

12 August 2020

IJM Corporation

The Lights City Contract

By Lum Joe Shen I lumjs@kenanga.com.my

IJM has clinched its maiden contract in FY21E worth RM865m (effective 50% portion = RM432.5m) to build a retail mall and convention centre at The Light City, Penang. Neutral on this well-expected win as replenishment sum is within our RM700m target. Maintain earnings forecast but upgrade to OP (from MP) on unchanged TP of RM2.00 after steep decline in share price the past two months.

First contract in FY21E. IJM announced that they have bagged a RM865m contract from IJM Perennial Development S/B (a 50%-owned JV of IJM) to construct a 11-storey retail mall and a convention centre at The Light City, Penang. Given IJM's 50% JV stake in the awarding company, **IJM effectively bags RM432.5m worth of external works.** The retail mall is expected to be completed by 31 Jul 2024 (46 months) while the convention centre would be completed by 31 Sep 2024 (48 months).

Well anticipated award. Overall, this has been well guided by management in their last results briefing and we are neutral on the RM432.5m win as it is within our FY21E orderbook replenishment target of RM700m (accounting for 62%).

For the entire Lights City development (*refer next page*), besides the retail mall and convention centre, there will be hotel, offices and residential components to be awarded later. The balance of awards quantum is in the range of RM500-600m (IJM effective portion: RM250m-300m).

Outlook. Post award, forward earnings will be driven by outstanding construction order-book of RM4.9b (2.5x cover) and unbilled property sales of RM1.1b (0.9x cover).

No change in earnings post award.

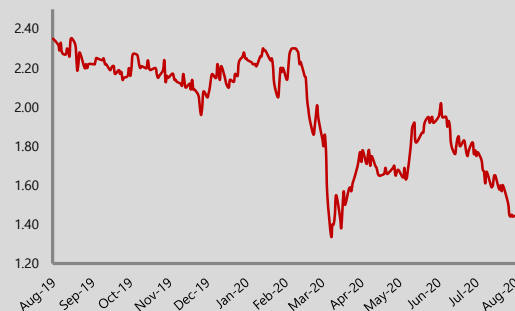
Upgrade to OUTPERFORM (from MP) with an unchanged SoP-derived TP of RM2.00 given the steep fall in share price (-28%) over the past two months. IJM's current PBV levels of 0.51x (-1.5SD below the 5 year mean) coincides with GFC lows and is extremely appealing especially against current backdrop whereby the anticipation of pump priming measures from Budget 2021 and 12MP could lead to a blanket re-rating to the sector.

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.

OUTPERFORM ↑

Price : **RM1.45**
Target Price : **RM2.00** ↔

Share Price Performance



KLCI 1,564.74
YTD KLCI chg -1.5%
YTD stock price chg -33.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJM MK EQUITY
Market Cap (RM m)	5,265.4
Shares Outstanding	3,631.3
52-week range (H)	2.37
52-week range (L)	1.15
3-mth avg daily vol:	4,454,556
Free Float	57%
Beta	1.4

Major Shareholders

Employees Provident Fund Board	16.1%
Kumpulan Wang Persaraan Diperbadankan	14.5%
Skim Amanah Saham Bumiputera	9.0%

Summary Earnings Table

FYE Mar (RM m)	2020A	2021E	2022E
Turnover	6605.1	4840.4	5586.6
EBIT	870.3	739.4	835.5
PBT	870.3	499.4	595.5
Net Profit (NP)	250.6	299.6	357.3
Core net profit (NP)	338.1	230.0	280.7
Consensus (NP)	0.0	285.0	361.6
Earnings Revision	0%	0%	0%
Core EPS (sen)	9.3	6.3	7.7
Core EPS growth (%)	-22%	-32%	22%
DPS (sen)	3.0	0.0	2.0
BVPS (RM)	2.7	2.8	2.9
PER	15.6	22.9	18.8
PBV (x)	0.5	0.5	0.5
Net Gearing (x)	0.5	0.5	0.5
Return on Asset (%)	1.4	1.0	1.2
Return on Equity (%)	2.5	3.0	3.4
Dividend Yield (%)	2.1	0.0	1.4



12 August 2020

The Lights City Development



Label	Component
1	Convention Centre
2	Retail Mall
3	Office Tower
4	Hotel
5	Residential - The Essense
6	Residential - The Mezzo

- Total development spans 32.76 acres with GDV of RM4.5b
- Balance components to be awarded are 3,4,5 and 6 – cumulatively worth RM500 - 600m.

Source: Company, Kenanga Research

Sum of Parts

SoP	Value (RMm)	Valuation Method
Construction & BM	1,333.5	15x forward earnings
Manufacturing & Quarry	360.0	8x PER
Property	1,744.2	0.3x PBV
Investment properties	408.9	0.8x PBV
Plantation	791.8	Mkt price
Ports	1,268.3	19x forward earnings
Tollway Concessions	1,370.7	Equity value
SOP (Rm m)	7,277.4	
SOP (RM/share)	2.00	

Source: Company, Kenanga Research

12 August 2020

Peer Comparison

Sector Comparison														
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price	Rating	
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.42	8,596.3	Y	07/2020	11.7	17.4	12.5	1.0	1.0	5.6%	1.8%	4.10	OP	
GEORGE KENT (MALAYSIA) BHD	0.875	461.3	Y	01/2021	11.7	14.1	9.3	0.9	0.9	6.7%	1.8%	0.510	UP	
HOCK SENG LEE BERHAD	1.07	588.0	Y	12/2020	10.6	20.2	9.6	0.7	0.7	3.5%	0.9%	1.25	OP	
IJM CORP BHD	1.45	5,265.4	Y	03/2021	15.6	22.9	18.8	0.5	0.5	2.3%	2.1%	2.00	OP	
KERJAYA PROSPEK GROUP BHD	1.05	1,288.8	Y	12/2020	8.7	12.4	8.5	1.3	1.2	10.2%	3.0%	1.45	OP	
KIMLUN CORP BHD	0.755	256.5	Y	12/2020	4.4	10.1	5.8	0.4	0.4	3.8%	6.2%	0.960	OP	
MITRAJAYA HOLDINGS BHD	0.195	162.7	Y	12/2020	N.A.	N.A.	N.A.	0.2	0.2	-3.9%	0.0%	0.200	MP	
MUHIKBAH ENGINEERING (M) BHD	0.810	391.6	Y	12/2020	10.3	14.2	5.2	0.3	0.3	2.3%	1.2%	1.15	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.84	2,372.4	Y	12/2020	18.0	34.1	14.8	3.8	3.6	10.9%	1.4%	2.45	OP	
WCT HOLDINGS BHD	0.430	606.2	Y	12/2020	3.9	N.A.	13.9	0.2	0.2	-0.2%	0.0%	0.460	UP	
Simple Average					10.1	18.7	11.4	1.0	0.9	4.1%	1.8%			

Source: Bloomberg, Kenanga Research

12 August 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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

