



JAKS RESOURCES BERHAD

Neutral

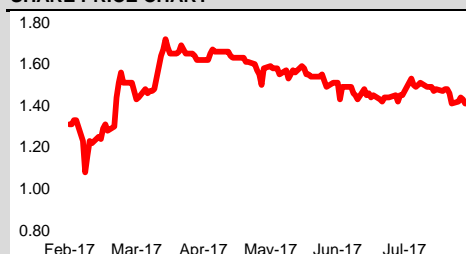
DESCRIPTION

Primarily engaged in the integrated water works industry in the early years, and now moved into infrastructural projects and land development in both domestic and international market. The new focus now is on its 30%-owned JV to build a 1200MW coal fired power plant in Vietnam.

12-Month Target Price RM1.50
Current Price RM1.41
Expected Return +6%

Market Sector Main Construction
Bursa Code 4723
Bloomberg Ticker JAK MK
Shariah Compliant No

SHARE PRICE CHART



52 Week Range (RM) RM0.98 – RM1.79
3-Month Average Vol ('000) 2,433.9

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-2.8	-9.0	5.2
Relative Returns	-1.9	-6.5	1.2

KEY STOCK DATA

Market Capitalisation (RM m) 680.0
No. of Shares (m) 482.2

MAJOR SHAREHOLDERS

	%
Koon Yew Yin	20.5
Ang Lam Poah	8.8
Tan Pheng Kit	8.3

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Weak Earnings

JAKS Resources' (JAKS) 2QFY17 net profit came in at a paltry RM2.0m (-79.7% YoY, -73.3% QoQ) which again below our and consensus expectations. The key profit driver is its Vietnam EPC construction work but the losses from its property development and property investment divisions almost wiped out all the gains. It also incurred charges for the granting of share options for the long-term incentive plan (LTIP) amounting to RM7.6m. Ex-LTIP charges, the Group's 2H2017 net profit of RM17.1m only constituted c.29% and 28% of our and consensus full year estimates. Worryingly, we understand that the liquidated and ascertained damages (LAD) from Pacific Star could drag till next year, which is worse than expected. As such, we adjusted downwards our FY17/18 earnings by 39%/ 11% respectively after accounting for LTIP charges and LAD charges. The earnings from its EPCC contract remains to be patchy, with only RM10.2m recognized in Q2FY17, down from RM14.9m in Q1FY17. Until we see more progress i.e. billings from Vietnam, we would rather err on the side of caution and maintain **Neutral** for now, with unchanged RM1.50 TP, derived from c.30% discount to our SOTP estimates of RM2.20.

§ **Higher revenue from construction.** Construction revenue rose 25.8% YoY, driven by progress billing from local jobs. We understand that its EPC construction in Vietnam is progressing on schedule and expected to be stronger in the coming quarters. Outstanding orderbook is estimated at RM2.5bn, depleted from RM2.6bn in the last quarter. The EPC contract for Vietnam IPP alone is estimated at RM1.63bn, and the other key contract is SUKE (RM484m contract value).

§ **Earnings drag from property.** Property division continued to drag earnings, with c.RM13m net loss incurred during the quarter, from RM10m loss in Q1FY17. Again, the losses were due to operating cost and expenses related to financing cost and building depreciation of the Evolve Concept Mall amounting to c.RM7.9m. Meanwhile, the Pacific Star project at Section 13, Petaling Jaya also incurred RM6.9m LAD charges. Unbilled sales stood at RM194.1m in 1QFY17.

KEY FORECAST TABLE

FYE Dec (RM m)	2015A	2016A	2017F	2018F	2019F	CAGR
Revenue	461.2	640.4	1,000.2	1,163.4	1,132.9	25.2%
Operating Profit	74.5	16.5	137.9	161.5	162.5	21.5%
Pre-tax Profit	55.3	-7.3	59.6	115.8	132.7	24.5%
Net Profit	41.5	-16.7	36.2	70.4	80.7	18.1%
EPS (Sen)	9.5	-3.8	8.3	16.1	18.4	18.1%
P/E (x)	14.9	-37.0	17.1	8.8	7.7	
DPS (Sen)	0.0	0.0	0.0	0.0	0.0	
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

Results Review (RM m)	<u>2Q17</u>	<u>2Q16</u>	<u>1Q17</u>	<u>YoY chg</u> (%)	<u>QoQ chg</u> (%)	<u>YTD</u> <u>FY17</u>	<u>YTD</u> <u>FY16</u>	<u>YTD</u> <u>(%)</u>
Revenue	170.9	159.1	154.8	7.4	10.4	325.7	281.9	15.5
EBIT	2.6	14.2	9.1	-81.7	-71.4	11.7	20.3	-42.4
PBT	-4.6	7.6	3.0	-160.0	-252.0	-1.6	7.9	-120.3
Net profit	2.0	9.8	7.5	-79.7	-73.3	9.5	10.9	-12.8
Margins:								
EBIT	1.5	8.9	5.9	-7.4	-4.4	3.6	7.2	-3.6
PBT Margin	-2.7	4.8	1.9	-7.4	-4.6	-0.5	2.8	-3.3
Net Profit Margin	1.2	6.2	4.8	-5.0	-3.7	2.9	3.9	-0.9

Source: Bloomberg, PublicInvest Research estimates

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Dec (RM m)	2015A	2016A	2017F	2018F	2019F
Revenue	461.2	640.4	1,000.2	1,163.4	1,132.9
Gross Profit	93.0	90.6	179.7	211.5	209.1
Operating expenses	-18.5	-74.1	-41.8	-50.1	-46.6
Operating Profit	74.5	16.5	137.9	161.5	162.5
Other Gains / (Losses)	4.1	0.4	-43.7	-10.9	5.3
Finance Costs	-22.1	-24.2	-34.7	-34.8	-35.0
Pre-tax Profit	55.3	-7.3	59.6	115.8	132.7
Income Tax	-8.1	-8.7	-14.3	-27.8	-31.9
Effective Tax Rate (%)	-14.7	119.5	-24.0	-24.0	-24.0
Minorities	-5.7	-0.7	-9.1	-17.6	-20.2
Net Profit	41.5	-16.7	36.2	70.4	80.7
Growth					
Revenue (%)	-6.1	38.8	56.2	16.3	-2.6
Gross Profit (%)	-16.7	-2.5	98.3	17.7	-1.2
Net Profit (%)	196.2	-140.3	-316.7	94.4	14.6

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2015A	2016A	2017F	2018F	2019F
Property, Plant & Equipment	19.9	17.1	18.0	18.8	19.8
Cash and Cash Equivalents	87.4	101.7	117.5	95.4	119.2
Receivables	71.2	263.6	274.0	318.7	310.4
Other Assets	1,306.7	1,175.5	1,207.9	1,241.8	1,283.2
Total Assets	1,485.2	1,557.9	1,617.4	1,674.8	1,732.6
Payables	328.2	443.8	443.8	443.8	443.8
Borrowings	556.6	530.9	533.4	535.9	538.4
Dues to Customers	0.0	0.0	0.0	0.0	1.0
Other Liabilities	4.41	0.17	34.80	40.42	38.27
Total Liabilities	889.2	974.9	1,012.0	1,020.1	1,021.5
Shareholders' Equity	501.1	504.8	527.2	576.5	632.9
Total Equity and Liabilities	1,485.2	1,557.9	1,617.4	1,674.8	1,732.6

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2015A	2016A	2017F	2018F	2019F
Book Value Per Share	1.1	1.2	1.2	1.3	1.4
NTA Per Share	0.8	0.8	0.9	1.0	1.1
EPS (Sen)	9.5	-3.8	8.3	16.1	18.4
DPS (Sen)	0.0	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
ROA (%)	2.8	-1.1	2.2	4.2	4.7
ROE (%)	8.3	-3.3	6.9	12.2	12.7

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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