



JAKS RESOURCES BERHAD

Neutral

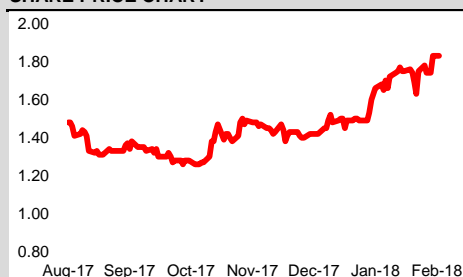
DESCRIPTION

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 RM1.75
Current Price RM1.83
Expected Return -4%

Market Sector Main Construction
Bursa Code 4723
Bloomberg Ticker JAK MK
Shariah Compliant Yes

SHARE PRICE CHART



52 Week Range (RM) RM1.01 – RM1.84
3-Month Average Vol ('000) 2,321.7

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	19.6	24.5	22.8
Relative Returns	7.1	14.3	17.3

KEY STOCK DATA

Market Capitalisation (RM m) 902.0
No. of Shares (m) 493.0

MAJOR SHAREHOLDERS

	%
Koon Yew Yin	21.9
Ang Lam Poah	9.9
Tan Pheng Kit	9.0

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Vietnam Power Plant Site Visit

We visited Jaks Resources' (JAKS) 1,200 MW coal-fired power plant in Hai Duong province, Vietnam recently and came away positive on the site progress achieved thus far. Most key structures are progressing well with some such as the living quarters and the road access already completed. Meanwhile, the power plant chimney has reached more than 150m in height and could reach the top (at 165m) before end-Feb. All in, the completion for Phase 1 of the power plant is likely to be ahead of schedule. Phase 1 of the power plant is originally expected to be completed by 3Q2020. Our **Neutral** recommendation on JAKS is maintained, though with fair value adjusted to RM1.75 (from RM1.50 previously), from a lower c.20% discount (from c.30%) to our SOTP estimates of RM2.20 as we now see lesser chances of earnings disappointments on this front, amid potential catalysts from new jobs especially power-related ones in Vietnam. Its net gearing is at c.0.7x currently, but should be pared down to a more manageable c.0.4x with the plan to dispose its landbank amounting to RM194m which was completed end-2017.

§ **1,200 MW Coal-fired power plant.** JAKS, together with China Power Engineering Consulting Group Co Ltd (CPECC) are building a 1,200 MW coal-fired power plant in Hai Duong province, Vietnam. Works commenced in 2QCY16, with the first phase to be completed by 2020. The JV company has also secured US\$1.4bn in financing, or 75% of project costs. As reported earlier, we expect its near term earnings to be underpinned by its Vietnam engineering, procurement and construction (EPC) contract worth RM1.6bn, and other local jobs such as SUKE highway while recurring income from its power plant will kick in by 2020.

§ **Site Progress.** The 200-hectare site for the power plant, which is located c.2.5 hours away from the Hanoi Airport, is progressing well with the Phase 1 completion expected by 3Q2020. We are pleasantly surprised by the condition of the site which appears to be systematically organized and connected by a highway that was just completed last year. Also, we understand that the manufacturing of the M&E equipment is on track to be completed by 2018. Currently, this equipment is being manufactured in China.

§ **Potential Job Opportunities.** Management believes that they can leverage on its track record in Vietnam to explore more power-related jobs in the country. We understand that it could expand its footprint into other provinces in Vietnam with eyes on the renewable energy segment. That said, renewable energy is still at nascent stages in Vietnam due to its prohibitive high costs and uncondusive weather for wind and solar power in certain areas. Potential is attractive nonetheless, given the Electricity of Vietnam's (EVN) plans to venture into solar power projects in view of the annual 10-15% increase in domestic demand for power. To note, EVN is the state-owned power company.

According to Vietnam Investment Review, EVN has the mandate to support the development of solar power projects and is "responsible for buying all electric output from on-grid solar power projects at a feed-in-tariff of 9.35 US cents per kilowatt hour".

Power spending in Vietnam is expected to be at c.USD123.8bn on EVN's estimates, to develop the country's power system within the next 20 years. Hence, power spending is expected to average c.USD6.8bn p.a. All in, Vietnam plans to invest in up to 98 power plants with a total capacity of 59,444 MW. This presents an immense opportunity for the Group, in our view, to become one of the meaningful power plant owners in Vietnam if it can deliver its maiden power plant project successfully.

More importantly, it can also potentially work with its current partner, CPECC which is the wholly-owned subsidiary of China Energy Engineering Corp. (CEEC), which is in turn controlled by state-owned power conglomerate China Energy Engineering Group Co. As reported earlier, this conglomerate is engaged in the design and construction of power plants, with projects across China and in more than 80 countries overseas. It also has businesses in equipment manufacturing, explosives and cement production and investments in power projects. Notable projects, among others, include the construction of the Three Gorges Project in Central China's Sichuan province and a nuclear-power project in Guangxi province. As for coal fired power plant, it actually had built a similar 2x600 MW power plant in Vinh Tan, Vietnam.

§ **Monetisation of assets.** Last year, the Group announced land sales amounting to c. RM194m. To recap, it disposed its 14.8-acre land at USJ 1, Subang Jaya for RM167.6m and another land measuring c.3 acres for RM25.9m. This, in our view, is positive and would raise the necessary capital especially for its projects in Malaysia. As for the Evolve Concept Mall, we now understand that the Group will focus on improving the occupancy rate. Currently, we understand that occupancy rate stood at 65%. Admittedly, timing for the mall disposal is uncertain now given current soft property market. While disappointing, we take comfort that management is taking steps to rationalize its other assets as evident by the land disposals. Elsewhere, the on-going Pacific Star project is expected to be handed over by phases starting from mid-2018.

§ **c.RM2.4bn Outstanding Orderbook.** Outstanding orderbook is estimated at RM2.4bn, which should underpin its earnings for the next 2-3 years. The EPC contract for the Vietnam IPP alone is estimated at RM1.59bn, with the other key contracts being the Sungai Besi-Ulu Kelang Elevated Expressway (SUKE) job (RM477m contract value).

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	NA	22.0	11.4	9.9	
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

Figure 1: JAKS' Power Plant Perspective View



Source: Company

Figure 2: Selected Site Progress

- 1) **Chimney:** The construction for chimney body is ongoing, with 151.5 out of 165m (91.8%) having been completed and is expected to reach the top before end-Feb.



- 2) **Boiler 11#:** The construction for foundation and installation for first and second layer steel structure has been completed, with works on the third layer ongoing.



- 3) **Turbine pedestal Unit 1:** The reinforcement steel for foundation and pouring concrete completed.



- 4) **Main building Unit 1:** Piling work has been completed. Construction for foundation completed. The installation anchor bolt and backfilling ongoing.



5) Jetty for Coal



6) Living quarters area



7) Administration building



8) Site Office and transmission tower nearby



Source: Company

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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