

JAKS Resources

Progressing Right On-Track

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We met up with management to get clarification on its FY15 results performance and the progress of its flagship Vietnam project. We came back feeling reaffirmed with its prospects premised on managements' commitment and focus in executing its on-going projects, which are progressing well on time coupled with its aim to de-gear further from its current net gearing levels of 1.0x through the disposal of its investment property assets and development project. Hence, we are reiterating our Trading Buy call on JAKS with an unchanged FV of RM1.53 based on 25% discount to its SoP value of RM2.04.

2015, a year of improvements. Recently, JAKS just concluded its FY15 results, which registered Core Net Profit (CNP) of RM14.5m and was lower than our full-year expectations of RM19.3m. Our CNP was derived after excluding the net gains from the disposal of the 70% stake in a subsidiary (RM30.1m), disposal gains on PPE (RM33.0m), impairment losses from three of its divisions; which are construction (RM23.0), property (RM6.0m) and manufacturing (RM7.0m), totalling to RM36.0m.

However, we deem that performances are still commendable as they manage to grow its CNP by 4.7x, YoY, albeit a lower revenue (-8%), thanks to better contribution from its construction (+9%), trading (+11x) division and also lower minority interest contribution (-72%).

Construction right on track! One of the major highlights during our meeting with JAKS was the progress of its c.RM1.9b Vietnam project. According to management, the non-technical works are progressing as planned and the ground-breaking ceremony is expected to take place by month-end. Hence, they are expecting minimal contribution from Vietnam in 1H16, as the contribution is only expected to gradually increase in 2H16 when construction progress picks up pace. As for its local projects, JAKS has amassed a total outstanding orderbook of c.RM800.0m which coupled with property unbilled sales of RM300.0m will keep them busy for the next 2-3 years.

De-gearing plans intact. In our previous report dated 6-Oct-15, we highlighted that management is looking at the disposal of its 51%-owned mall in Ara Damansara i.e. Evolve Concept Mall for a total consideration of c.RM450.0m. On top of that, management is also looking at the possibility to secure an en-bloc sale for its development project, i.e. Pacific Star with an estimated GDV of RM300.0m in FY16. Notably, JAKS managed to improve its net gearing to 1.02x in 4Q15, vis-à-vis 1.26x as per our previous report, and we reckon that should they successfully proceed with the two disposals as planned, JAKS would be in a strong net cash position.

More earnings upside! Should JAKS prove able to proceed with its two planned disposals, we believe there could be more earnings upside to our FY16-17E earnings, say by another 10%-15%, arising from the potential interest savings from the full settlement of its debts. However, we have yet to factor this into our FY16-17E earnings estimates at this juncture, as the timing of the disposals remains fluid.

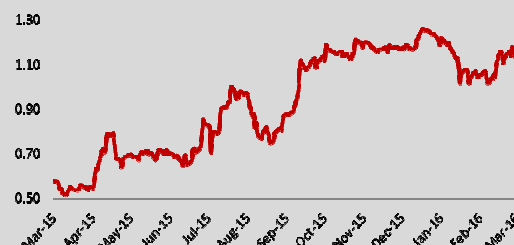
Maintain Trading Buy. Post meeting, we felt reassured with JAKS' prospects given their timeliness in managing the progress of their on-going construction projects, especially on its Vietnam's non-technical works, which are expecting to see major contributions from 2H16 onwards. Besides, we also like JAKS for its strong outstanding orderbook of RM2.7b and unbilled sales of c.RM300.0m, providing them earnings visibility and growth for the next 2-3 years.

Hence, we reiterate our Trading Buy call on JAKS with an unchanged Fair Value of RM1.53 based on a 25% discount to its Sum-of-Parts value of RM2.04 (refer overleaf for more details), with an implied FY16E PER of 7.1x which is still below our construction mid-cap average. We deem that our applied discount of 25% to JAKS is fair as it is inline with the SOP discount range of 25% - 30% applied to the developers cum contractors under our coverage.

Trading Buy ↔

Price: RM1.12
Target Price: RM1.53 ↔

Share Price Performance



KLCI	1,687.86
YTD KLCI chg	-0.3%
YTD stock price chg	-9.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	JAK MK Equity
Market Cap (RM m)	491.0
Issued shares	438.4
52-week range (H)	1.28
52-week range (L)	0.51
3-mth avg daily vol:	1,204,122
Free Float	82%
Beta	1.7

Major Shareholders

LAM POAH ANG	7.4%
ORIGINAL INVENTION S	5.7%
EMPLOYEES PROVIDENT	5.0%

Summary Earnings Table

FY Dec (RM m)	2015A	2016E	2017E
Turnover	449.4	894.9	905.2
EBIT	43.9	125.9	153.8
PBT	55.4	112.4	140.1
Net Profit (NP)	14.5	94.2	120.7
Consensus (CNP)	n.a.	81.0	95.0
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	3.3	21.5	27.5
EPS growth (%)	472%	552%	28%
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.14	1.31	1.58
PER (x)	34.3	5.3	4.1
Price/BV (x)	1.0	0.9	0.7
Net Gearing (x)	1.0	1.0	0.6
Dividend Yield (%)	0.0%	0.0%	0.0%



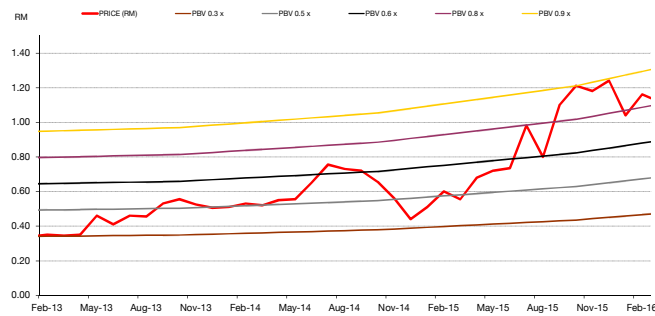
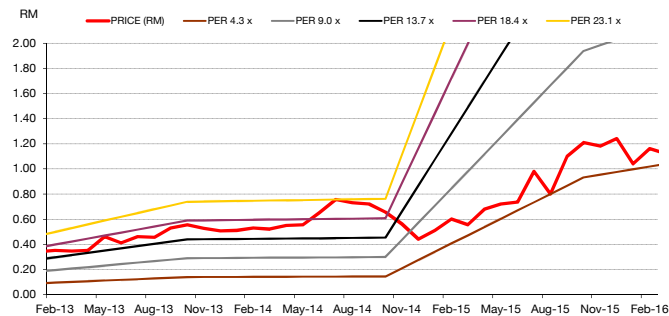
Sum-of-parts valuation

Sum-of-Parts	RM	Remarks
Local Construction	0.31	Based on 9x FY16E PER inline with our mid-cap construction players
Vietnam Construction Job	0.64	DCF @ 6% of Vietnam EPC contract net profits
Property development	0.14	Based on 5x FY16E inline with our mid-cap property players
Vietnam IPP	0.72	30% stake, (kE: 15.0%, IRR: 14.8%)
Mall	0.24	51% stake of 400k sq ft NLA @ RM983 psf net debt
	2.04	
SoP Discount	25%	
Fair Value	1.53	

Source: Kenanga Research

Fwd PER Band

Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.69	534.0	11.2	10.4	9.9	2.9	5.5	0.6	47.5	51.5	54.2	8.4	5.2	0.73	Market Perform	-9.80
GAMUDA BHD	4.63	11139.3	16.2	17.5	15.7	2.6	13.2	2.3	687.2	636.8	709.7	-7.3	11.4	4.67	Market Perform	-0.64
IJM CORP BHD	3.40	12181.3	24.9	20.0	18.2	4.4	3.3	0.7	488.6	610.4	669.0	24.9	9.6	3.51	Market Perform	0.59
KIMLUN CORP BHD	1.62	486.9	7.6	7.1	6.6	3.8	13.8	1.0	64.4	68.7	73.4	6.7	6.8	2.05	Outperform	17.39
MUHIBBAH ENGINEERING (M) BHD	2.25	1055.8	11.9	11.4	10.1	2.2	8.8	1.0	88.9	92.9	104.9	4.5	12.9	2.79	Outperform	1.81
HOCK SENG LEE BERHAD	1.95	1071.6	14.1	12.4	12.0	2.6	11.9	1.5	76.2	86.1	89.3	13.0	3.7	2.03	Market Perform	3.17
NAIM HOLDINGS BERHAD	2.44	578.1	262.8	15.8	13.9	1.6	2.7	0.4	2.2	36.7	41.7	1568.2	13.6	1.56	Underperform	-0.81
WCT HOLDINGS BHD	1.58	1927.1	39.1	22.0	11.3	3.0	3.5	0.8	49.3	87.4	170.5	77.3	95.1	1.51	Market Perform	-1.86
MMC CORP BHD	1.75	5328.9	44.9	21.2	16.8	0.0	2.7	0.6	118.8	251.6	316.6	111.8	25.8	2.72	Outperform	-10.71
MITRAJAYA HOLDINGS BHD	1.14	731.5	8.3	6.9	6.4	3.7	22.9	1.6	87.7	105.8	114.4	20.6	8.1	1.77	Outperform	-5.00
<i>Average</i>			<i>44.1</i>	<i>14.5</i>	<i>12.1</i>											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	1.10	592.2	-414.7	15.8	9.5	2.5	3.3	0.5	-1.4	37.4	62.5	-2721.4	67.1	n.a.	Not Rated	-6.78
PROTASCO	1.44	483.3	7.3	5.9	n.a.	6.9	n.a.	n.a.	66.2	81.4	n.a.	22.9	n.a.	2.25	Trading Buy	-10.56
PINTARAS JAYA	3.30	537.2	10.4	12.6	8.9	5.0	n.a.	n.a.	51.9	42.6	60.1	-17.9	41.1	4.78	Trading Buy	0.00
GABUNGAN AQRS	0.85	331.9	-33.6	10.9	8.8	1.8	n.a.	n.a.	-9.9	30.5	37.9	-408.5	24.3	n.a.	Not Rated	2.41
GADANG HOLDINGS	1.92	451.4	7.7	6.0	5.6	2.9	17.2	1.0	58.8	74.7	80.2	27.0	7.4	2.00	Take Profit	-9.43
AZRB	0.59	284.4	12.4	n.a.	n.a.	n.a.	n.a.	n.a.	22.9	n.a.	n.a.	n.a.	n.a.	n.a.	Not Rated	-7.09
TRC SYNERGY	0.38	182.6	6.0	8.9	5.5	2.6	6.1	0.5	30.7	20.6	33.4	-32.9	62.1	n.a.	Not Rated	2.70
BINA PURI	0.40	93.1	28.3	11.6	6.7	5.0	n.a.	n.a.	3.3	8.0	14.0	142.7	75.0	n.a.	Not Rated	-6.98
JAKS RESORUCES	1.12	491.0	33.9	5.2	4.1	0.0	16.4	0.9	14.5	94.2	120.7	549.7	28.1	1.53	Trading Buy	-9.68
<i>Average</i>			<i>-44.4</i>	<i>10.2</i>	<i>7.0</i>											

Source: Kenanga Research

09 March 2016

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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