

15 January 2024

# IJM Corporation

## Logistics Hub Stake, Another UK Project

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**IJM is acquiring a 25% stake in Shah Alam International Logistics Hub (SAILH) and a 11-acre site in the UK for redevelopment. The first deal is insignificant, while IJM could replicate its success in Royal Mint Garden with a second redevelopment project in the UK. We maintain our forecasts, TP of RM2.31 and OUTPERFORM call.**

IJM has unveiled two acquisitions as follows:

1. A 25% stake in Global Vision Logistics Sdn Bhd, the developer of SAILH from **SWIFT (OP; TP: RM0.63)** and Hartamas Mentari Sdn Bhd, for RM88.7m. The acquisition is expected to be completed by 1QCY24.
2. The historic Shredded Wheat factory site in Hertfordshire County's commuter town Welwyn Garden City, 28-minute away from London by train. The 11-acre brownfield site known as The Wheat Quarter has been approved for 811 homes and 150,000 sf of mixed-use space.

We are neutral on the investment in logistics hub given its insignificant contributions in terms of recurring rental and related incomes. Based on SWIFT's guidance, the 25% equity stake implies associate income of RM1.5m-RM2.0m, or <1% impact to IJM's earnings when the warehouse runs at 100% capacity. On the other hand, the purchase price is on the high side as the implied land cost of RM180 psf is above the asking price of between RM109 psf and RM138 psf for comparable lands surrounding the area. However, this is justifiable given the development approvals secured for the logistics hub project. The total development cost of SAILH is c.RM1.3b (to be completed by 2028) is to be funded with ASEAN GREEN Sri Sukuk (nominal value of up to RM1.5b). The proposal investment will have minimal impact to its balance sheet as FY24F net gearing would increase slightly to 0.51x from 0.52x.

More importantly, IJM could be poised for a slice of action in the construction contract for its next phase of development, in addition to the current Phase 1 in which IJM has secured a RM653.6m building job in Jun 2023 (with completion expected by May 2025).

Meanwhile, the details on the acquisition of Shredded Wheat factory site including the pricing and potential GDV of the redevelopment plan are still lacking at present. This is part of IJM's UK expansion strategy to build on its success in the Royal Mint Garden project in Central London. A partnership with Network Rail, the owner and infrastructure manager of most of the railway network in the UK, we see IJM's latest move being highly strategic as well.

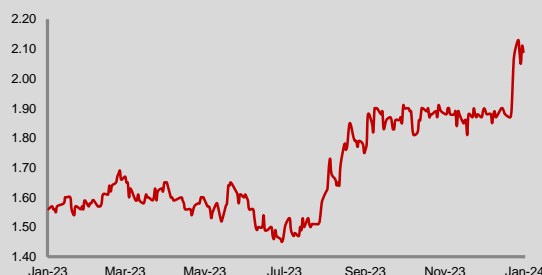
**Forecasts:** Maintained, as SAILH's Phase 1 will not be contributing within our forecast period.

**Outlook.** We expect a significant revitalisation of the construction sector in 2024 backed by: (i) the roll-out of the RM45b MRT3 project, RM9.5b Bayan Lepas LRT and six flood mitigation projects reportedly to be worth RM13b, and (ii) the vibrant private sector construction market, underpinned by massive investment in new semiconductor foundries and data centres. We understand that IJM is also eyeing work packages from ECRL and various projects in East Malaysia and Indonesia.

# OUTPERFORM ↔

**Price:** RM2.09  
**Target Price:** RM2.31 ↔

### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,487.34 |
| YTD KLCI chg        | 2.2%     |
| YTD stock price chg | 11.2%    |

### Stock Information

|                      |               |
|----------------------|---------------|
| Shariah Compliant    | Yes           |
| Bloomberg Ticker     | IJM MK EQUITY |
| Market Cap (RM m)    | 7,327.9       |
| Shares Outstanding   | 3,506.2       |
| 52-week range (H)    | 2.15          |
| 52-week range (L)    | 1.43          |
| 3-mth avg daily vol: | 4,284,888     |
| Free Float           | 47%           |
| Beta                 | 0.8           |

### Major Shareholders

|                          |       |
|--------------------------|-------|
| Amanah Saham Nasional    | 17.1% |
| Employees Provident Fund | 17.0% |
| Kumpulan Wang Persaraan  | 9.2%  |

### Summary Earnings Table

| FY Mar (RM m)            | 2023A  | 2024F  | 2025F  |
|--------------------------|--------|--------|--------|
| Turnover                 | 4572.5 | 5334.6 | 4962.7 |
| EBIT                     | 740.9  | 910.0  | 938.9  |
| PBT                      | 483.0  | 706.0  | 718.9  |
| <b>Net Profit</b>        | 158.3  | 444.8  | 452.9  |
| <b>Core Net Profit</b>   | 338.2  | 381.2  | 391.2  |
| Consensus                | -      | 366.9  | 420.2  |
| Earnings Revision (%)    | -      | -      | -      |
| Core EPS (sen)           | 9.27   | 10.45  | 10.72  |
| Core EPS growth (%)      | 76.0   | 12.7   | 2.6    |
| NDPS (sen)               | 8.0    | 8.0    | 8.0    |
| NTA per share (RM)       | 2.50   | 2.54   | 2.59   |
| PER (x)                  | 22.5   | 20.0   | 19.5   |
| Price to NTA (x)         | 0.84   | 0.82   | 0.81   |
| Debt-to-Equity ratio (x) | 0.54   | 0.51   | 0.52   |
| ROA (%)                  | 1.5    | 1.7    | 1.8    |
| ROE (%)                  | 1.7    | 4.7    | 4.8    |
| Net Div. Yield (%)       | 3.8    | 3.8    | 3.8    |

15 January 2024

**Valuations.** We maintain our SoP-driven TP of RM2.31 (see below) on unchanged 18x PER valuation for its construction business, which is in-line with our valuation for big cap construction companies, i.e. **GAMUDA (OP; TP: RM5.45)** and **SUNCON (OP; TP: RM2.39)**. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

**Investment case.** We like IJM for: (i) it is poised to garner a slice of action in the imminent mega rail projects, i.e. MTR3 and Bayan Lepas LRT given its involvement in the previous MRT and LRT projects, (ii) its strong earnings visibility underpinned by an outstanding construction orderbook of RM6.2b and unbilled property sales of RM2.5b, and (iii) Kuantan Port's position as the largest port in the East Coast capturing export and import activities growth. Maintain **OUTPERFORM**.

**Risks to our call include:** (i) delays in the roll-out of key public infrastructure projects, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

| IJM's Sum-of-Parts Valuation      |                     |                      |
|-----------------------------------|---------------------|----------------------|
|                                   | Valuation<br>(RM m) | Basis                |
| Construction & Building Materials | 3,173.7             | 18x PER              |
| Property                          | 3,839.1             | 50% discount to RNAV |
| Ports (60% ownership)             | 1,029.3             | 20x PER              |
| Toll-way Concessions              | 1,107.2             | DCF Equity value     |
| Net Debts                         | -615.3              | Estimated FY24F      |
| <b>SOP</b>                        | <b>8,534.0</b>      |                      |
| <b>SOP (RM/share)</b>             | <b>2.31</b>         |                      |

Source: Company, Kenanga Research

| IJM's Property RNAV           |                                   |                              |                             |
|-------------------------------|-----------------------------------|------------------------------|-----------------------------|
| Project                       | Remaining<br>Land Bank<br>(acres) | Outstanding<br>GDV<br>(RM m) | NPV<br>of profits<br>(RM m) |
| <b>Landbanks (as of FY23)</b> |                                   |                              |                             |
| Penang                        | 160                               | 11,674                       | 162.5                       |
| Klang Valley                  | 964                               | 15,437                       | 214.8                       |
| Johor                         | 387                               | 4,315                        | 60.1                        |
| Seremban                      | 890                               | 5,207                        | 72.5                        |
| Pahang                        | 1,083                             | 453                          | 6.3                         |
| Sabah                         | 215                               | 3,078                        | 42.8                        |
| Overseas                      | 0.45                              | 724                          | 36.7                        |
|                               | <b>3,699</b>                      | <b>40,889</b>                | <b>595.6</b>                |
| Unbilled Sales (as of FY23)   |                                   | 3,000                        | <b>278.0</b>                |
| Property NAV (as of FY21)     |                                   |                              | <b>6,804.6</b>              |
| Total RNAV                    |                                   |                              | <b>7,678.2</b>              |
| Discount to RNAV              |                                   |                              | 50%                         |
| <b>Discounted RNAV</b>        |                                   |                              | <b>3,839.1</b>              |

Source: Company, Kenanga Research



Peer Table Comparison

| Name                         | Rating | Last Price (RM) | Target Price (RM) | Upside (%) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Core EPS (sen) |            | Core EPS 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.      |
| <b>Stocks Under Coverage</b> |        |                 |                   |            |                   |                   |             |                |            |                 |              |                         |             |            |             |                |                 |
| GAMUDA                       | OP     | 5.00            | 5.45              | 9.0%       | 13,638.3          | Y                 | 07/2024     | 4.1            | 4.9        | 29.5%           | 19.2%        | 13.7                    | 11.0        | 11.4       | 9.8%        | 12.0           | 2.4%            |
| IJM                          | OP     | 2.09            | 2.31              | 10.5%      | 7,327.9           | Y                 | 03/2024     | 10.4           | 10.7       | 12.7%           | 2.6%         | 22.9                    | 24.5        | 0.7        | 3.9%        | 8.0            | 3.8%            |
| KERJAYA                      | OP     | 1.69            | 1.90              | 12.4%      | 2,131.2           | Y                 | 12/2023     | 11.0           | 14.2       | 18.5%           | 29.0%        | 13.9                    | 12.1        | 1.6        | 10.9%       | 8.0            | 4.7%            |
| KIMLUN                       | MP     | 0.835           | 0.830             | -0.6%      | 295.1             | Y                 | 12/2023     | 1.9            | 8.3        | -81.8%          | 335.8%       | 8.4                     | 7.2         | 0.4        | 0.9%        | 1.0            | 1.2%            |
| SUNCON                       | OP     | 2.19            | 2.26              | 3.2%       | 2,823.7           | Y                 | 12/2023     | 10.5           | 11.9       | -5.5%           | 13.3%        | 17.2                    | 16.5        | 3.4        | 17.0%       | 5.0            | 2.3%            |
| WCT                          | OP     | 0.525           | 0.700             | 33.3%      | 744.0             | Y                 | 12/2023     | 0.6            | 3.3        | -89.9%          | 409.8%       | 20.8                    | 14.3        | 0.3        | 1.9%        | 0.5            | 1.0%            |
| <b>Sector Aggregate</b>      |        |                 |                   |            | <b>26,960.2</b>   |                   |             |                |            | <b>12.5%</b>    | <b>19.1%</b> | <b>15.1</b>             | <b>12.7</b> | <b>0.9</b> | <b>6.1%</b> |                | <b>2.6%</b>     |

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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