

IJM Corporation

FY23 Buoyed by Land Disposal Gains

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IJM's FY23 results were bumped up by lumpy land disposal gains. After a lull in FY23, it is hopeful for construction job wins to accelerate on a strong flow of public infrastructure projects. Meanwhile, the prospects of its infrastructure division are subdued by weak contributions from its overseas highways while its Kuantan Port throughput is not spared the impact of the global slowdown. We maintain our FY24F earnings forecast, TP of RM1.67 and MARKET PERFORM call.

Above expectations. FY23 core net profit of RM339m (after adjusting for forex loss, impairments and gain from investment disposals) exceeded our forecast and consensus estimate by 9% and 20%, respectively. The variance against our forecast mainly stemmed from some RM62m gain from an industrial land sale in Bandar Rimbayu. A 6.0 sen dividend was declared in 4QFY23, which brings its full-year dividend payout to 8.0 sen, beating our forecast of 6.0 sen.

FY23 revenue was marginally lower YoY in the absence of its plantation division which was sold last year. However, its PBT improved substantially by 54% thanks to its property and manufacturing division which rebounded strongly from a pandemic-stricken period a year ago. That said, its construction contribution was weaker on lower progress billings amidst the lack of new replenishments as major projects were completed in the previous year while most ongoing jobs are still at initial stage of progress.

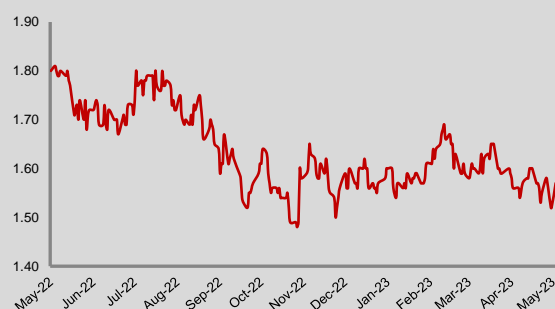
The key takeaways from its analyst briefing yesterday are as follows.

1. IJM only secured RM1.5b worth of new construction contracts in FY23, missing our assumption of RM1.9b and its target of RM3.0b. It attributed the disappointment to a slow public job flow and the deferment of the MRT3 work packages (bidders have been asked to extend the validity of their tenders to Jun 2023). Nonetheless, it remains optimistic over the immediate term, setting a replenishment target in RM3b in FY24 (which is consistent with our assumption). Aside from MRT3, it is also eyeing work packages from: (i) ECRL, (ii) East Malaysia – mainly Sarawak, and (iii) Indonesia. Its outstanding order book stood at RM4.5b as at end-FY23.
2. Its FY23 property sales of RM1.8b (excluding RM0.87b land sales from London and Kuantan) met our target of RM1.7b and its own target of RM2b. It sets a FY24 target of RM2b (versus ours of RM1.7b) backed by a launch pipeline of RM2.9b. As at end-FY23, its unbilled property sales stood at RM3.0b.
3. Kuantan Ports' FY23 throughput of 22.7m tonnes met our full-year assumption of 23m tonnes. While there is a +14% tariff revision in April 2023, we do not anticipate strong growth for this unit in the foreseeable future due to weaker throughputs from its largest client Alliance Steel being hampered by weaker steel demand from China.
4. Despite its toll roads in Malaysia showing strong recovery post-Covid, its overseas toll roads continued to be a drag to the division due to high borrowing and maintenance costs. Meanwhile its plan to partially monetize its Malaysian tolls are underway. However, on-going discussions with the government may take some time.
5. With a healthy net gearing of 0.2x, it is exploring synergistic M&A deals, targeting downstream businesses which would enhance the margins of its existing business units.

MARKET PERFORM ↔

Price : RM1.57
Target Price : RM1.67 ↔

Share Price Performance



KLCI 1,404.93
YTD KLCI chg -6.1%
YTD stock price chg -1.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJM MK Equity
Market Cap (RM m)	5,515.3
Shares Outstanding	3,512.9
52-week range (H)	1.84
52-week range (L)	1.47
3-mth avg daily vol:	2,102,604
Free Float	48%
Beta	0.8

Major Shareholders

Employees Provident Fund Board	17.6%
Amanah Saham Nasional	16.5%
Kumpulan Wang Persaraan Diperbadankan	8.4%

Summary Earnings Table

FYE Mar (RM m)	2022A	2023F	2024F
Turnover	4572.5	5334.6	4962.7
EBIT	740.9	831.2	810.9
PBT	483.0	627.2	590.9
Net Profit (NP)	158.3	395.1	372.3
Core net profit (NP)	338.7	331.5	310.5
Consensus (NP)	281.9	350.7	413.6
Earnings Revision	n.a.	0%	NEW
Core EPS (sen)	9.31	9.11	8.53
Core EPS growth (%)	76%	-2%	-6%
DPS (sen)	8.0	6.0	7.0
BVPS (RM)	2.51	2.56	2.59
PER (x)	16.9	17.2	18.4
PBV (x)	0.63	0.61	0.61
Net Gearing (x)	0.54	0.49	0.50
Return on Asset (%)	1.5%	1.5%	1.4%
Return on Equity (%)	1.7%	4.2%	3.9%
Net Div. Yield (%)	5.1%	3.8%	4.5%

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Forecasts. We maintain our FY24F forecast and introduce FY25F earnings of RM311m. The YoY decline in FY25F earnings reflects the higher financing costs (on higher interest rates) and lower property and manufacturing margins amidst higher input costs.

Consequently, we maintain our SoP-based TP of RM1.67 (see Page 3) on unchanged 13x PER valuation for its construction business, at a discount to the 16x-18x we ascribed 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 roll-out 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 their loss-making toll roads namely West Coast Expressway (WCE), Lekas and its India highways. Maintain **MARKET PERFORM**.

Key risks to our call include: (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)	4Q23	3Q23	QoQ	4Q22	YoY	FY23	FY22	YoY
Revenue	1327	1101	21%	1233	8%	4572	4681	-2%
Op Expenses	-1026	-873	18%	-960	7%	-3651	-4029	-9%
OP	301	228	32%	272	10%	921	652	41%
JVA	28	-15	n.a.	-23	n.a.	-2	-31	-93%
Core EBIT	328	213	54%	249	32%	919	621	48%
Interest	-84	-62	35%	-50	67%	-256	-191	34%
Core PBT	245	151	62%	199	23%	663	429	55%
Tax	-125	-59	112%	-79	58%	-271	-204	33%
Core PAT	120	92	30%	121	0%	392	225	74%
MI	-4	2	-260%	-23	-83%	7	-14	n.a.
Sukuk	11	12	-2%	11	0%	47	47	0%
Core PATAMI	113	78	44%	132	-15%	339	192	76%
DPS (sen)	6.0	0.0	n.a.	4	50%	8	21	-62%
EBIT margin	25%	19%		20%		20%	13%	
Pretax margin	18%	14%		16%		15%	9%	
CNP margin	8%	7%		11%		7%	4%	
Effective tax	-51%	-39%		-40%		-41%	-48%	

Source: Company, Kenanga Research

Segmental Breakdown (adjusted to core)

External Revenue	4Q23	3Q23	QoQ	4Q22	YoY	FY23	FY22	YoY
Construction	266	267	0%	378	-29%	1070	1529	-30%
Property	569	375	52%	397	43%	1615	1274	27%
Manufacturing and Quarry	253	240	5%	230	10%	1002	857	17%
Plantation (discontinued)	0	0	n.a.	0	n.a.	0	272	-100%
Infra	238	219	9%	228	4%	885	748	18%
Investment & Others	0	0	21%	0	91%	1	1	-15%
	1327	1101	21%	1233	8%	4572	4681	-2%
Core PBT (strip of one offs)								
Construction	39	14	170%	49	-20%	97	122	-20%
Property	211	67	217%	80	163%	369	150	146%
Manufacturing and Quarry	37	33	12%	25	47%	145	61	136%
Plantation (discontinued)	n.m.	n.m.		n.m.		n.m.	n.m.	
Infra	-29	29	-199%	24	-220%	55	74	-26%
Investment & Others	-13	8	-271%	21	-162%	-2	22	-111%
	245	151	62%	199	23%	663	430	54%
Core PBT Margins								
Construction	15%	5%		13%		9%	8%	
Property	37%	18%		20%		23%	12%	
Manufacturing and Quarry	15%	14%		11%		14%	7%	
Infra	-12%	13%		11%		6%	10%	

Source: Company, Kenanga Research

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IJM's Sum-of-Parts Valuation		
Segment	Valuation (RMm)	Basis
Construction & Building Materials	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
Toll-way Concessions	1,097.3	DCF Equity value
SOP	6,108.8	
SOP (RM/share)	1.67	

Source: Company, Kenanga Research

IJM's Property RNAV			
Project	Remaining Land Bank (acres)	Outstanding GDV (RM m)	NPV of profits (RM m)
Landbanks			
Penang	189	6,600	73
Klang Valley	959	11,500	127
Melaka	4	500	6
Johor	676	5,800	64
Seremban	1,380	3,500	39
Pahang	1,098	1,500	17
Sabah	279	2,700	30
Overseas	8	1,500	69
	4,593	33,600	425
Unbilled Sales (as of March-22)		2,300	207
Property NAV (FY21)			6,804.6
Total RNAV			7,436.9
Discount to RNAV			65%
Discounted RNAV			2,602.91

Source: Company, Kenanga Research

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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	4.13	5.15	24.70%	10,987.0	Y	07/2023	35.0	43.6	7.4%	24.7%	11.3	9.1	1.2	10.4%	50.0	12.1%
IJM CORP BHD	MP	1.57	1.67	6.37%	5,727.0	Y	03/2023	9.2	8.6	-2.1%	-6.3%	17.2	18.4	0.6	4.0%	6.0	3.8%
KERJAYA PROSPEK GROUP BHD	OP	1.13	1.50	32.74%	1,432.0	Y	12/2023	12.2	14.0	31.0%	14.6%	9.3	8.1	1.3	14.6%	6.0	5.3%
KIMLUN CORP BHD	OP	0.775	1.12	44.52%	274.0	Y	12/2023	12.9	15.6	18.9%	20.5%	6.3	5.1	0.4	6.6%	2.0	2.6%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.65	2.13	29.09%	2,133.0	Y	12/2023	12.6	13.2	19.4%	4.8%	13.0	12.4	3.2	24.9%	5.0	3.0%
WCT HOLDINGS BHD	OP	0.405	0.600	48.15%	574.0	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.1	11.0	0.2	2.7%	0.5	1.2%
Simple Average					21,127.0					7.3%	15.8%	13.1	11.3	0.9	6.6%		4.7%

Source: Bloomberg, Kenanga Research

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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.**

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