

IJM Corporation

1HFY22 Broadly Within Expectation

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1HFY22 CNP of RM16m came broadly within our full-year estimate as we anticipate a strong rebound in all its divisions in 2HFY22. 17.0 sens dividend declared is within our 21.0 sen estimate. 1HFY22's property sales of RM1.1b and YTD construction replenishment of RM1.3b are above expectations while Kuantan Port's cargo throughput of 11.2m tonnes is below. In tandem with these deviations, FY22E CNP is reduced by 4% while FY23E CNP is raised by 2%. Reiterate OP with a lower SoP-TP of RM1.90 (from RM2) on lower valuation for Kuantan Port in tandem with the reduced port's earnings.

Broadly within our expectation but below consensus. 2QFY22 core net loss (CNL) of RM35m led 1HFY22 CNP to RM16m - broadly within our full-year estimate of RM193m but below consensus's overly optimistic projection of RM335m. We deem this broadly within our expectation as we anticipate all their key segments (construction, property, manufacturing and infra) which were dragged down during the pandemic to rebound strongly in 2HFY22 amidst normalised operating capacities.

Dividends as expected. A cumulative 17.0 sen dividend declared (15.0 sen special dividend from IJMP disposal + 2.0 sen interim dividend) came within our full-year dividend expectations of 21.0 sen.

Highlights. 2QFY22 CNL of RM35m slipped into the red **QoQ** mainly due to: (i) longer FMCO lockdown restrictions period of 1.5 months' vs. 1 month in 1QFY22 which caused revenue at all key segments to decline (with the exception of manufacturing), and (ii) the absence of IJMP from its consolidated operations as disposal was completed on 6 Sep 2021. **YoY**, 1HFY22 CNP of RM16m was down 73% mainly dragged down by weaker PBT contributions from: (i) construction (-41%) due to weaker margins and lower revenue progress due to restrictions and lower outstanding book brought over (RM4.0b at start of FY22 vs. RM4.5b at start of FY21), (ii) property (-60%) from weaker margin mix projects, and (iii) Infra (-94%) from lower port throughputs of 11.2m tonnes (-19% from 13.9m tonnes).

Property sales above expectation. 2QFY22 property sales of RM0.4b led 1HFY22 property sales to RM1.1b – above our RM1.4b (at 79%) target but within management's RM1.7b target. On the back of encouraging demand for its landed properties, management has increased their FY22 launch pipeline from RM1.6b to RM2.1b (YTD as of end-Nov, it has launched RM1.42b worth of properties). Hence, we raise our FY22E sales target to RM1.8b. 3QFY21 unbilled sales stood at RM1.4b.

YTD construction replenishment of RM1.3b is considered below our RM1.4b target as management revealed that there are a couple of contracts from the government as well as CCCC which are near finalisation of awards. Consequently, we raise our replenishment target to RM2.0b which is in line with management's target. Outstanding order-book stood at RM4.5b providing c.2.5x cover.

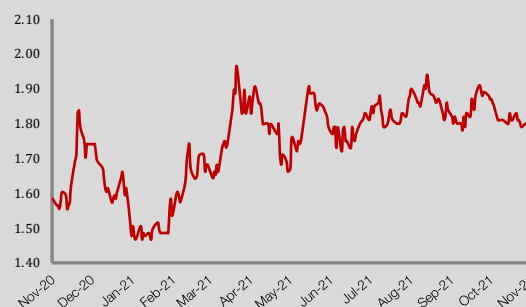
Meanwhile, Kuantan Port's 2QFY22 cargo throughput of 5.3m tonnes led 1HFY22 to 11.2m – below our 30m tonnes target as we believe throughputs from Alliance Steel (biggest contributor) may see slightly dampened volumes in lieu of the weaker steel prices in China. Consequently, we cut our FY22E throughput assumption to 24m tonnes.

Earnings revision. After adjusting for (i) higher construction replenishment, (ii) higher property sales and (iii) lower cargo throughput, FY22E CNP is reduced by 4% while FY23E CNP is upped by 2%. **Maintain OP on lower SoP-TP of RM1.90 (RM2.00 prior) from a lower Kuantan Port valuation in tandem with the reduced earnings from lower throughput.**

OUTPERFORM ↔

Price : RM1.79
Target Price : RM1.90 ↓

Share Price Performance



KLCI	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	3.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJM MK EQUITY
Market Cap (RM m)	6,387.9
Shares Outstanding	3,568.7
52-week range (H)	2.06
52-week range (L)	1.49
3-mth avg daily vol:	3,200,760
Free Float	49%
Beta	1.1

Major Shareholders

Employees Provident Fund Board	16.9%
Amanah Saham Nasional	16.8%
Kumpulan Wang Persaraan Diperbadankan	8.1%

Summary Earnings Table

FYE Mar (RM m)	2021A	2022E	2023E
Turnover	5622.9	4659.3	5076.6
EBIT	1056.5	651.2	781.3
PBT	1056.5	411.2	577.3
Net Profit (NP)	431.6	973.7	363.7
Core net profit (NP)	366.5	184.8	300.7
Consensus (NP)	n.a.	334.6	375.2
Earnings Revision	n.a.	-4%	2%
Core EPS (sen)	10.1	5.1	8.3
Core EPS growth (%)	14	-100	63
DPS (sen)	6.0	21.0	6.0
BVPS (RM)	2.72	2.77	2.81
PER (x)	17.8	35.2	21.7
PBV (x)	0.7	0.65	0.64
Net Gearing (x)	0.45	0.37	0.34
Return on Asset (%)	1.6	0.8	1.3
Return on Equity (%)	4.3	9.6	3.5
Net Div. Yield (%)	3.4	11.7	3.4

30 November 2021

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.

Results Highlight (adjusted all to core to better reflect the results)

FYE Mar (RM m)	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Revenue	874	1306	-33%	1429	-39%	2180	2309	-6%
Core EBITDA	130	300	-57%	336	-61%	431	506	-15%
Depn and Amortization	-80	-102	-22%	-107	-25%	-183	-210	-13%
Core EBIT	50	198	-75%	229	-78%	248	296	-16%
Interest	-49	-48	2%	-45	8%	-97	-108	-10%
Core PBT	1	150	-99%	183	-99%	151	188	-20%
Tax	-24	-56	-57%	-39	-38%	-80	-82	-2%
Core PAT	-23	94	-124%	145	-116%	71	106	-33%
MI	0	32	-100%	30	-100%	32	25	29%
Sukuk	12	12	2%	12	1%	23	23	0%
Core PATAMI	-35	50	-169%	103	-134%	16	58	-73%
Profit from discontinued ops (IJMP)	659	0		0		659	0	
DPS (sen)	17	0.0	n.a.	2	750%	17	2	750%
EBIT margin	6%	15%		16%		11%	13%	
Pretax margin	0%	11%		13%		7%	8%	
CNP margin	-4%	4%		7%		1%	2%	
Effective tax	-1877%	-37%		-21%		-53%	-44%	

Source: Company, Kenanga Research

Segmental Breakdown (adjusted all to core to better reflect the results)

External Revenue	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Construction	347	378	-8%	574	-39%	725	861	-16%
Property	161	332	-52%	255	-37%	493	401	23%
Manufacturing and Quarry	210	163	29%	162	30%	374	248	51%
Plantation	0	272	-100%	211	-100%	272	417	-35%
Infra	156	161	-3%	226	-31%	317	381	-17%
Investment & Others	0	0	487%	0	23%	0	0	16%
	874	1306	-33%	1429	-39%	2180	2309	-6%
Core PBT (after stripping of one offs)								
Construction	10	30	-68%	51	-81%	39	67	-41%
Property	-11	20	-156%	33	-134%	9	23	-60%
Manufacturing and Quarry	11	8	49%	6	85%	19	-9	n.a.
Plantation	0	80	-100%	38	-100%	80	59	35%
Infra	-9	12	-172%	68	-113%	3	57	-94%
Investment & Others	0	0	n.a.	-13	n.a.	0	-10	n.a.
	1	150	-99%	183	-99%	151	188	-20%
Core PBT Margins								
Construction	3%	8%		9%		5%	8%	
Property	-7%	6%		13%		2%	6%	
Manufacturing and Quarry	5%	5%		4%		5%	-4%	
Plantation	0%	29%		18%		29%	14%	
Infra	-6%	8%		30%		1%	15%	

Source: Company, Kenanga Research

Sum of Parts

SoP	Value (RMm)	Valuation Method
Construction & BM	1,311.7	11x forward earnings
Manufacturing & Quarry	307.0	8x PER
Property	2,093.0	0.3x PBV
Investment properties	467.3	0.8x PBV
Excess Cash from IJMP Disposal	688.0	Cash from IJMP disposal after deducting earmarked special div and working cap.
Kuantan Port (60% ownership)	799.5	19x forward earnings
Tollway Concessions	1,285.1	Equity value
SOP (Rm m)	6,951.7	
SOP (RM/share)	1.90	

Source: Company, Kenanga Research

30 November 2021

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net DivYld (%)	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	2.81	7,063.0	Y	07/2022	11.8	11.7	12.7	0.8	0.8	6.8%	2.1%	2.80	MP	
HOCK SENG LEE BERHAD	0.980	538.5	Y	12/2021	16.9	13.4	10.2	0.7	0.6	4.8%	1.5%	0.950	MP	
IJM CORP BHD	1.79	6,387.9	Y	03/2022	17.8	35.2	21.7	0.7	0.7	9.9%	11.7%	1.90	OP	
KERJAYA PROSPEK GROUP BHD	1.17	1,447.7	Y	12/2021	16.0	15.4	9.2	1.5	1.3	9.1%	2.3%	1.50	OP	
KIMLUN CORP BHD	0.800	282.7	Y	12/2021	17.9	18.7	5.8	0.4	0.4	2.2%	2.1%	1.25	OP	
MUHIBBAH ENGINEERING (M) BHD	0.830	401.3	Y	12/2021	N.A.	N.A.	16.6	0.4	0.3	-1.7%	1.2%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.54	1,985.6	Y	12/2021	24.1	22.6	15.6	3.1	2.9	13.3%	2.6%	1.52	MP	
WCT HOLDINGS BHD	0.565	800.7	Y	12/2021	N.A.	34.0	9.0	0.3	0.2	2.3%	0.0%	0.620	MP	
Simple Average					17.4	21.6	12.6	1.0	0.9	5.8%	3.0%			

Source: Bloomberg, Kenanga Research

30 November 2021

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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