

JAKS Resources Bhd

Improving Outlook

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INVESTMENT MERIT

We are bringing a closure to our previous 'Trading Buy' call on JAKS given that the share price had performed relatively well with a year-to-date return of 52% coupled with its rich valuations as it is trading at FY18E PER of 12.0x which is higher than its peer average of 11.0x. We are projecting FY17-18E CNPs of RM41.5m-RM56.1m. Not Rated with a Fair Value of RM1.54 based on Sum-of-Parts valuation.

Striving hard to deliver... Since our last trading buy call with a fair value of RM1.53 back in March-2016, its earnings performance has been weak, registering a net profit of only RM0.7m for FY16 vis-à-vis net profit of RM41.5m in FY15, down by 98%, YoY. Its weak earnings delivery was mainly due to unexpected losses from its investment property i.e. EVOLVE concept mall, liquidated and ascertained damages from its Besut and Pacific Star projects. However, its 1Q17 saw a turnaround with its net profit surging >600%, YoY to RM7.5m, mainly driven by the strong contribution from its Vietnam project.

Construction in progress. While JAKS had faced some delays in their local and overseas construction jobs back in FY16 due to various reasons, we believe works have finally picked up pace as they staged strong growth in their construction revenue at 51% YoY in 1Q17, of which 60% were from local jobs while the remaining 40% from its Vietnam project. Going forward, we are expecting its construction division to be the main anchor for the group's profitability for the next two years underpinned by a decent outstanding order-book size of RM2.6b of which 63% are from Vietnam while the remaining from Malaysia.

Asset disposal still on the cards. To recap, JAKS' net gearing was high at 0.86x back in FY16 and management has always been looking for suitors to dispose of its Evolve Concept mall for de-gearing purposes. While net gearing had significantly improved to 0.63x in 1Q17 thanks to its cash call exercise which raised RM59.6m from the recent placement of new shares, management are still looking to further lighten up its balance sheet through the sale of its assets i.e. Evolve Concept Mall and its land in USJ measuring c.15 acres which we reckon would easily raise proceeds of up to RM400.0-500.0m, bringing them into a net cash position.

Earnings forecast. Going forward, we are projecting FY17-18E CNPs of RM41.5-56.1m, staging a strong recovery from its poor FY16 performance with an estimated net profit growth of >100%, YoY, driven by its construction division's outstanding order-book of RM2.6b, as its local and overseas projects continue to pick up pace.

Closing position. We are closing our previous position for JAKS with a take profit call at a fair value of RM1.54 based on Sum-of-Parts valuation. At our Target Price of RM1.54, it implies FY18E PER of 12.0x, which is relatively rich as compared to its peers' average of 11.0x, especially when there were several times of hiccups in earnings delivery in the past. Furthermore, its share price has performed relatively well since beginning of the year, registering a year-to-date return of 49%. We believe that the next catalyst for JAKS would be the disposal of assets, which will lighten its balance sheet to take on more jobs in the future both locally and overseas.

	Rating	Fair Value
Last Price	-	RM1.52
Kenanga	Not Rated	RM1.54
Consensus	Hold	RM1.60

Stock Information

Shariah Compliant	No
Stock Name	JAKS Resources Bhd
CAT Code	4723
Industry	Capital Goods
Industry Sub-sector	Construction & Eng.
YTD stock price chg	49.0%
Market Cap (RM m)	732.9
Issued shares (m)	482.2
52-week range (Hi)	1.79
52-week range (Low)	0.89
3-mth avg daily vol:	4,197,873
Free Float	63%
Beta	1.4
Altman's Z-score	1.16

Major Shareholders

YIN KOON YEW	20.5%
LAM POAH ANG	8.6%
PHENG TAN KIT	8.3%

Financials

FYE Dec (RM'm)	2016A	2017E	2018E
Turnover	640.4	705.2	872.2
EBIT	14.6	86.7	92.2
PBT	-7.3	70.5	76.2
Core Net Profit	0.7	41.5	56.1
Consensus (NP)	n.a.	61.9	85.4
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	0.2	9.5	12.8
EPS growth (%)	-98%	5539%	35%
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.15	1.25	1.37
PER (x)	917.2	16.3	12.0
Price/BV (x)	1.3	1.2	1.1
Net Gearing (x)	1.0	0.7	0.2
Dividend Yield (%)	0.0%	0.0%	0.0%

Quarterly Financial Data

	3Q16	4Q16	1Q17
Revenue	209.1	149.3	154.8
PBT	12.2	-27.3	3.0
Net Profit (NP)	13.9	-24.0	7.5
EPS (sen)	3.16	-5.47	1.72
EPS growth (QoQ)	41%	-273%	131%
Rev growth (QoQ)	31%	-29%	4%
PBT Margin	6%	-18%	2%

Peers Comparisons	PER (FY17)	Div. Yld (%)	Mkt Cap (RM'm)
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Refer to peersheet at back





Comment: JAKS is currently in a mild downwards consolidation after rallying 64 sen (59.3%) from RM1.08 to RM1.72 in the period from 28-Feb to 5-Apr. Technical outlook for JAKS is increasingly negative at this juncture, with share prices trading below its 20-day and 50-day SMAs, with an emergence of a “death-cross” between the two key SMAs in end-May. Its MACD failed to recover as well, after a downward cross to below its signal line in April. From here, expect bias to be on the downside towards RM1.48 (S1) and RM1.39 (S2) further below. Any bounce towards RM1.55-1.60 (R1) can be viewed as an opportunity to sell into strength

About the stock:

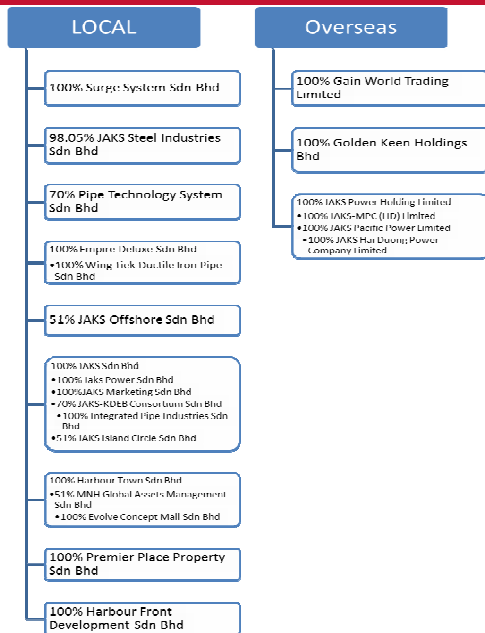
Name : JAKS Resources Berhad
Bursa Code : JAKS
CAT Code : 4723

Key Support & Resistance level

Resistance : RM1.55-1.60 (R1)
Support : RM1.48 (S1) RM1.39 (S2)
Outlook : Bearish

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- JAKS group of companies is primarily engaged in water supply and infrastructure construction projects, manufacturing, supply and trading of mild steel pipes, steel pipes and other steel related products.
- The Group expanded its construction activities to cover property construction in recent years. With the experience and skills gained in the construction business, the Group has moved into property development of mixed residential and commercial development projects with strategically located projects at Ara Damansara and Section 13 in Petaling Jaya.
- Internationally, the Group is diversifying into power and other large scale infrastructure projects. The strategy to invest overseas is to provide a safeguard against any adverse effects of cyclical local business activities especially in the manufacturing and construction sectors.

BUSINESS SEGMENTS

The Group has 5 operating segments, namely:

- Manufacturing:** Mainly manufacturing of pipes.
- Trading:** Mainly trading in sheet piles, steel bars, mild steel and special pipes, other steel related products, building materials and supply of products for the water supply industry.
- Construction:** Provision of sub-contracting activities, general contractor, supplier of building materials and also construction.
- Investment:** Investment holding.
- Property development:** Development of residential and commercial activities.

16 June 2017

Peer Comparison

CORE COVERAGE

NAME	Price (15/6/17)	Mkt Cap (RMm)	PER (x)			Est. Div. Yld. (%)	Est. ROE (%)	P/BV (x)	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating	YTD (%)
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd				Actual	1 Yr Fwd	2 Yr Fwd					
EVERSENDAI CORP BHD	1.13	875	-6.2	14.8	13.0	1%	6%	0.9	-140.3	58.9	67.1	-142%	14%	0.80	Underperform	96.5
GAMUDA BHD	5.39	13141	24.3	21.4	20.5	2%	10%	1.8	626.1	709.5	741.7	13%	5%	5.45	Market Perform	12.8
IJM CORP BHD	3.49	12653	25.3	23.0	20.6	2%	6%	1.3	499.9	549.5	612	10%	11%	3.51	Market Perform	9.1
KIMLUN CORP BHD	2.27	704	8.6	10.0	9.0	3%	12%	1.2	82.2	70.7	78.3	-14%	11%	2.27	Market Perform	9.1
MUHIBBAH ENGINEERING (M) BHD	2.77	1331	16.4	14.1	13.5	1%	11%	1.5	87.7	101.5	106.2	16%	5%	2.74	Market Perform	24.2
HOCK SENG LEE BERHAD	1.62	890	15.8	14.5	12.0	1%	8%	1.2	56.4	61.4	74.3	9%	21%	1.50	Underperform	1.2
WCT HOLDINGS BHD	2.14	2996	42.3	24.4	21.7	1%	5%	1.3	84.8	146.9	165.3	73%	13%	1.83	Underperform	24.4
MITRAJAYA HOLDINGS BHD	1.39	933	10.8	10.3	10.6	4%	15%	1.5	97.3	102.1	98.6	5%	-3%	1.49	Market Perform	10.3
SUNWAY CONSTRUCTION GROUP	2.00	2586	22.0	17.8	17.6	2%	25%	4.5	117.7	145.2	146.9	23%	1%	2.00	Market Perform	17.6
KERJAYA PROSPEK GROUP BHD	3.28	1691	18.5	14.7	12.6	2%	15%	2.3	100.0	125.9	146.3	26%	16%	3.10	Market Perform	51.2
<i>Average</i>				17.7	16.5	15.1										

NOT RATED/ON OUR RADAR

NAME	Price	Mkt Cap (RMm)	PER (x)			Est. Div. Yld. (%)	Est. ROE (%)	P/BV (x)	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating	YTD (%)
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd				Actual	1 Yr Fwd	2 Yr Fwd					
MUDAJAYA	1.47	791	-3.0	20.6	15.0	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	61.5
PROTASCO	1.09	462	8.5	6.3	6.3	6%	17%	1.1	44.4	59.8	60.1	35%	1%	1.36	Trading Buy	-3.5
PINTARAS JAYA	4.05	667	37.1	15.6	13.0	5%	13%	2.0	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	15.1
GABUNGAN AQRS	1.43	558	24.7	18.7	9.5	1%	1%	0.3	22.6	29.8	58.9	32%	98%	1.51	Trading Buy	58.0
GADANG HOLDINGS	1.28	839	7.9	8.5	8.2	3%	18%	1.5	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	21.9
AZRB	1.10	585	20.5	18.3	n.a.	2%	n.a.	n.a.	26	29	n.a.	12%	n.a.	n.a.	Not Rated	73.2
TRC SYNERGY	0.74	356	11.9	10.8	13.5	1%	8%	0.8	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	94.7
BINA PURI	0.42	112	100.2	6.7	6.7	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-3.4
GKENT	4.02	1510	14.9	16.1	14.2	2%	23%	3.7	101.4	93.8	106	-7%	13%	2.8	Trading Buy	32.2
PESONA	0.66	440	21.6	12.2	8.9	3%	22%	2.8	20	35.3	48.5	77%	37%	0.485	Take Profit	9.1
JAKS	1.52	733	0.9	10.8	7.8	0%	13%	1.4	736	61.9	85.4	-92%	38%	1.54	Not Rated	49.0
<i>Average</i>				22.3	13.2	10.3										

Source: Kenanga Research

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