

30 May 2024

# IJM Corporation

## Bullish on New Construction Job Wins

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IJM's FY24 results beat expectations. Its FY24 core net profit jumped 50% thanks to strong performance from Kuantan Port on tariff hikes and higher throughput, which more than cushioned weaker construction profits. It guided for RM5b construction job wins in FY25. We raise our FY25-26F net profit forecasts by 5% and 9%, respectively, lift our TP by 9% to RM2.77 (from RM2.54) and maintain our **OUTPERFORM** call

IJM's FY24 core profit beat our forecast and the market consensus by 22% and 33% respectively. The variance against our forecast came largely from better-than-expected earnings from Kuantan Port and a lower-than-expected effective tax rate. It declared a NDPS of 6 sen, bringing full-year FY24 NDPS of 8 sen which is in-line with our forecast.

**YoY.** Its FY24 revenue rose 29% with better performance across all segments: construction (+57%) attributed to higher construction work activities, property development (+26%) led by sales of industrial land in 2QFY24, manufacturing & quarrying (+19%) driven by higher selling prices and sales volume for the piles business, and infrastructure (+11%) due to the recovery in cargo throughput at the port and tariff hikes effective Mar 2023.

Its core profit jumped by a sharper 50% thanks largely to higher profits from: (i) Kuantan Port following tariff hikes and a 15% in throughput to 26.2m tonnes, (ii) property development which included c.RM20m gains from the sale of industrial land, and (iii) the normalisation of its effective tax rate (from an exceptionally high level a year ago). This was partially offset by a contraction in construction profits, weighed down by West Coast Expressway (WCE) work packages impacted by work scope changes, rising building material costs and prolongation costs.

**QoQ.** Its 4QFY24 revenue rose 19% on the back of higher revenues from construction (+23%), property development (+39%) and infrastructure (+9%) but offset by lower revenue from manufacturing & quarrying (-6%). However, its core profit more than doubled driven largely by a sharply lower effective tax rate.

The key takeaways from its conference call yesterday are as follows:

1. In FY24, it secured a total of RM3.73b new construction jobs which has surpassed our assumption of RM3b, bringing its outstanding order book to RM6.0b.
2. It sets a target of RM5b job wins in FY25 (vs. our assumption of RM4.5b). It is eyeing, among others: (i) New Pantai Expressway (NPE) expansion (>RM1b), (ii) civil servant housing project in Nusantara (>RM1b), (iii) building jobs for semiconductor foundries and data centres (we understand that it is close to securing one data centre project soon), (iv) infrastructure projects such as Penang LRT Mutiara Lane, Blue Line for Kuching ART and Sarawak Sabah Link Road.
3. It posted property sales of RM2.12b in FY24 (vs. RM1.87b in FY23 and its unbilled sales stand at RM2.6b. Over the medium term, its overseas projects will contribute more meaningfully including: (i) Royal Mint Gardens Phase 2, and (ii) the 50:50 partnership with Network Rail to develop eight sites in London with a GDV of >GBP3b.
4. The **PESTECH (Not Rated)** acquisition is pending final condition precedent, on track for completion by Aug 2024.

# OUTPERFORM ↔

Price: **RM2.54**  
Target Price: **RM2.77** ↑

### Share Price Performance



KLCI	1,605.35
YTD KLCI chg	10.4%
YTD stock price chg	35.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJM MK Equity
Market Cap (RM m)	8,905.7
Shares Outstanding	3,506.2
52-week range (H)	2.62
52-week range (L)	1.43
3-mth avg. daily vol.	7,879,738
Free Float	47%
Beta	0.9

### Major Shareholders

Employees Provident Fund Board	17.7%
Amanah Saham Nasional	16.3%
Kumpulan Wang Persaraan Diperbadankan	9.9%

### Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Turnover	5919	5709	6304
EBIT	1072	1117	1141
PBT	964	897	922
<b>Net Profit (NP)</b>	<b>647</b>	<b>519</b>	<b>572</b>
<b>Core net profit</b>	<b>516</b>	<b>473</b>	<b>526</b>
Consensus (NP)	443	492	492
Earnings Revision (%)		+4.5	+9.4
Core EPS (sen)	11.6	13.0	14.4
Core EPS growth (%)	98.2	-8.3	11.2
NDPS (sen)	8.0	8.0	8.0
BVPS (RM)	2.73	2.78	2.84
NTA/share (RM)	2.69	2.74	2.81
PER (x)	21.9	19.6	17.6
PBV (x)	0.93	0.91	0.89
P/NTA (x)	0.94	0.93	0.90
Net Gearing (x)	0.27	0.24	0.28
Net Div. Yield (%)	3.1	3.1	3.1

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**Outlook.** We expect a significant revitalisation of the construction sector in 2024 backed by: (i) the roll-out of the RM45b MRT3 project 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 various projects in East Malaysia and Indonesia.

**Forecasts:** We raise our FY25-26F net profit forecasts by 5% and 9%, lifting our job win assumptions to RM5.0b and RM4.0b (from RM4.5b and RM3.5b), respectively.

**Valuations.** Correspondingly, we increase our SoP-driven TP by 9% to RM2.77 (see Page 3) from RM2.54 on unchanged 18x FY26F PER valuation for its construction business, which is in-line with our valuation for big cap construction companies, i.e., **GAMUDA (OP; TP: RM6.70)** and **SUNCON (MP; TP: RM3.16)**. 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., MRT3 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 RM6.0b and new property sales of RM1.4b, and (iii) Kuantan Port's position as the largest port in the East Coast capturing export and import activities growth. **OUTPERFORM** maintained

**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) rising cost of building materials.

Income Statement								
FYE Mar (RM m)	4Q FY24	3Q FY24	Q-o-Q Chg	4Q FY23	Y-o-Y Chg	12M FY24	12M FY23	Y-o-Y Chg
Turnover	1,759.2	1,475.4	19%	1,326.8	33%	5,918.8	4,572.5	29%
EBITDA	375.0	348.9	7%	338.8	11%	1,343.0	1,102.9	22%
Depreciation	-74.1	-77.0	-4%	-80.8	-8%	-301.0	-325.4	-8%
EBIT	300.9	271.9	11%	258.1	17%	1,042.0	777.5	34%
Interest expense	-74.8	-85.9	-13%	-83.8	-11%	-307.1	-255.6	20%
Associates	-14.0	-7.5	86%	23.7	-159%	-31.2	-16.6	88%
Exceptional items	103.2	3.6	2760%	-89.1	-216%	94.8	-179.8	-153%
Pretax profit	366.8	226.2	62%	155.3	136%	964.2	483.0	100%
Taxation	-37.6	-117.6	-68%	-124.7	-70%	-299.0	-271.4	10%
Profit after tax	329.2	108.7	203%	30.6	977%	665.2	211.6	214%
Minority interest	-12.1	3.5	-445%	3.9	-407%	-18.2	-6.8	169%
Net profit	305.5	100.4	204%	23.1	1225%	600.3	158.3	279%
Core net profit	202.3	96.8	109%	112.1	80%	505.5	338.1	50%
EPS (sen)	5.5	2.7	109%	3.1	80%	13.9	9.3	50%
NDPS (sen)	6.00	0.00	N/A	6.00	0%	8.00	8.00	0%
NTA/share (RM)	2.77	2.68	4%	2.77	0%	2.77	2.77	0%
EBITDA margin	21%	24%		26%		23%	24%	
EBIT margin	17%	18%		19%		18%	17%	
Pretax margin	21%	15%		12%		16%	11%	
Core net margin	12%	7%		8%		9%	7%	
Effective tax rate	10%	52%		80%		31%	56%	

Source: Company/Bloomberg

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Segment Breakdown								
FYE Mar (RM m)	4Q FY24	3Q FY24	Q-o-Q Chg	4Q FY23	Y-o-Y Chg	12M FY24	12M FY23	Y-o-Y Chg
<b>Turnover</b>								
Construction	524.7	427.6	23%	266.3	97%	1,675.6	1,069.9	57%
Property Development	694.7	501.4	39%	568.8	22%	2,029.3	1,615.2	26%
Manufacturing & Quarrying	275.0	293.6	-6%	253.2	9%	1,192.0	1,001.9	19%
Infrastructure	262.3	240.2	9%	238.5	10%	986.6	885.0	11%
Investment & Others	2.5	12.7	-80%	0.1	2991%	35.5	0.5	6978%
<b>Group Turnover</b>	<b>1,759.2</b>	<b>1,475.4</b>	<b>19%</b>	<b>1,326.8</b>	<b>33%</b>	<b>5,918.8</b>	<b>4,572.5</b>	<b>29%</b>
<b>Segment Results</b>								
Construction	-1.5	11.8	-113%	38.8	-104%	36.8	91.0	-60%
Property Development	111.1	122.5	-9%	224.9	-51%	391.0	366.7	7%
Manufacturing & Quarrying	47.7	44.9	6%	37.0	29%	181.8	152.2	19%
Infrastructure	126.2	51.3	146%	-150.5	-184%	279.7	-142.8	-296%
Investment & Others	83.3	-4.3	-2031%	4.9	1593%	74.9	15.9	370%
<b>Group PBT</b>	<b>366.8</b>	<b>226.2</b>	<b>62%</b>	<b>155.3</b>	<b>136%</b>	<b>964.2</b>	<b>483.0</b>	<b>100%</b>
<b>PBT Margin</b>								
Construction	-0.3%	2.8%		15%		2%	9%	
Property Development	16.0%	24.4%		40%		19%	23%	
Manufacturing & Quarrying	17%	15%		15%		15%	15%	
Infrastructure	48%	21%		-63%		28%	-16%	
Investment & Others	3286%	-34%		6000%		211%	3180%	
<b>Group PBT Margin</b>	<b>21%</b>	<b>15%</b>		<b>12%</b>		<b>16%</b>	<b>11%</b>	

Source: Company

IJM's Sum-of-Parts Valuation		
	Valuation (RM m)	Basis
Construction & Building Materials	5,292.7	18x FY26 PER
Property	3,839.1	50% discount to RNAV
Ports (60% ownership)	761.1	20x FY26 PER
Toll-way Concessions	1,107.2	DCF Equity value
Net Debts	-879.6	Estimated FY24F
<b>SoP</b>	<b>10,120.5</b>	
<b>SoP (RM/share)</b>	<b>RM2.77</b>	

Source: Company, Kenanga Research

IJM's Property RNAV			
Project	Remaining Land Bank (acres)	Outstanding GDV (RM m)	NPV of profits (RM m)
<b>Land banks (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	1083	453	6.3
Sabah	215	3,078	42.8
Overseas	0.45	724	36.7
	<b>3699</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>
<b>Total RNAV</b>			<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	5.09	5.45	7.1%	13,934.8	Y	07/2024	4.1	4.9	29.5%	19.2%	14.0	11.2	11.7	9.8%	12.0	2.4%
IJM	OP	2.17	2.54	17.1%	7,608.4	Y	03/2024	11.6	12.4	62.5%	7.0%	23.8	25.4	0.8	4.7%	8.0	3.7%
KERJAYA	OP	1.68	1.90	13.1%	2,118.6	Y	12/2023	11.0	14.2	18.5%	29.0%	13.8	12.0	1.6	10.9%	8.0	4.8%
KIMLUN	MP	0.850	0.890	4.7%	300.4	Y	12/2024	8.3	8.9	311.3%	7.9%	8.6	7.3	0.4	3.9%	1.0	1.2%
SUNCON	OP	2.56	3.00	17.2%	3,300.8	Y	12/2024	11.9	15.8	-9.4%	32.8%	20.2	19.2	3.4	16.6%	6.0	2.3%
WCT	OP	0.535	0.700	30.8%	758.2	Y	12/2023	0.6	3.3	-89.9%	409.8%	21.2	14.5	0.3	1.9%	0.5	0.9%
<b>Sector Aggregate</b>					<b>28,021.0</b>					<b>24.1%</b>	<b>20.0%</b>	<b>15.0</b>	<b>12.5</b>	<b>1.0</b>	<b>6.7%</b>		<b>2.5%</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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Published by:

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