

IJM Corporation

Construction Drag

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9MFY20 CNP of RM194.8m (-36% YoY) only accounted for 59%/49% of our/consensus full-year estimates. All business segments showed better YoY contributions except the construction division. We have adjusted down our earnings forecasts by 15% for FY20 and 19% for FY21. Downgrade to MP with a lower SoP-based TP of RM2.15 (from RM2.35).

Below expectations. 9MFY20 CNP of RM194.8m (-36% YoY) represented only 59%/49% of our/consensus full-year expectations. The overall performance was mainly dragged by lower-than-expected contributions from the construction and manufacturing & quarrying divisions. No interim dividend was declared in 3QFY20, as expected.

Results' highlight. 9MFY20 CNP disappointed mainly attributable to: (i) the construction division which contributed pretax profit of RM107.6m (-4% YoY) despite slightly higher turnover of RM1.59b (+4% YoY) as margin slipped from 7.3% to 6.7%, and (ii) manufacturing & quarrying segment's pretax profit contribution of RM46.2m (+5% YoY). On the positive side, the other main businesses, namely property development (+11% YoY to RM146.6m), plantations (turned around from -RM60.0m to +RM23.0m) and infrastructure (+11% YoY to RM107.2m) all saw stronger pretax profit contributions YTD.

QoQ. 3QFY20 CNP of RM46.7m was 2% higher but 33% down YoY. This was mainly dragged by lower pretax profit contributions from the construction (-17% YoY), manufacturing & quarrying (-12% YoY), and infrastructure (-57% YoY) divisions.

Outlook. Forward earnings will be driven by current construction order-book of RM4.5b, unbilled property sales of RM1.9b and stronger plantation contributions on the back of higher CPO prices.

Earnings adjustments. We have trimmed our CNP to RM281m (-15%) for FY20 and RM320m (-19%) for FY21 after tweaking our progress billings and sales and margin assumptions mainly for the construction and manufacturing & quarrying divisions.

Downgrade to MARKET PERFORM with a SoP-based TP of RM2.15 (from RM2.35). While we like IJM for its diversified earnings base, the stock fundamentals is clouded by the prevailing challenging market conditions for the construction and property sectors.

Key downside risks for our call are: (i) lower-than-expected margins, and (ii) slower-than-expected progress in construction works and clearing of property inventories.

MARKET PERFORM

Price : **RM2.15**
Target Price : **RM2.15**

Share Price Performance



KLCI 1,500.88
YTD KLCI chg -5.5%
YTD stock price chg -0.9%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker IJM MK EQUITY
Market Cap (RM m) 7,803.3
Shares Outstanding 3,629.5
52-week range (H) 2.51
52-week range (L) 1.76
3-mth avg daily vol: 2,958,095
Free Float 59%
Beta 1.5

Major Shareholders

Employees Provident Fund Board 15.6%
Kumpulan Wang PersaraanDiperbadankan 7.6%
Skim Amanah Saham Bumiputera 7.0%

Summary Earnings Table

FYE Mar (RM m)	2019A	2020E	2021E
Turnover	5656	5932	6443
EBIT	712	573	644
PBT	648	620	713
Net Profit (NP)	424	281	320
Core net profit (NP)	416	281	320
Consensus (NP)	N.A.	403	450
Earnings Revision	N.A.	-15%	-19%
Core EPS (sen)	11.5	7.8	8.8
Core EPS growth (%)	1.6%	-32.6%	13.9%
DPS (sen)	4.0	3.0	3.4
BVPS (RM)	2.70	2.75	2.81
PER	18.7	27.7	24.3
Price/NTA (x)	0.8	0.8	0.8
Net Gearing (x)	0.3	0.4	0.4
Dividend Yield (%)	1.9	1.4	1.6



26 February 2020

Results Highlight

FYE Mar (RM m)	3Q20	2Q20	QoQ	3Q19	YoY	9MFY20	9MFY19	YoY
Turnover	1,440.4	1,574.2	-9%	1,507.2	-4%	4,558.1	4,260.7	7%
EBIT	221.0	161.5	37%	186.3	19%	550.7	489.2	13%
Interest inc/(exp)	(30.9)	(30.5)	1%	(27.0)	14%	(57.3)	(63.8)	-10%
Associates/JV	(29.7)	(41.0)	-28%	(5.7)	417%	(56.7)	16.1	-451%
Exceptional items / FX diff^	3.1	24.1	-87%	23.8	-87%	(15.5)	(125.1)	-88%
Pretax profit	163.6	114.2	43%	177.3	-8%	421.2	316.4	33%
Taxation	(77.9)	(30.1)	159%	(76.1)	2%	(170.9)	(142.6)	20%
Profit after tax	85.7	84.2	2%	101.2	-15%	250.3	173.8	44%
Perpetual Sukuk	(11.7)	(9.5)	23%	0.0	-	(31.8)	0.0	-
Minority interest	(24.2)	(4.5)	434%	(7.8)	212%	(39.2)	4.3	-1003%
PATAMI	49.8	70.1	-29%	93.4	-47%	179.3	178.1	1%
Core PATAMI	46.7	46.0	2%	69.7	-33%	194.8	303.2	-36%
DPS (sen)	0.0	2.0		0.0		2.0	2.0	
EBIT margin	15.3%	10.3%		12.4%		12.1%	11.5%	
Pretax margin	11.4%	7.3%		11.8%		9.2%	7.4%	
EPS (sen)	1.4	1.9		2.6		4.9	4.9	
Core EPS(sen)	1.3	1.3		1.9		5.4	8.3	
Effective tax	47.6%	26.3%		42.9%		40.6%	45.1%	

Source: Company, Kenanga Research

^ Exceptional items / FX gains/(losses) consist of:

- Net (losses)/gains on derivatives	(31.6)	1.3		(6.9)		(22.3)	7.5	
- Net FX gains/(losses)	33.1	(14.8)		45.4		7.9	(59.2)	
- Net (allowance)/reversal of impairment of assets	(1.8)	39.9		0.1		(3.9)	(0.3)	
- Net gains/(losses) on disp of invmts or properties	0.6	0.3		(4.2)		2.8	(40.0)	
- Unrealised FX gains/(losses) incurred by plantations div, classified under finance cost	2.7	(2.7)		(10.6)		0.0	(33.1)	
Total	3.1	24.1		23.8		(15.5)	(125.1)	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Mar (RM m)	3Q20	2Q20	QoQ	3Q19	YoY	9MFY20	9MFY19	YoY
Revenue								
Construction	482.2	594.2	-19%	479.3	1%	1,594.3	1,536.2	4%
Property Development	325.1	376.0	-14%	479.9	-32%	1,163.4	1,070.2	9%
Manufacturing & Quarrying	192.5	227.8	-15%	219.2	-12%	651.5	671.1	-3%
Plantation	237.8	172.9	38%	142.9	66%	543.7	466.1	17%
Infrastructure	202.7	203.1	0%	185.7	9%	604.5	516.5	17%
Investment & Others	0.2	0.4	-56%	0.2	7%	0.7	0.6	24%
Total	1,440.4	1,574.2	-9%	1,507.2	-4%	4,558.1	4,260.7	7%
Pretax Profit								
Construction	28.5	38.5	-26%	34.2	-17%	107.6	112.4	-4%
Property Development	63.5	37.2	71%	65.2	-3%	146.6	132.0	11%
Manufacturing & Quarrying	13.1	17.9	-27%	15.0	-12%	46.2	44.2	5%
Plantation	33.3	(5.0)	n.m.	(2.0)	n.m.	23.0	(60.0)	n.m.
Infrastructure	27.5	35.2	-22%	63.4	-57%	107.2	96.8	11%
Investment & Others	(2.3)	(9.7)	-76%	1.5	-257%	(9.3)	(9.1)	3%
Total	163.6	114.2	43%	177.3	-8%	421.2	316.4	33%
Pretax Profit Margin								
Construction	5.9%	6.5%		7.1%		6.7%	7.3%	
Property Development	19.5%	9.9%		13.6%		12.6%	12.3%	
Manufacturing & Quarrying	6.8%	7.9%		6.8%		7.1%	6.6%	
Plantation	14.0%	-2.9%		-1.4%		4.2%	-12.9%	
Infrastructure	13.6%	17.3%		34.1%		17.7%	18.7%	
Investment & Others	n.m.	n.m.		n.m.		n.m.	n.m.	
Total	11.4%	7.3%		11.8%		9.2%	7.4%	

Source: Company, Kenanga Research

26 February 2020

Sum-Of-Parts valuation-IJM Corporation Berhad

Segment	Value (RMm)	Valuation Basis
Construction	1,745.3	P/E of 16x (at +0.5 SD above 3-yr mean)
Property Development	5,085.2	P/BV of 0.71x (-1SD below 3-year mean) with inventory adjustment
Manufacturing & Quarrying	457.1	P/E of 10x
Plantation (56.2% stake)	1,435.2	Kenanga's TP of RM2.90
Infrastructure	2,420.0	DCF
Net cash / (debt) at holding company	(2,106.2)	
Aggregate valuation	9,036.5	
less holding company discount of 15%	(1,355.5)	
No of shares (m)	3,629.5	
RNAV per share (RM)	2.15	

Source: Company, Kenanga Research

26 February 2020

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.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
GAMUDA BHD	3.62	9,004.6	Y	07/2020	33.5%	9.7%	-25.2%	-19.3%	11.1	14.8	18.4	1.1	1.1	7.3%	3.3%	4.70	OP
GEORGE KENT (MALAYSIA) BHD	0.875	466.8	Y	01/2020	-22.2%	10.1%	-43.0%	18.0%	6.2	10.9	9.3	1.0	1.0	9.0%	4.6%	0.970	MP
HOCK SENG LEE BERHAD	1.28	703.4	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.1	10.6	9.0	0.9	0.8	8.2%	1.9%	1.40	MP
IJM CORP BHD	2.15	7,803.3	Y	03/2020	4.9%	8.6%	-32.6%	13.9%	18.7	27.7	24.3	0.8	0.8	2.8%	1.4%	2.15	MP
KERJAYA PROSPEK GROUP BHD	1.23	1,514.8	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.0	9.9	9.7	1.6	1.4	14.9%	2.4%	1.50	OP
KIMLUN CORP BHD	1.08	367.0	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	5.7	5.8	5.7	0.5	0.5	9.0%	4.0%	1.65	OP
MITRAJAYA HOLDINGS BHD	0.265	233.5	Y	12/2019	-32.5%	-7.8%	-288.2%	-80.7%	5.3	N.A.	N.A.	0.3	0.3	-11.3%	0.0%	0.110	UP
MUHIKBAH ENGINEERING (M) BHD	1.75	846.0	Y	12/2019	9.9%	-3.4%	-21.4%	28.5%	5.8	7.4	5.8	0.8	0.7	9.8%	2.9%	2.35	OP
SUNWAY CONSTRUCTION GROUP BHD	1.87	2,411.1	Y	12/2020	42.9%	3.9%	30.4%	4.0%	18.7	14.4	13.8	4.0	3.7	26.6%	3.9%	2.15	OP
WCT HOLDINGS BHD	0.710	996.5	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	7.8	9.1	7.6	0.3	0.3	3.4%	0.0%	0.815	UP
Simple Average					10.6%	3.8%	-34.8%	1.2%	10.4	11.8	11.0	1.1	1.1	8.0%	2.5%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.335	199.8	Y	06/2020	N.A.	N.A.	N.A.	N.A.	13.6	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.085	32.4	Y	06/2020	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.1	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.04	513.2	Y	12/2019	-9.3%	58.2%	-17.7%	53.5%	8.4	10.2	0.0	1.0	1.1	11.3%	4.0%	1.62	BUY
GADANG HOLDINGS BHD	0.605	440.5	Y	05/2020	3.8%	0.1%	33.9%	14.2%	10.0	7.5	0.0	0.5	0.6	7.6%	1.3%	0.687	NEUTRAL
JAKS RESOURCES BHD	1.46	950.6	Y	12/2019	80.6%	-50.3%	683.9%	-42.4%	61.9	7.9	0.0	1.0	1.0	15.0%	0.0%	1.10	NEUTRAL
MUDAJAYA GROUP BHD	0.470	277.2	N	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.9	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	3.07	509.2	Y	06/2020	41.6%	2.6%	107.5%	3.1%	19.5	9.4	0.1	1.6	1.5	16.4%	6.7%	3.88	NEUTRAL
PESONA METRO HOLDINGS	0.205	142.5	Y	12/2019	12.1%	2.9%	165.4%	6.8%	17.3	6.5	0.0	0.8	N.A.	11.7%	4.9%	0.290	BUY
PROTASCO BHD	0.340	164.9	Y	12/2019	-8.8%	3.2%	463.0%	14.1%	N.A.	15.9	0.0	0.5	0.5	3.2%	3.8%	0.315	NEUTRAL
TRC SYNERGY BHD	0.380	182.6	Y	12/2019	11.2%	13.4%	27.1%	16.6%	8.8	6.9	0.0	0.4	N.A.	8.8%	4.7%	0.500	NEUTRAL

Source: Bloomberg, Kenanga Research

26 February 2020

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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Published and printed by:

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