>	<b>10.5</b>	<b>11.2</b>	<b>10.5</b>	<b>1.2</b>	<b>1.1</b>	<b>9.8%</b>	<b>2.4%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.400	239.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	16.3	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	0.400
BINA PURI HOLDINGS BHD	0.175	66.7	Y	06/2019	N.A.	N.A.	N.A.	N.A.	128.3	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	0.180
GABUNGAN AQRS BHD	1.28	631.3	Y	12/2019	24.2%	27.3%	27.6%	27.4%	10.3	8.1	0.0	1.3	1.4	16.0%	4.5%	1.72	1.28
GADANG HOLDINGS BHD	0.810	536.0	Y	05/2019	11.8%	15.6%	-33.0%	15.9%	5.5	8.3	0.0	0.7	N.A.	8.8%	2.8%	0.890	0.810
JAKS RESOURCES BHD	0.730	466.3	Y	12/2019	74.4%	-48.7%	655.6%	-21.2%	30.8	4.1	0.0	0.5	0.5	12.6%	0.0%	0.875	0.730
MUDAJAYA GROUP BHD	0.280	165.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.6	N.A.	N.A.	N.A.	N.A.	0.280
PINTARAS JAYA BHD	2.50	414.7	Y	06/2019	224.3%	-2.7%	135.7%	-6.5%	26.7	11.3	0.1	1.3	1.3	11.5%	7.5%	2.56	2.50
PESONA METRO HOLDINGS	0.230	159.8	Y	12/2019	12.1%	9.5%	131.5%	-0.5%	19.4	8.4	0.0	1.0	N.A.	10.3%	4.3%	0.260	0.230
PROTASCO BHD	0.255	124.2	Y	12/2019	-1.4%	7.9%	365.8%	31.2%	N.A.	9.4	0.0	0.4	0.4	3.6%	5.5%	0.220	0.260
TRC SYNERGY BHD	0.655	314.7	Y	12/2019	18.3%	16.0%	67.3%	24.4%	15.1	9.0	0.0	0.8	0.7	8.2%	3.7%	0.690	0.660

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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