

16 March 2026

IJM Corporation

IA Report: REJECT The Offer

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The Independent Adviser has issued a REJECT recommendation for SUNWAY's takeover offer, concluding that the bid fails to account for IJM's long-term intrinsic value. Management has unveiled value-unlocking initiatives over the next 2-3 years, including the potential listing of a pure-play construction business, the monetization of local toll assets, as well as a complete exit from India. While we maintain our REJECT recommendation due to the offer fundamentally undervaluing IJM's growth trajectory, the recent share price weakness presents an attractive risk-reward entry point for new investors to capture upside upon the deal's potential completion. We maintain our OUTPERFORM rating and TP of RM3.40.

IA recommended to reject the offer. Last Friday, in conjunction with the release of the Independent Adviser (IA) report pertaining to the conditional voluntary takeover offer from **SUNWAY (MP; TP: RM5.32)** to acquire all outstanding IJM shares at an offer price of RM3.15 per share, IJM conducted an analysts' briefing. Following the IA's recommendation to reject the proposal, IJM is advising its shareholders to do the same. This stance is supported by IA, M&A Securities, which valued IJM in the range of RM5.84 to RM6.48, and a second valuation by Rothschild & Co, which placed the value between RM4.80 and RM5.63.

The current offer fails to capture IJM's longer-term intrinsic value, according to the IA. The IA report valued IJM at RM20.5b-RM22.7b, with a significant portion stemming from the property segment at RM10.0b. It is believed the offer undervalues "young assets" currently in the planning or construction stages, such as the WCE, investment properties in Malaysia and the UK, and NPE 2. Additionally, several assets are in the early stages of operation, such as toll roads in India, while others, including Kuantan Port and local toll restructuring face temporary setbacks while JRL remains on track to recover from loss positions.

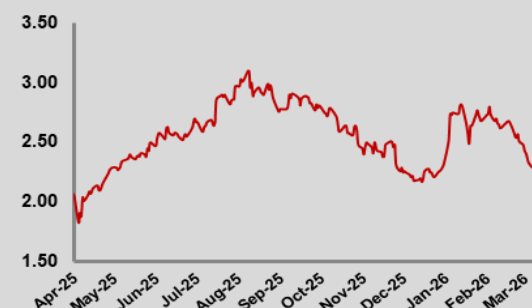
Near-term plans to unlock value. Management shared detailed plans to unlock or monetise assets to realise its investments. First, it aims to list its Malaysia and Singapore construction businesses within the next two years to provide pure-play exposure. Management guided that the ex-India construction margin has moved closer to its normalised pre-tax margin of 6%-9% in recent quarters. Secondly, the company plans to restructure local tolls to monetise them through a potential listing or business trust, while completely exiting India in the next two to three years. IJM stressed that these potential value-unlocking exercises are not captured in SUNWAY's current offer. Additionally, management indicated that should the value-unlocking exercise materialise, at least 30% of the proceeds will be distributed as a special dividend.

Our view remains reject the offer, but... There remains a material difference between the IA's valuation and our SoP valuation of RM12.4b (or RM3.40), with the property segment representing the largest variation at RM6.2b. While our TP, which has not given benefit to immediate monetization plans by IJM, is based on a 12-month investment horizon, the IA's valuation focuses on long-term intrinsic value. Since the RM3.15 offer remains below our RM3.40 TP, we maintain our REJECT recommendation. However, the offer's attractiveness has improved due to the recent weakness in IJM's share price, which has fallen 16% since the offer was tabled two months ago. Based on our SUNWAY's TP of RM5.32, the implied value of the offer for IJM is RM2.99, (based on SUNWAY's current price of RM5.14, implied offer price of RM2.90) offering a 29% upside from the current price of RM2.32 (compared to an implied value of RM2.69 and a share price of RM2.75 at the time of the initial takeover offer).

OUTPERFORM ↔

Price: **RM2.32**
Target Price: **RM3.40** ↔

Share Price Performance



KLCI	1,698.85
YTD KLCI chg	1.1%
YTD stock price chg	2.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IJM MK
Market Cap (RM m)	8,132.0
Shares Outstanding	3,505.2
52-week range (H)	3.13
52-week range (L)	1.79
3-mth avg. daily vol.	18,163,440
Free Float	80%
Beta	1.1

Major Shareholders

Employees Provident Fund	20.5%
Amanah Saham Nasional	12.9%
Kumpulan Wang Persaraan	9.6%

Summary Earnings Table

FY Mar (RM m)	2025A	2026F	2027F
Turnover	6252.0	6453.8	6941.8
EBIT	1059.6	1030.6	1236.7
PBT	791.1	802.9	1013.6
Net Profit (NP)	403.4	446.7	579.5
Core Net Profit	470.9	446.7	579.5
Consensus (NP)	-	490.7	443.3
Earnings Revision (%)	-	-	-
Core EPS (sen)	12.9	12.2	15.9
Core EPS Growth (%)	-8.2	-5.2	29.7
NDPS (sen)	8.0	8.0	8.0
BVPS (RM)	2.82	2.86	2.94
NTA/share (RM)	2.79	2.83	2.90
PER (x)	16.3	18.9	14.6
PBV (x)	0.75	0.81	0.79
P/NTA (x)	0.75	0.82	0.80
Net Gearing (x)	0.33	0.30	0.31
Net Div. Yield (%)	3.8	3.4	3.4

16 March 2026

While we are unfavourably inclined toward the offer price, we acknowledge that an enlarged entity could enhance operational efficiency. This could potentially improve IJM's construction margins while creating synergies across the property and industrial manufacturing segments.

Outlook. IJM targets RM6b–RM8b in order book replenishment for FY26, underpinned by multiple large-scale opportunities including a few data centre jobs, two industrial projects, and the >RM1b Nusantara civil servant housing project. Other key prospects include the Penang LRT Mutiara Line (Package 2), Menara 118's next block, Penang Airport expansion, and road projects in Sarawak.

Forecasts. Maintain our earnings forecasts which assume job wins of RM5b each in FY26 and FY27.

Valuations. We maintain our SoP-based TP to RM3.40. Our valuation for the construction segment remains unchanged at 22x CY27F PER, aligned with large-cap peers such as **GAMUDA (OP; TP: RM5.30)** and **SUNCON (OP; TP: RM7.76)**. No ESG-related adjustments are made to our TP, consistent with our 3-star ESG rating (see Page 5).

Investment case. We like IJM as: (i) it is poised to garner a slice of action in the Penang LRT Mutiara Line given its involvement in the previous LRT projects, (ii) its strong earnings visibility is underpinned by an outstanding construction order book of RM8.4b for Malaysia and new property sales of RM1.2b in 9MFY26, (iii) its Kuantan Port is the largest port in the East Coast, capturing export and import activities growth, and (iv) the potential divestment of its toll road to lighten its balance sheet and recycle capital could act as a re-rating catalyst. We maintain our recommendations for **OUTPERFORM** rating and **REJECT** the SUNWAY's Offer.

Risks to our call include: (i) sustained weak construction job flow, (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 (RM m)	Basis
Construction & Building Materials	6,691.5	22x CY26 PER
Property	3,839.1	50% discount to RNAV
Ports (60% ownership)	1,276.1	20x CY26 PER
Toll-way Concessions	1,773.0	DCF Equity value
Net Debts	-1,162.9	Estimated FY27F
SoP	12,416.8	
SoP (RM/share)	3.40	

Source: Company, Kenanga Research

IJM's Property RNAV			
Project	Remaining land bank (acres)	Outstanding GDV (RM m)	NPV of profit (RM m)
Land banks (as of FY23)			
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
	3,699	40,889	595.6
Unbilled Sales (as of FY23)		3,000	278.0
Property NAV (as of FY21)			6,804.6
Total RNAV			7,678.2
Discount to RNAV			50%
Discounted RNAV			3,839.1

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.
Stocks Under Coverage																	
GAMUDA	OP	4.20	5.30	26.2%	25,009.4	Y	07/2026	17.8	23.4	5.3%	31.3%	23.6	17.9	2.0	8.5%	10.0	2.4%
IJM	OP	2.32	3.40	46.6%	8,132.0	Y	03/2026	14.4	15.9	11.8%	10.1%	16.1	14.6	0.8	5.1%	8.0	3.4%
KERJAYA	OP	2.39	3.05	27.6%	3,005.0	Y	12/2026	16.7	18.9	29.8%	13.2%	14.3	12.6	2.5	17.8%	12.0	5.0%
KIMLUN	OP	1.14	1.50	31.6%	443.1	Y	12/2026	21.8	20.3	70.1%	-6.8%	5.2	5.6	0.5	10.3%	2.0	1.8%
SUNCON	OP	6.75	7.76	15.0%	8,961.1	Y	12/2026	32.0	33.6	0.3%	5.1%	21.1	20.1	8.2	38.9%	32.0	4.7%
WCT	OP	0.430	1.13	162.8%	670.3	Y	12/2026	4.1	4.4	19.2%	7.3%	10.5	9.8	0.2	1.9%	0.0	0.0%
Sector Aggregate					46,221.0					9.4%	18.3%	19.6	16.5	1.5	7.9%		2.9%

Source: 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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Published by:

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