

IJM Corporation

Broad-based Earnings Recovery

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

IJM's 1HFY23 results met expectations with most business units showing recovery on improved prospects. Separately, IJM announced that it is buying out the 40% minority stake in Bandar Rimbayu from WCEHB for RM494m cash. Following the appointment of a new government, we believe the award of MRT3 work packages could be delayed and the new administration may put the toll road restructuring under review. We maintain our forecasts, TP of RM1.67 and MARKET PERFORM call.

Within expectations. 1HFY23 core net profit of RM148m (after adjusting for forex loss, impairment of assets and gain from investment disposals) came within expectations at 48% and 46% of our full-year forecast and the full-year consensus estimate, respectively.

1HFY23 revenue was marginally lower YoY in the absence of contributions from its plantation division which was sold last year. However, PBT almost quadrupled on improved profitability across the board as business units rebounded from a pandemic-stricken period a year ago. Its core net profit returned to the black from a loss a year ago.

To wholly own Bandar Rimbayu. Separately, IJM announced that it is buying out the 40% minority stake in Radiant Pillar Sdn Bhd from WCEHB for RM494m cash. Radiant Pillar is the developer for Bandar Rimbayu with a remaining GDV of RM8b. We are neutral over the acquisition price which we deem fair, implying a land-to-GDV ratio of 15%. Assuming a 70% margin of financing for the acquisition (at 4.5% rate), earning accretion towards the group would be minimal at c.RM3m/annum. Meanwhile, its net gearing would rise to 0.25x (from 0.2x).

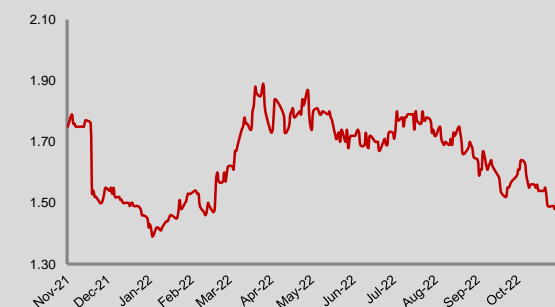
IJM hosted an analyst briefing last Friday and the key takeaways are as follows:

1. IJM reiterated its RM3b construction replenishment target (YTD RM0.93b secured) backed by tenders from: (i) MRT3 for which they bided for all 3 available packages, (ii) ECRL, (iii) semiconductor factories and (iv) highways in India. Nonetheless, we stick to our RM1.9b target as we feel the MRT3 awards could be extended into FY24 upon a newly appointed government. Current outstanding order book stood at RM4.8b.
2. 1HFY23 property sales of RM0.7b (excluding RM1b land sales from London and Kuantan) are within our and company's RM1.7b and RM2b target, respectively. The company will continue to focus on asset monetisation through non-core land sales and property sales within its local townships. IJM has earmarked launches worth RM0.76b in 2HFY23 while unbilled sales stood at RM3.1b.
3. Its industry division which is the biggest spun pile manufacturer in South East Asia is benefitting from the leaner cost structure post Covid and improved regional demand for construction of factories/warehouses which should sustain its double-digit PBT margins moving forward.
4. Kuantan Ports' 1HFY23 throughput of 11m tonnes trailed our full-year assumption of 25m hampered by the elevated freight charges, slow permit approval for bauxite exports, and weaker contributions from its largest client i.e. Alliance Steel which was weighed down by weaker steel demand from China.

MARKET PERFORM ↔

Price : RM1.58
Target Price : RM1.67 ↔

Share Price Performance



KLCI 1,486.54
YTD KLCI chg -5.2%
YTD stock price chg 3.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJM MK EQUITY
Market Cap (RM m)	5,551.0
Shares Outstanding	3,513.3
52-week range (H)	1.92
52-week range (L)	1.39
3-mth avg daily vol:	1,725,537
Free Float	48%
Beta	0.8

Major Shareholders

Employees Provident Fund Board	17.2%
Amanah Saham Nasional	16.7%
Kumpulan Wang Persaraan Diperbadankan	8.3%

Summary Earnings Table

FYE Mar (RM m)	2022A	2023F	2024F
Turnover	4680.7	5205.5	5334.6
EBIT	623.6	794.3	831.2
PBT	401.0	590.3	627.2
Net Profit (NP)	135.8	371.9	395.1
Core net profit (NP)	192.2	310.0	331.5
Consensus (NP)	n.a.	323.1	379.3
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	5.28	8.52	9.11
Core EPS growth (%)	-56	61	7
DPS (sen)	21.0	6.0	6.0
BVPS (RM)	2.54	2.59	2.63
PER (x)	29.9	18.5	17.3
PBV (x)	0.62	0.61	0.60
Net Gearing (x)	0.49	0.46	0.44
Return on Asset (%)	0.9	1.4	1.5
Return on Equity (%)	1.5	3.9	4.1
Net Div. Yield (%)	13.3	3.8	3.8



29 November 2022

5. The traffic volumes at its three local toll roads (NPE, Besraya and Lekas) have recovered post pandemic with LEKAS's traffic even exceeding pre-pandemic levels. Meanwhile, in its negotiation with the previous government led by Dato' Sri Ismail Sabri, IJM is more likely to get extension of concession periods vs. upfront cash compensation for reducing the toll rates at Besraya and Lekas from January 2023. While IJM guided for such restructuring being NPV-neutral, we believe the reality is that the P&L earnings will effectively be backloaded. Meanwhile, the negotiations for NPE and WCE toll rates are still ongoing.

We maintain our earnings forecasts and SoP-based TP of RM1.67 on unchanged 13x PER valuation for its construction business, at a discount to the 16-18x we ascribe to its peers to reflect IJM's higher exposure in the office building segment which is weighed down by an oversupply situation. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We like IJM for: (i) being a proxy to the rollout of public infrastructure projects, (ii) its healthy balance sheet with gearing of 0.2x which enables them to gear up for PPP/PFI initiatives i.e. MRT3, and (iii) Kuantan Port's position as the largest port in the east coast capturing export/import growth. However, we remain cautious over the restructuring of Besraya and their loss-making toll roads namely West Coast Expressway (WCE) and Lekas. Hence, maintain **MARKET PERFORM**.

Key downside risks for our call are: (i) sustained weak construction jobs flow, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rise in cost of building materials.

Results Highlight (adjusted to core)

FYE Mar (RM m)	2Q23	1Q23	QoQ	2Q22	YoY	1H23	1H22	YoY
Revenue	1072	1073	0%	874	23%	2145	2180	-2%
Op Expenses	-871	-881	-1%	-803	8%	-1752	-1984	-12%
OP	201	191	5%	71	183%	392	196	100%
JVA	-9	-6	54%	-21	-57%	-15	-27	-46%
Core EBIT	192	186	3%	50	282%	377	168	124%
Interest	-59	-51	14%	-49	20%	-110	-97	13%
Core PBT	133	134	-1%	1	10264%	268	71	276%
Tax	-46	-42	8%	-24	89%	-88	-80	10%
Core PAT	88	92	-5%	-23	n.a.	180	-9	n.a.
MI	4	4	10%	0	5231%	8	6	48%
Sukuk	12	12	2%	12	0%	23	23	0%
Core PATAMI	71	76	-6%	-35	n.a.	148	-38	n.a.
DPS (sen)	2.0	0.0	n.a.	17	-88%	2	17	-88%
EBIT margin	18%	17%		6%		18%	8%	
Pretax margin	12%	13%		0%		12%	3%	
CNP margin	7%	7%		-4%		7%	-2%	
Effective tax	-34%	-32%		-1877%		-33%	-113%	

Source: Company, Kenanga Research

Segmental Breakdown (adjusted to core)

External Revenue	2Q23	1Q23	QoQ	2Q22	YoY	1H23	1H22	YoY
Construction	269	268	0%	347	-23%	537	725	-26%
Property	327	345	-5%	161	103%	672	493	36%
Manufacturing and Quarry	259	249	4%	210	23%	509	374	36%
Plantation (discontinued)	0	0	n.a.	0	n.a.	0	272	-100%
Infra	217	210	3%	156	40%	427	317	35%
Investment & Others	0	0	208%	0	-35%	0	0	-26%
	1072	1073	0%	874	23%	2145	2180	-2%
Core PBT (strip of one offs)								
Construction	24	20	25%	10	155%	44	39	11%
Property	43	49	-14%	-11	n.a.	92	9	915%
Manufacturing and Quarry	43	31	37%	11	278%	74	19	291%
Plantation (discontinued)	n.m.	n.m.		n.m.		n.m.	n.m.	
Infra	19	36	-48%	-9	n.a.	54	3	1471%
Investment & Others	5	-2	n.a.	0	868%	3	0	584%
	133	134	-1%	1	10264%	268	71	274%
Core PBT Margins								
Construction	9%	7%		3%		8%	5%	
Property	13%	14%		-7%		14%	2%	
Manufacturing and Quarry	17%	13%		5%		15%	5%	
Infra	9%	17%		-6%		13%	1%	

Source: Company, Kenanga Research

29 November 2022

IJM's Sum-of-Parts		
Segment	Value (RMm)	Valuation Method
Construction & BM	1,178.9	14x PER
Manufacturing & Quarry	368.2	8x PER
Property	2,602.9	65% discount to RNAV
Ports (60% ownership)	861.6	19x PER
Tollway Concessions	1,097.3	DCF Equity value
SOP	6,108.8	
SOP (RM/share)	1.67	

Source: Company, Kenanga Research

29 November 2022

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div.Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
GAMUDA BHD	OP	3.86	5.15	33.42%	10,001.5	Y	07/2023	35.0	43.6	7.4%	24.7%	10.6	8.5	1.1	10.4%	50.0	13.0%
IJM CORP BHD	MP	1.58	1.68	6.33%	5,551.0	Y	03/2023	8.6	9.2	26.2%	6.9%	18.5	17.3	0.6	3.8%	6.0	3.8%
KERJAYA PROSPEK GROUP BHD	OP	1.13	1.50	32.74%	1,425.0	Y	12/2022	9.3	12.2	19.1%	30.9%	10.3	9.3	1.3	11.2%	4.5	4.0%
KIMLUN CORP BHD	OP	0.700	1.10	57.14%	247.4	Y	12/2022	7.9	12.7	2600.0%	59.3%	9.1	5.7	0.3	4.0%	1.5	2.1%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.59	1.60	0.63%	2,050.1	Y	12/2022	9.8	9.8	0.4%	-0.8%	16.1	16.2	3.0	19.4%	5.0	3.1%
WCT HOLDINGS BHD	MP	0.425	0.430	1.18%	602.3	Y	12/2022	6.3	5.0	214.3%	-20.5%	6.8	8.6	0.2	4.4%	0.0	0.0%
Simple Average								12.8	15.4	477.9%	16.8%	11.9	10.9	1.1	8.9%		4.3%

Source: Bloomberg, Kenanga Research

29 November 2022

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	★	
SPECIFIC	Migrant Worker Welfare	★	★	★	☆	
	Waste Disposal/Pollution Control	★	★	★		
	Work Site Safety	★	★	★	☆	
	Environmentally Friendly Construction Technology	★	★	★	☆	
	Supply Chain Auditing	★	★	★		
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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 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