

Outthink. Outperform.

Company Update

Getting better from here

We are upgrading our rating on Jaks Resources (Jaks) to BUY from HOLD while maintaining our TP at RM1.50. The recent share-price correction leaves Jaks' current valuation at an undemanding 7.2x FY18E PER, in our view. We believe that as the delay in Pacific Star is resolved in 2018, the catalyst for the stock will turn to the progress of its Vietnam power-plant project.

Pacific Star project can be completed by 2018

Management is targeting to complete the overdue Pacific Star project by the end of 2018, as Jaks has secured the necessary financing recently together with unbilled sales of close to RM190m. The completion of the project will also enable Jaks to dispose the business hub (previously retail podium), which was recently valued at RM240m, and lower the group's gearing. There could be downside risk to our forecast if Jaks fails to meet the targeted schedule, as it will have to recognise higher LAD costs.

Completion of the project can help to reduce losses

The losses from its property segment are derived from both its Evolve Concept City Mall and Pacific Star. Although the turnaround of Evolve will take some time, the losses from Pacific Star can be reduced, as they are mainly caused by LAD costs related to delays in project completion. LBIT from the property segment was RM18.0m in 1HFY17, while EBIT for the group was only RM3.4m, and the LAD cost from the delay was RM13.0m.

Better prospects ahead

We are also expecting a higher construction profit from both its domestic and Vietnam projects, coupled with a RM110m one-off net gain arising from the proposed land disposal to be recorded in 2H17. Management has indicated that the proceeds from the disposal will be used to lower its current gearing ratio from 0.84x to 0.43x. We have also tweaked our EPS forecast to reflect the recent disposal gains in FY18-19E, while lowering our EPS in FY17E to reflect higher corporate costs.

Upgrade to BUY with an unchanged TP at RM1.50

We upgrade our call to BUY from HOLD with an unchanged RNAV-based 12-month TP of RM1.50 based on its current valuation. The key downside risks will likely arise from: 1) the progress of its Vietnam project, 2) domestic construction order book wins, and 3) higher-than-expected losses from its property segment.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue	461.2	632.2	1,041.2	1,376.3	952.5
EBITDA	39.7	50.2	36.2	96.3	130.7
Pretax Profit	55.3	(6.9)	103.0	68.1	103.1
Net Profit	41.5	0.8	132.3	85.4	93.1
EPS (Sen)	9.5	0.2	27.4	17.7	19.3
PER (x)	13.4	699.5	4.6	7.2	6.6
Core net profit	0.0	19.2	29.9	85.4	93.1
Core EPS (sen)	0.0	4.4	6.2	17.7	19.3
Core EPS chg (%)	nmf	>100	41.1	185.9	9.0
Core PER (x)	nmf	28.9	20.5	7.2	6.6
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	18.0	46.8	42.5	16.0	11.8
Chg in EPU (%)			(6.0)	2.9	2.8
Affin / Consensus (x)			0.5	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Jaks Resources

JAK MK
Sector: Utilities

RM1.27 @ 13 October 2017

BUY (upgrade)

Upside: 20%

Price Target: RM1.50

Previous Target: RM1.50



Price Performance

	1M	3M	12M
Absolute	-7.4%	-13.2%	25.6%
Rel to KLCI	-5.6%	-13.1%	19.4%

Stock Data

Issued shares (m)	489
Mkt cap (RMm)/(US\$m)	636.3/150.9
Avg daily vol - 6mth (m)	2.2
52-wk range (RM)	0.99-1.79
Est free float	55.0%
BV per share (RM)	1.20
P/BV (x)	1.04
Net cash/ (debt) (RMm)	(473.9)
ROE (2017E)	4.4%
Derivatives	No
Shariah Compliant	No

Key Shareholders

Koon Yew Yin	20.5%
Ang Lam Poah	9.1%
Tan Kit Pheng	8.2%
Original Invention S	5.8%

Source: Affin Hwang, Bloomberg

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Exiting non-core and focusing on what matters

Upgrading to BUY with an unchanged target price of RM1.50

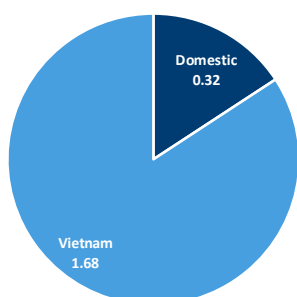
We are upgrading our call on Jaks Resources (Jaks) to BUY with an unchanged RNAV-based target price of RM1.50. We believe that the recent share-price correction provides a buying opportunity, as the current valuation is undemanding, trading at only 7.2x FY18E PER. We believe the share-price correction (-20% over the past 3 months) was due to the disappointing 1H17 results, as the property segment failed to deliver and registered losses. However, management is confident that the Pacific Star project can be handed over by 2018, and losses narrowed. Focus would then turn to the Vietnam power-plant project, which is 12% completed and on track for completion by 2020.

Fig 1: RNAV valuation for JAKS

	Equity Value (RM m)	Per share	Comments
Construction (domestic)	37	0.08	PER at 8x
Disposable assets (non-core)			
Evolve City Mall	202	0.42	51% stake at book value
Pacific Star Business Hub	51	0.11	51% stake at book value
Other lands for disposal	177	0.37	Book Value
Total domestic asset value	467	0.97	
-) Gross Debt	-341	-0.71	Excluding minority interest share
+) Cash	40	0.08	
RNAV (without Vietnam)	166	0.34	
Vietnam IPP	412	0.85	DCF (Only JAKS's 30% stake)
Vietnam EPC contract	326	0.68	PER at 8x
RNAV (Vietnam only)	739	1.53	
Group RNAV	905	1.88	
Discount to RNAV	20%	20%	
Target Price (RM)	724	1.50	
# of shares	482.2		

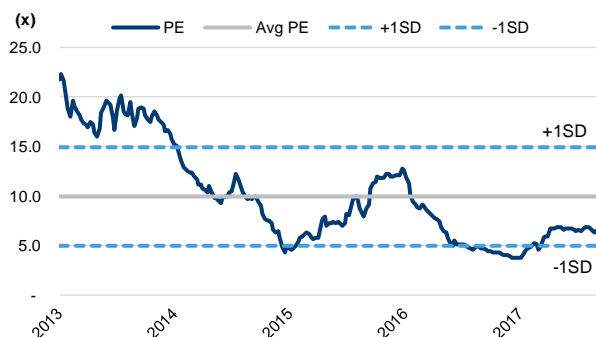
Source: AffinHwang estimates and forecasts

Fig 2: Bulk of the RNAV is derived from the Vietnam IPP project



Source: AffinHwang forecasts

Fig 3: JAKS' forward PER chart since 2013



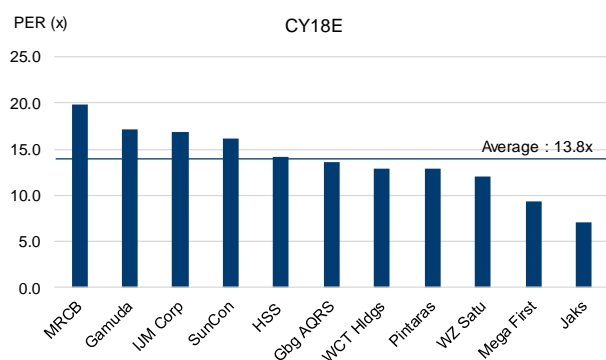
Source: Bloomberg, AffinHwang forecasts

Out think. Out perform.

Undemanding valuation relative to peers

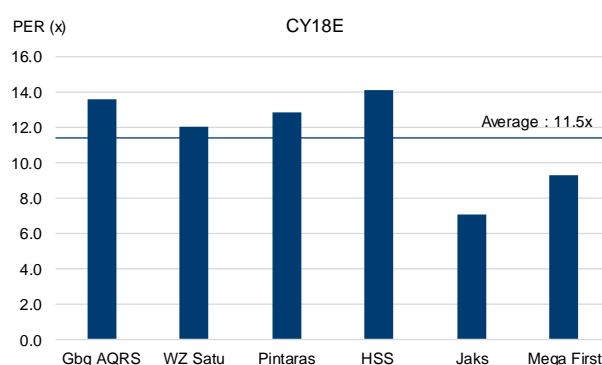
At 7x FY18E PER, Jaks is trading at a sharp discount relative to the 11.5x FY18E PER its construction peers trade at based on similar market capitalisations. At our current TP of RM1.50/share, the implied FY18E PER is only at 8.5x. Assuming Jaks' fair value was based on the sector average at 13.8x, then fair value for Jaks would be RM 2.45/share, which would be more than 90% upside from the current market price.

Fig 4: Jaks' valuation is undemanding relative to industry peers



Source: Bloomberg, AffinHwang forecasts

Fig 5: The difference is still visible if we only compare to peers with less than RM1bn in market cap



Source: Bloomberg, AffinHwang forecasts

Disposing its non-core to realign focus

Jaks is in the midst of disposing its land-bank to enable it to focus its efforts entirely on its core operations. We expect the 2 land disposal deals worth RM183m to be completed by the end of 2017, which will enable Jaks to record around a RM110m net gain in 2017E. The disposal is in line with management plans to lower its gearing by monetising its non-core assets to focus on its construction operations. Management will also have more flexibility to take part in new projects with cash from the disposals.

Losses from property segment set to narrow

The losses from the property segment are mainly from its Evolve Concept Mall and the Pacific Star mixed development project. We believe that more work is needed to re-energise the Evolve Concept Mall, in order to attract more tenants and improve its overall occupancy rate of ~65% currently. While it might take some time for the Evolve Concept Mall to turn around, the problem for Pacific Star is more straightforward as the losses were mainly due to the LAD (Liquidated Ascertained Damages) related to the late delivery of the project. As management works toward completing the project by end 2018, we believe the losses can be narrowed by then.

Vietnam EPC earnings to peak in 2019

The construction of the Vietnam power plant is still on schedule for completion by 2020. Based on management guidance, the bulk of the earnings will be recognised during late 2018 and 2019, as the company will start assembling and installing the parts on the site that were fabricated in other locations. We are expecting Jaks to recognise 50-60% of the USD450m Vietnam EPC contract in 2018-19. As such we believe that core earnings growth in 2018 and 2019 will be stronger than in 2017, and will also be the re-rating catalyst for the stock.

Jaks Resources – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Revenue	461.2	632.2	1,041.2	1,376.3	952.5
Operating expenses	(421.5)	(582.0)	(1,005.1)	(1,280.1)	(821.8)
EBITDA	39.7	50.2	36.2	96.3	130.7
Depreciation	(6.7)	(14.6)	(11.9)	(11.7)	(11.6)
EBIT	33.0	35.6	24.3	84.5	119.0
Net int inc/(exp)	(19.2)	(24.1)	(23.7)	(16.4)	(15.9)
Exceptional items	41.5	(18.5)	102.4	-	-
Pretax profit	55.3	(6.9)	103.0	68.1	103.1
Tax	(8.1)	(9.5)	(2.1)	(17.0)	(25.8)
Minority interest	(5.7)	17.2	31.3	34.3	15.8
Net profit	41.5	0.8	132.3	85.4	93.1

Balance Sheet Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Fixed assets	19.9	17.9	16.7	15.5	14.5
Other long term assets	707.7	767.0	749.2	779.2	809.2
Total non-curr assets	727.6	784.9	765.9	794.8	823.7
Cash and equivalents	46.0	39.6	229.4	118.8	62.4
Stocks	9.2	4.2	6.4	8.5	5.9
Debtors	71.2	263.6	434.1	573.9	397.1
Other current assets	631.2	465.6	465.6	465.6	465.6
Total current assets	757.6	773.0	1,135.6	1,166.7	931.0
Creditors	150.4	438.5	691.0	859.9	585.9
Short term borrowings	230.3	283.5	283.5	133.5	133.5
Other current liabilities	181.9	5.3	5.3	5.3	5.3
Total current liab	562.7	727.2	979.8	998.7	724.7
Long term borrowings	326.2	247.5	237.5	227.5	217.5
Other long term liabilities	0.2	0.2	0.2	0.2	0.2
Total long term liab	326.4	247.6	237.6	227.6	217.6
Shareholders' Funds + MI	596.0	583.0	684.0	735.1	812.5

Cash Flow Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Pretax profit	55.3	(6.9)	103.0	68.1	103.1
Depreciation & amortisation	6.7	14.6	11.9	11.7	11.6
Working capital changes	69.4	91.4	79.8	27.1	(94.7)
Cash tax paid	(8.1)	(9.5)	(2.1)	(17.0)	(25.8)
Others	(29.6)	29.4	(10.0)	(10.0)	(10.0)
Cashflow from operations	93.6	118.9	182.6	80.0	(15.8)
Capex	(2.2)	(0.6)	(0.6)	(0.6)	(0.6)
Others	(119.9)	(69.2)	17.8	(30.0)	(30.0)
Cash flow from investing	(122.1)	(69.8)	17.2	(30.6)	(30.6)
Debt raised/(repaid)	(97.7)	(27.4)	(10.0)	(160.0)	(10.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Net int inc/(exp)	(8.0)	(12.1)	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Others	61.1	(20.8)	0.0	0.0	0.0
Cash flow from financing	(44.5)	(60.3)	(10.0)	(160.0)	(10.0)
Free Cash Flow	91.4	118.3	182.0	79.4	(16.4)

Source: Company, Affin Hwang forecasts

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	(6.1)	37.1	64.7	32.2	(30.8)
EBITDA (%)	(46.2)	26.4	(28.0)	166.2	35.7
Net profit (%)	195.7	(98.1)	16,520.8	(35.4)	9.0
Profitability					
EBITDA margin (%)	8.6	7.9	3.5	7.0	13.7
PBT margin (%)	12.0	-	1.1	9.9	5.0
Net profit margin (%)	9.0	0.1	12.7	6.2	9.8
Effective tax rate (%)	14.7	-	137.1	2.0	25.0
ROA (%)	0.0	1.2	1.6	4.4	5.3
Core ROE (%)	0.0	3.3	4.4	11.6	11.5
ROCE (%)	0.0	2.3	3.2	8.9	9.0
Dividend payout ratio (%)	-	-	-	-	-
Liquidity					
Current ratio (x)	1.3	1.1	1.2	1.2	1.3
Op. cash flow (RMm)	39.7	50.2	36.2	96.3	130.7
Free cashflow (RMm)	91.4	118.3	182.0	79.4	(16.4)
FCF/share (sen)	20.9	27.0	37.8	16.5	(3.4)
Asset management					
Debtors turnover (days)	56.4	152.2	152.2	152.2	152.2
Stock turnover (days)	9.1	2.8	2.8	2.8	2.8
Creditors turnover (days)	149.1	295.6	295.6	295.6	295.6
Capital structure					
Net gearing (%)	101.9	97.3	45.8	33.5	35.4
Interest cover (x)	2.1	2.1	1.5	5.9	8.2

Quarterly Profit & Loss

FYE 31 Dec (RMm)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Revenue	159.1	209.1	149.3	154.8	170.9
Operating expenses	(141.7)	(186.1)	(141.4)	(142.2)	(158.2)
EBITDA	17.4	23.0	8.0	12.6	12.7
Depreciation	(3.3)	(3.9)	(4.5)	(3.5)	(3.0)
EBIT	14.2	19.2	3.4	9.0	9.7
Int expense	(6.6)	(7.0)	(4.6)	(6.1)	(7.2)
Exceptional items	-	-	(26.2)	-	(7.1)
Pretax profit	7.6	12.2	(27.3)	3.0	(4.6)
Tax	(1.4)	(1.7)	(4.2)	(0.3)	(0.3)
Minority interest	3.6	3.4	7.5	4.9	6.8
Net profit	9.8	13.9	(24.0)	7.5	2.0
Margins (%)					
EBITDA	10.9	11.0	5.3	8.1	7.4
PBT	4.8	5.8	(18.3)	1.9	(2.7)
Net profit	6.2	6.6	(16.1)	4.9	1.2

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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