

15 July 2015 | Corporate Update

Research Team
03-2772 1668

Ikhmas Jaya Group Berhad

Specialist in Bore Piling

NON-RATED

Fair Value (FV) : RM0.54

INVESTMENT HIGHLIGHTS

- Ikhmas Jaya Group Berhad ("IJGB") is a specialist in bore piling with a operating track record of 12 years, carving a niche for itself among the other construction players by offering total piling solutions apart from bridge and building construction.
- IJGB has its own fleet of machinery and equipment, enabling it to customize its construction services according to customers' needs and save rental costs.
- IJGB's order book stands at RM346mil as of LPD. Its prospects appear to be less bright in FY15 due to softer market for property development.
- We derive a fair value of RM0.54 per share based on FY16 EPS of 5.4 sen pegged to 10x PER, which implies 30% discount to its peer's historical average PER of 14x.

An engineering and construction company specializing in bore piling. IJGB is principally involved in foundation and piling work for building and infrastructure, bridge construction, building construction and manufacturing of prefabricated building systems. Different from other players in the construction sector, IJGB has established itself as a specialist in bore piling which is required in the construction of high rise buildings and infrastructure. IJGB also prides itself in bridge construction, with completed landmark projects such as the Prai Swing Bridge and Putra Bridge. IJGB plans to construct its own prefabricated building system manufacturing facility in Teluk Panglima Garang, Selangor and double its total annual production capacity to 900,000m³.

Better flexibility and more cost savings from having its own fleet of machinery and equipment. IJGB has its own fleet of machinery to support its core business, such as crawler cranes, bore piling hydraulic rigs, excavators and tower cranes. As a result, IJGB has the flexibility to cater to different customers' requirements, ensuring timely execution and completion, and further improve their cost as compared to contractors which are required to rent machinery and equipments.

Fairly priced with limited upside. We believe that IJGB is fairly priced at RM0.54 per share. We forecast its earnings growth to taper off in FY17 This is due to our expectation of lower margin for some of its new projects ahead after the anticipated roll out of government's major infrastructure projects such as MRT2 and LRT3 in the near term.

RETURN STATS

IPO Retail Price	RM0.57
Fair Value	RM0.54
Expected Share Price Return	-5.3%
Expected Dividend Yield	+1.8%
Expected Total Return	-3.5%

STOCK INFO

Existing No. of Shares	394.0m
No. of New Shares	126.0m
Total No. Of Shares Upon Listing	520.0m
Listing	Main Market
Market Capitalization upon IPO	RM296.4m

IPO TIMETABLE

DATE

Opening of Application	30 June 2015
Closing of Application	7 July 2015
Listing on Main Market	27 July 2015

UTILIZATION OF PROCEEDS

Details	RM'm	%
Purchase of construction equipment	31.8	44.3
Purchase of M&E for manufacturing of prefab building systems	5.00	6.96
Repayment of bank borrowings	12.00	16.7
Working Capital	18.00	25.1
Listing Expenses	5.00	6.96
Total	71.8	100.0

INVESTMENT STATISTICS

FYE Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM'm)	293.5	324.9	396.1	475.0
EBIT (RM'm)	33.4	38.8	41.2	44.3
Pre-tax Profit (RM'm)	28.8	35.6	38.0	40.3
PATAMI (RM'm)	21.5	26.4	28.2	29.8
EPS (sen)	4.1	5.1	5.4	5.7
EPS growth (%)	58.0	22.5	6.7	6.0
PER(x)	13.8	11.2	10.5	9.9
Net Dividend (sen)	NA	1.0	1.1	1.1
Net Dividend Yield (%)	NA	1.8	1.9	2.0

Source: Company, MIDFR

INVESTMENT THESIS

A total foundation and piling solutions provider with a niche specialization in bore piling. IJGB has managed to establish itself as a specialist in bore piling through 12 years of experience. Having the physical resources, engineering capability and technical know-how's of deep ground piling has helped to give an edge to IJGB in bidding for contracts as it can propose alternative design options to clients which may provide cost savings at times. Demand for bore piling services is highly dependent on property development sector growth and government spending in infrastructure development as bored piles are used to support high rise buildings and infrastructure. That being said, we expect the contribution from the upcoming roll-out of major infrastructure projects in the likes of MRT2 and LRT3 to be offset by the weaker market for property development in the near future.

Has its own fleet of machinery and equipment ("M&E") for its piling and foundation business. In comparison to other construction companies, IJGB owns a diversified fleet of M&E to support its core construction business. As at LPD, IJGB boasts a total of 26 crawler cranes, 18 hydraulic breakers, 2 bore pile mechanical rigs, 1 CSM cutter machine and 1 tower crane. Operating its own fleet of M&E allows IJGB to adopt to a variety of construction methods, meet different customers' requirements, and ensure timely execution of projects as it does not rely on the availability of M&E in the rental market.

Strengthening its fleet. Approximately 45% of the proceeds from IPO amounting to RM31.8m will be used to expand its bore piling fleet. The potential savings in the rental of the equipment from external parties are estimated to be in the range of RM3.78m to RM7.35m per year over a five (5)-year period. The expansion is timely in view of the anticipated roll-out of government infrastructure projects. The award of contracts and projects under MRT2 are expected to commence in 2016, while that of the LRT 3 substructure is expected to begin in 4Q15. IJGB has previously completed bore piling works for Package V8 of KVMRT1 and is presently completing bore piling works for Ampang Line LRT Extension project.

Slow replenishment rate in FY15. Having said above, Management has guided that approximately 90% of the projects in its orderbook to be completed by FY15. The value of new contracts secured between 31 December 2014 to LPD (4 June 2015) amounts to RM29mil which, in our opinion, signals a slower-than-expected replenishment rate relative to its orderbook which is currently standing at RM346mil. Several factors at play are the oversupply of high-rise buildings after the property boom two years ago and weak demand for residential properties as a result of the weakening of the domestic currency and well as lower disposable income due to inflation. Besides, even with the anticipated recovery of the property sector underpinned by major infrastructure improvement projects in FY16, there will be a timing lag for IJGB to boost its orderbook. The management has targeted to achieve a tenderbook of RM5b by end of FY15, which might be too optimistic for an oversupply market in FY15.

Table 1: Selected Ongoing and Upcoming Projects in Malaysia

Project	Type of Development	Estimated Value (RM'b)
LRT 3	Infrastructure	9.0
MRT 2	Infrastructure	26.0
High Speed Rail from Kuala Lumpur to Singapore	Infrastructure	40.0
Damansara-Shah Alam Highway (DASH)	Infrastructure	4.2
Pan-Borneo Highway	Infrastructure	17.0
Penang Transport Masterplan	Infrastructure	27.0
KLCC development	Mixed development	5.0
BRT	Infrastructure	18.0

Source: Various, MIDFR

Table 2: Outstanding Orderbook as of 4 June 2015

Project	Value (RM'm)	Outstanding (RM'm)	Completion
<u>Piling & Foundation- Building</u>		<u>61.0</u>	
Parcel D of the KL Eco City	108.7	52.0	May 2016
Others		9.0	
<u>Piling & Foundation- Infrastructure</u>		<u>69.0</u>	
Package V8 of the KVMRT	98.2	25.0	Jun 2015
LRT Kelana Jaya Station 2	15.0	15.0	Sep 2015
DUKE 2 at Mainline MC30	18.5	11.0	Aug 2015
DUKE 2 Section 1- Sri Damansara Link	16.5	8.0	Aug 2015
DUKE 2 at Ramp CT10	5.1	5.0	Nov 2015
Others		5.0	
<u>Bridge Construction</u>		<u>137.0</u>	
Subang-Skypark Terminal Railway Track-Phase 1	269.8	132.0	Nov 2015
Others		5.0	
<u>Building Construction</u>		<u>41.0</u>	
Damai 88, Ampang	110.7	41.0	Aug 2015
<u>Prefabricated building systems</u>		<u>38.0</u>	
Pulau Perhentian 5-storey flats	32.7	25.0	Nov 2015
Pulau Redang 5-storey flats	28.0	12.0	Sep 2015
Others		1.0	
Total		346.0	

Source: Company, MIDFR

KEY INVESTMENT RISKS

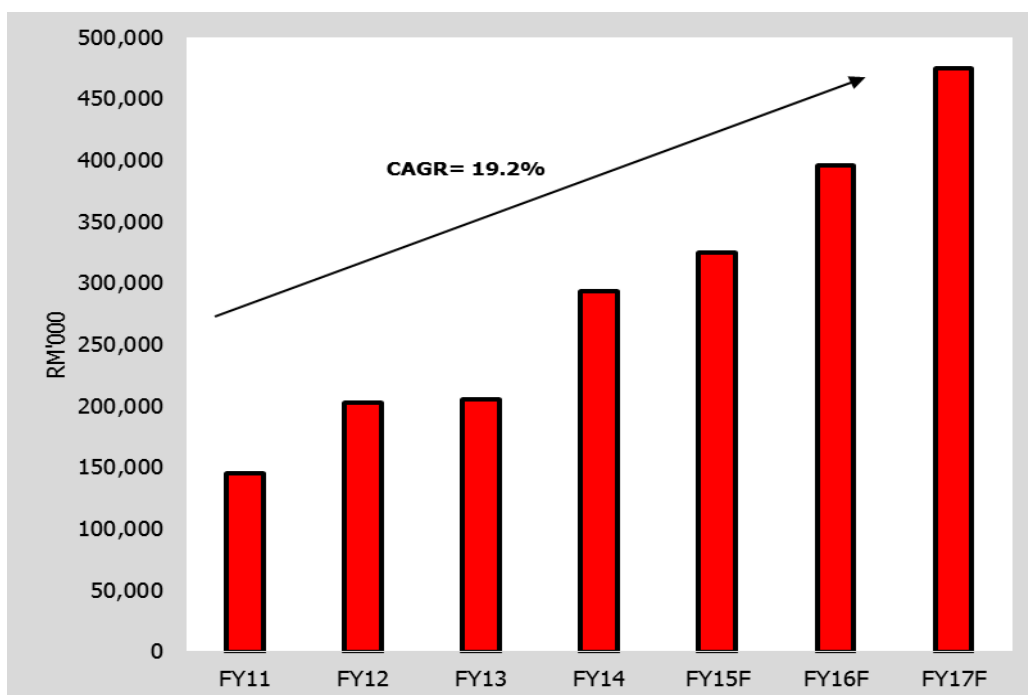
Failure to secure new contracts on time to replenish its orderbook. While the overall outlook on construction sector remains upbeat with many upcoming sizable infrastructure projects by the government, the weakening of demand for properties driven by slower economic growth will pose a threat to IJGB's business as a piling and foundation specialist. Piling and foundation job accounts for an average of 65% of its total revenue. Besides, any slower-than-expected rollout of the infrastructure projects that we expect to contribute to IJGB's orderbook in FY16 and FY17 may cause IJGB's revenue to be lower than anticipated.

Negative impact from fluctuation in raw material prices. In FY14, the largest proportion of cost of sales i.e. 40.34% comprise of building and construction material costs. Similar with other construction players, IJGB is exposed to the impact of a rise in the prices of steel, concrete, cement, wood materials, beams, piling tools and diesel. In the event of a rise in costs, IJGB's margin may be trimmed, leading to a squeeze in its earnings.

FINANCIAL HIGHLIGHTS

Past 4 year revenue CAGR of +19.20%. The total revenue for IJGB has been on an upward trend for the past four 4 financial years (see chart 1), recording a CAGR of +19.20% albeit a relatively small increase from FY12 to FY13. Contribution from Damai 88, Ampang project and the commencement of Subang-Skypark Railway Terminal project were cited as factors behind the significant 44% jump in revenue in FY14. Revenue from piling and foundation works for building slid in FY14, but was offset by the increase in contribution from the DUKE 2 projects under infrastructure. We forecast a decline in its revenue growth rate for FY15 of 10.7%yoy due to slower-than-expected replenishment rate of new project. However, we expect its turnover in FY16 to pick up again on the expectation that that the Group will benefit from major infrastructure projects with its piling expertise.

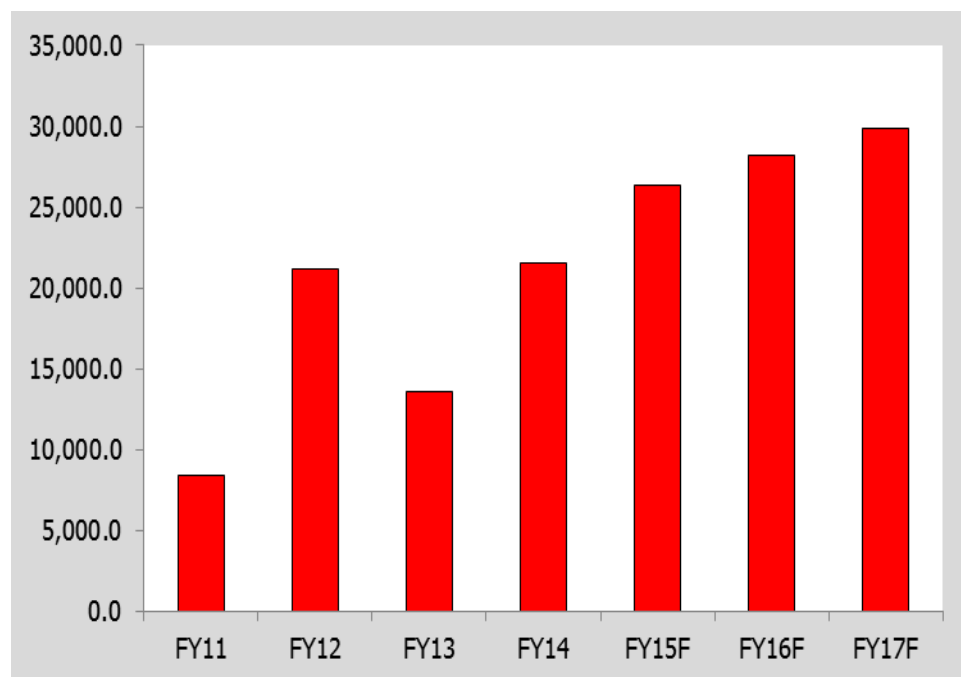
Chart 1: 4 year CAGR for revenue of 19.2%



Source: Company, MIDFR

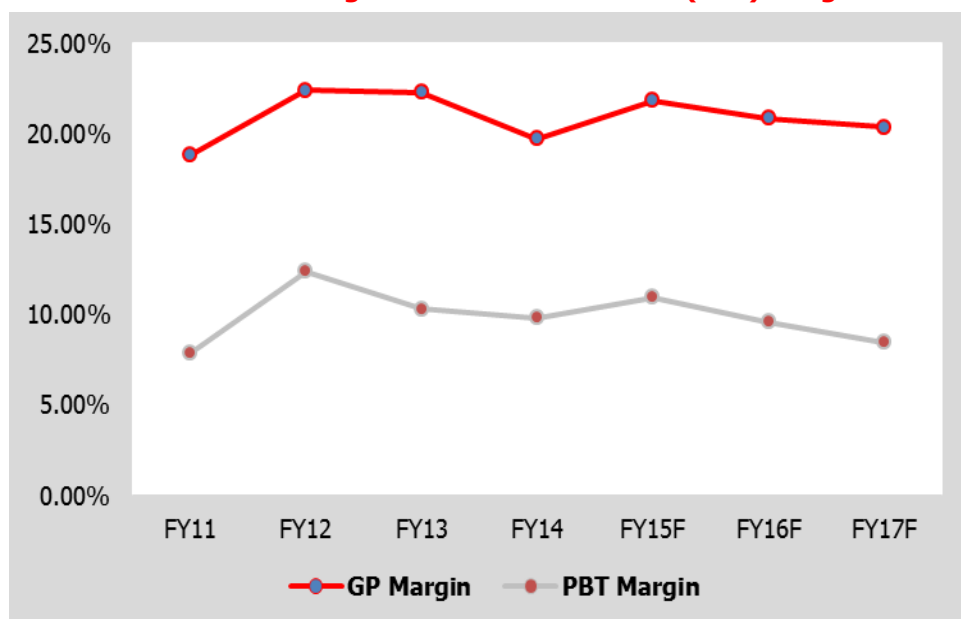
IJGB's normalized EPS has seen a 4-year CAGR of +26.9%. We expect a continuing upward trend in EPS for FY15 to FY17. Nevertheless, growth in EPS is expected to moderate moving forward due to contracting margins.

Chart 2: Normalized PATAMI



Source: Company, MIDFR

Chart 3: Gross Profit Margin and Profit before Tax (PBT) Margin



Source: Company, MIDFR

VALUATION AND RECOMMENDATION

Fair value at RM0.54 per share. The IPO price of RM0.57 translates into PER of 14x based on FY14 EPS which is on the high end taking into consideration IJGB's small market capitalization. However, based on forward earnings (FY16 EPS of 5.4 sen), we derive our **value of RM0.54 per share** peg to PER of 10x which we deem as fair as it is discounted by 30% to its peers Econpile's historical PER of 14x.


Dividend policy of 20% of PATAMI. IJGB has guided that they plan to distribute 20% of net profit as dividend to their shareholders. Based on our forecasted FY16 EPS of 5.26 sen, shareholders can expect a dividend yield of 1.75% based on the IPO price of RM0.57. In comparison to its construction peers with business in piling (Econpile 1.43%, Pintaras Jaya 4.32%), IJGB's dividend yield appears to be closer to that of Econpile. 

Table 5: Peer comparison

Peer	Market Cap (RM'm)	Current Price (RM)	PAT Margin (%)	PBT Margin (%)	Construction Backlog (RM'b)
Pintaras Jaya	601.9	3.70	26.86 ²	35.3	0.10
Econpile Holdings	561.8	1.04	7.41 ³	22.0	0.57
IJGB	296.4	0.57¹	7.29	9.82	0.35

Source: MIDFR

Note:

1. IPO Price.
2. FY14 ended 30 June
3. FY14 ended 30 June

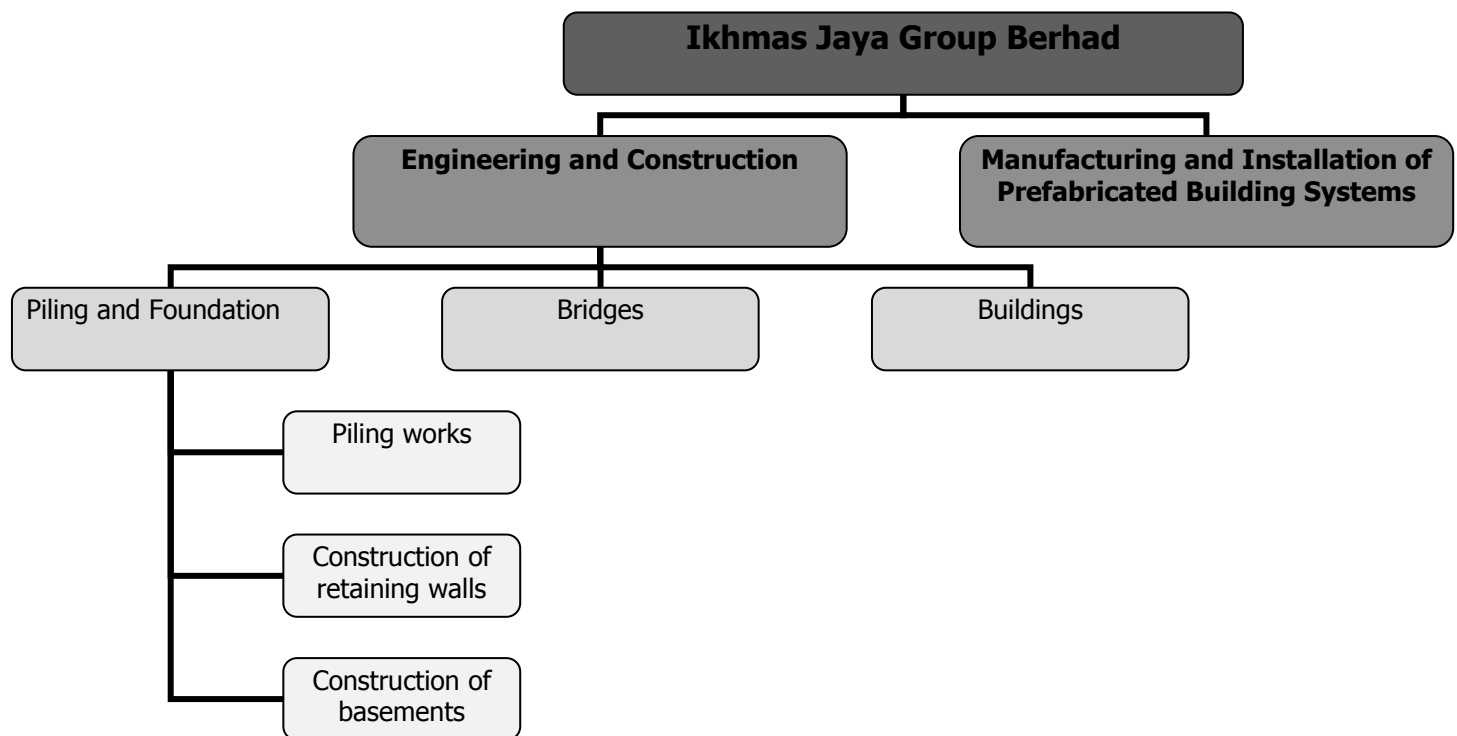
FINANCIAL SUMMARY

Income Statement	FY14	FY15F	FY16F	FY17F	Cash Flow Statement	FY14	FY15F	FY16F	FY17F
Revenue	293.5	324.9	396.1	475.0	Operating activities				
Cost of sales	-235.6	-254.0	-313.5	-378.3	PBT	28.8	35.6	38.0	40.3
Operating expenses	-24.7	-32.5	-41.8	-52.9	Depreciation & Amortization	8.9	8.7	8.8	9.8
Other income	0.3	0.3	0.4	0.4	Chgs in working capital	-20.7	-11.5	-17.5	-19.9
EBIT	33.4	38.8	41.2	44.3	Non-cash adjustment	-0.1	0.0	0.0	0.0
Finance Cost	-5.3	-3.8	-4.2	-5.3	Net Finance Cost	4.6	3.8	4.2	5.3
PBT	28.8	35.6	38.0	40.3	Tax paid	-5.3	-9.2	-9.8	-10.4
Taxation	-7.4	-9.2	-9.8	-10.4	Tax Refund	0.1	0.0	0.0	0.0
PATAMI	21.5	26.4	28.2	29.8	Interest Paid	-5.3	-3.8	-4.2	-5.3
					CF from Operations	11.1	23.6	19.4	19.7
Balance Sheet	FY14	FY15F	FY16F	FY17F					
Assets					Investing activities				
Property, plant and equipment	116.3	116.5	125.9	134.3	Capex	-42.6	-9.2	-18.4	-18.4
Other	0.2	0.2	0.2	0.2	Other income received	1.3	0.2	0.2	0.3
Investment properties	2.2	2.2	2.2	2.2	CF from Investments	-41.3	-9.0	-18.2	-18.1
Total non-current assets	118.7	118.9	128.3	136.7					
					Financing activities				
Receivables	178.2	197.3	240.5	288.4	Dividends paid to owners	0.0	5.3	5.6	6.0
Inventories	0.2	0.7	0.9	1.0	Dividends paid to MI	0.0	0.0	0.0	0.0
Tax recoverable	0.1	0.1	0.1	0.1	Net proceeds in borrowings	-18.1	4.6	9.2	9.2
Cash and cash equivalents	45.1	69.6	85.6	102.4	Net Proceeds from IPO	66.8	0.0	0.0	0.0
Total current assets	223.6	267.6	327.1	391.9	CF from Financing	48.7	9.9	14.8	15.2
Total Assets	342.3	386.5	455.4	528.6					
					Net changes in cash	18.4	24.5	16.1	16.8
Liabilities					Beginning cash	-10.3	45.1	69.6	85.6
Loans and borrowings	19.9	19.9	19.9	19.9	Overdraft & deposits	36.9	0.0	0.0	0.0
Deferred tax liabilities	5.6	5.6	5.6	5.6	Ending cash	45.1	69.6	85.6	102.4
Total non-current liabilities	25.4	25.4	25.4	25.4					
					Ratios	FY14	FY15F	FY16F	FY17F
Payable and accruals	102.5	110.5	136.4	164.5					
Loans and borrowings	45.3	49.9	59.1	68.3	Revenue growth	42.9%	10.7%	21.9%	19.9%
Other	6.1	6.1	6.1	6.1	PBT growth	35.8%	23.5%	6.7%	6.0%
Total current liabilities	153.9	166.5	201.5	238.9	PATAMI growth	58.0%	22.5%	6.7%	6.0%
Total Liabilities	179.3	191.9	227.0	264.4	PBT margin	9.8%	11.0%	9.6%	8.5%
					PATAMI margin	7.3%	8.1%	7.1%	6.3%
Equity					ROE	13.2%	13.6%	12.3%	11.3%
Share Capital	130.0	130.0	130.0	130.0	ROA	6.3%	6.8%	6.2%	5.6%
Merger deficit	-68.5	-68.5	-68.5	-68.5	Net gearing (x)	0.1	Ncash	Ncash	Ncash
Share Premium	36.9	36.9	36.9	36.9	Book value/share (RM)	0.31	0.37	0.44	0.51
Retained earnings	64.4	96.1	129.9	165.7	PBV (x)	1.8	1.5	1.3	1.1
Shareholder's funds	162.8	194.4	228.2	264.0	EV/share (RM)	0.6	0.6	0.6	0.5
Minority interest	0.2	0.2	0.2	0.2	EV/EBITDA (x)	7.5	6.2	5.8	5.2
Total Equity	163.0	194.6	228.4	264.2					

Source: Company, MIDFR

APPENDIX**1.0 Background**

IJGB is principally involved in the provision of engineering and construction services, and the manufacturing of prefabricated building systems. Under its engineering and construction arm, IJGB's scope of services includes piling and foundation, bridge and building construction.

Business Structure

Source: Company, MIDF Research

Some of the key projects undertaken by IJGB are as follows:

Segment	Proven track record
Piling and Foundation	Paradigm Mall, Kelana Jaya
	Railway electrification and double tracking-Package N1 and N2
	Kelana Jaya Line LRT Extension- Package 1A and 1B
	Putrajaya (Precinct 16) Civil Servant High-Rise Apartments
	Elevated Station Package s7 at Balakong and Taman Koperasi
	Damai 88, Ampang
	Bukit Jalil commercial development
Bridge Construction	JB-Nusajaya Highway-Section 2: CH2400 to CH9500
	Railway electrification and double tracking-Prai Swing Bridge
Building Construction	Police Training Center (PULAPOL), Terengganu
	Hangar on Jalan Lapangan Terbang Subang, Selangor
Manufacturing and installation of Prefabricated Building Systems	Tzu Chi Building, Kepong

Source: Company, MIDFR

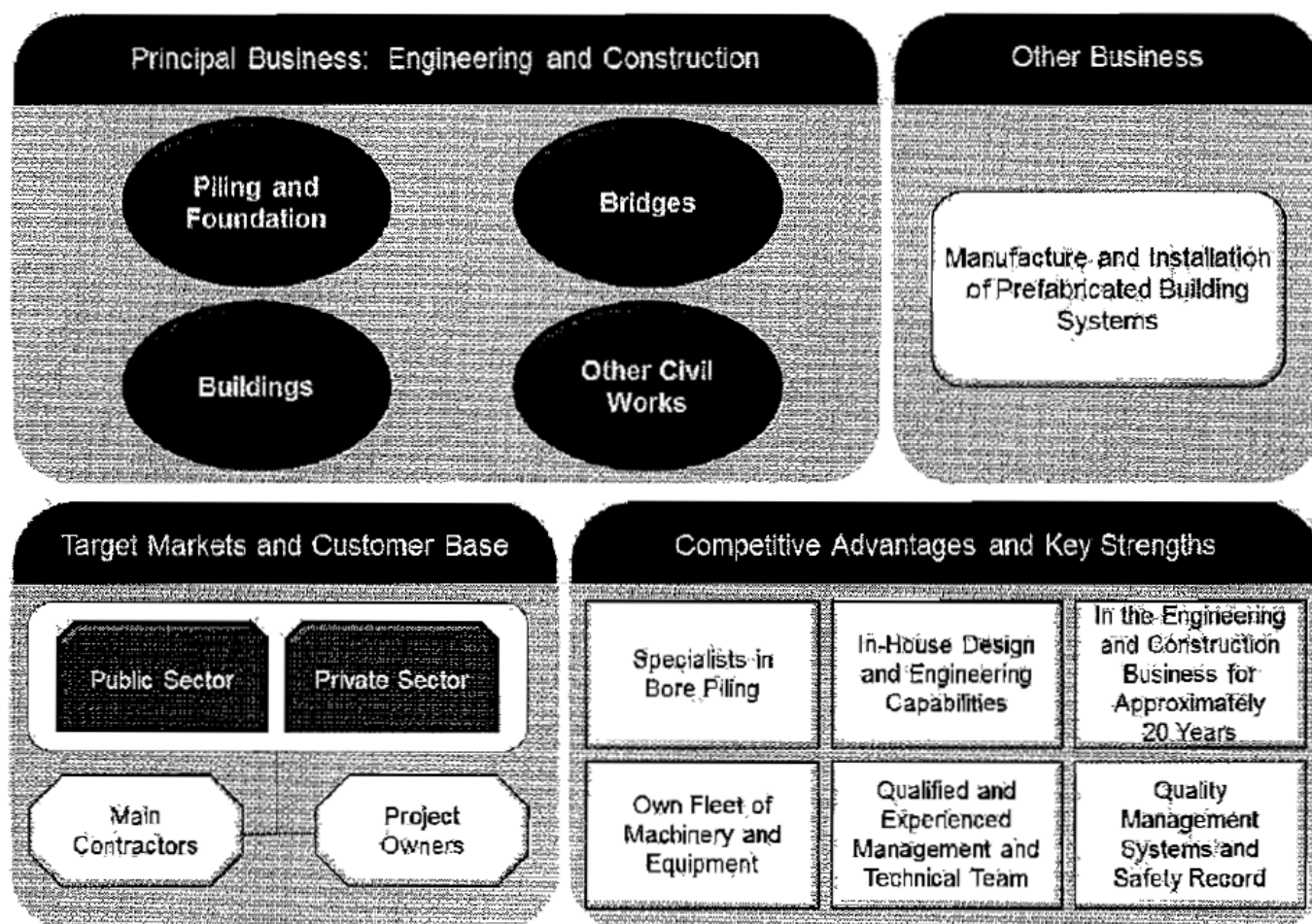
History of IJGB. IJGB was founded by the Group Managing Director, Dato' Ang Cheng Siong, Executive Director, Mr. Siew Mun Lout, Dato' Ir Dr Khoo Ping Sen and Head of Plant Division Mr. Yap Yoon Fatt. The history of IJGB can be traced back to 1992 when the Company was incorporated to undertake general civil engineering works. IJGB managed to successfully secure and commence its first project for the design, construction and commissioning of water pipe laying works from Sentul Hill Reservoir to KLCC Development Area in 1994.

The highlight in 1997 for the Company was the award of two (2) contracts to construct bridges in Putrajaya, marking its foray into bridge construction. Subsequently in 2003, IJGB secured its first building bore piling contract for a construction of a diaphragm wall for Prince Court Medical Center, and first infrastructure bore piling contract in the form of construction of contiguous bored pile walls for the Gombak River Diversion flood mitigation project in Kuala Lumpur the following year.

With the confidence boost from its bore piling business, IJGB purchased bore piling M&E in 2004. During the same year, IJGB incorporated IJ Geotechnic as a complementary to its bore piling and foundation works to undertake geotechnical works and provide CSM technology, a complementary technology used in the construction of retaining walls. In more recent year, IJGB ventured into the manufacture of prefabricated building system with the incorporation of MM2 Building System.

In 2013, IJGB secured the largest project to-date based on contract value to perform infrastructure works for the Subang-Skypark Terminal Railway Track.

Business Model and Overall Strategy



Source: Company

Production Facilities and Operation Capacities

To date, IJGB owns machinery and equipment with total Net Book Value (NBV) of RM58,650,000, among them include air compressor, bore piling hydraulic rigs, CSM cutter machine, mesh bending machine, mobile crane, bore piling vibro hammer and crawler cranes.

IJGB currently operate a factory in Nilai, Negeri Sembilan through MM2 Building System to carry out secondary business activity, which is manufacturing prefabricated building system.

Product	Annual Capacity (m ²) ¹	Production Output (m ²) ²	Approximate Utilization Rate (%)
Prefabricated Building System ⁽³⁾	450,000	29,238	6%

Source: Company, MIDF

Notes:-

1. Computed based on three (3) shifts per day for 25 working days per month.
2. Running on one (1) shift per day for 25 working days per month.
3. Comprises wall, slab, and staircase panels.

Key Management:**a) Dato' Ang Cheng Siong, Group Managing Director**

He is responsible for the overall management, strategic planning and business development of the Company. He obtained his Diploma in Building Technology from TAR College in 1980 and subsequently his MBA (Finance) from University of Hull, United Kingdom. His career began in 1980 as a Quantity Surveyor with Pembinaan Leow Tuck Chui & Son Sdn Bhd. He then left to join Syarikat Manong Sdn Bhd until 1988 where he was promoted to Site Agent. In 1988, he joined Ho Hup Construction Company Berhad and left to manage Ikhmas Jaya that he set up in 1992.

He has accumulated more than 30 years of experience in construction field via his involvement in various types of projects such as buildings, highways, dams, and sports complex.

b) Dato' Ir Dr Khoo Ping Sen, Executive Director

He is responsible for managing and supervising the design and method of construction for all of the projects carried out by the Company, as well as business development. He graduated from Monash University Australia in 1975 with a Bachelor of Engineering degree with Honours. He obtained his DPhil degree in Civil Engineering majoring in structures from the same university in 1979.

He started his career in Wan Mohamed & Khoo Sdn Bhd as an engineer in 1979. In 1990, he joined Ho Hup Construction Company Berhad as a Senior Project Manager where he was in charge of the Design Department and Bore Piling Division. He then left the company and joined Ikhmas Jaya as the Managing Director. He is currently a member of the Training and Education Committee and the Application Committee of the Board of Engineers, Malaysia. He is also a member of the Institution of Engineers Malaysia since 1983.

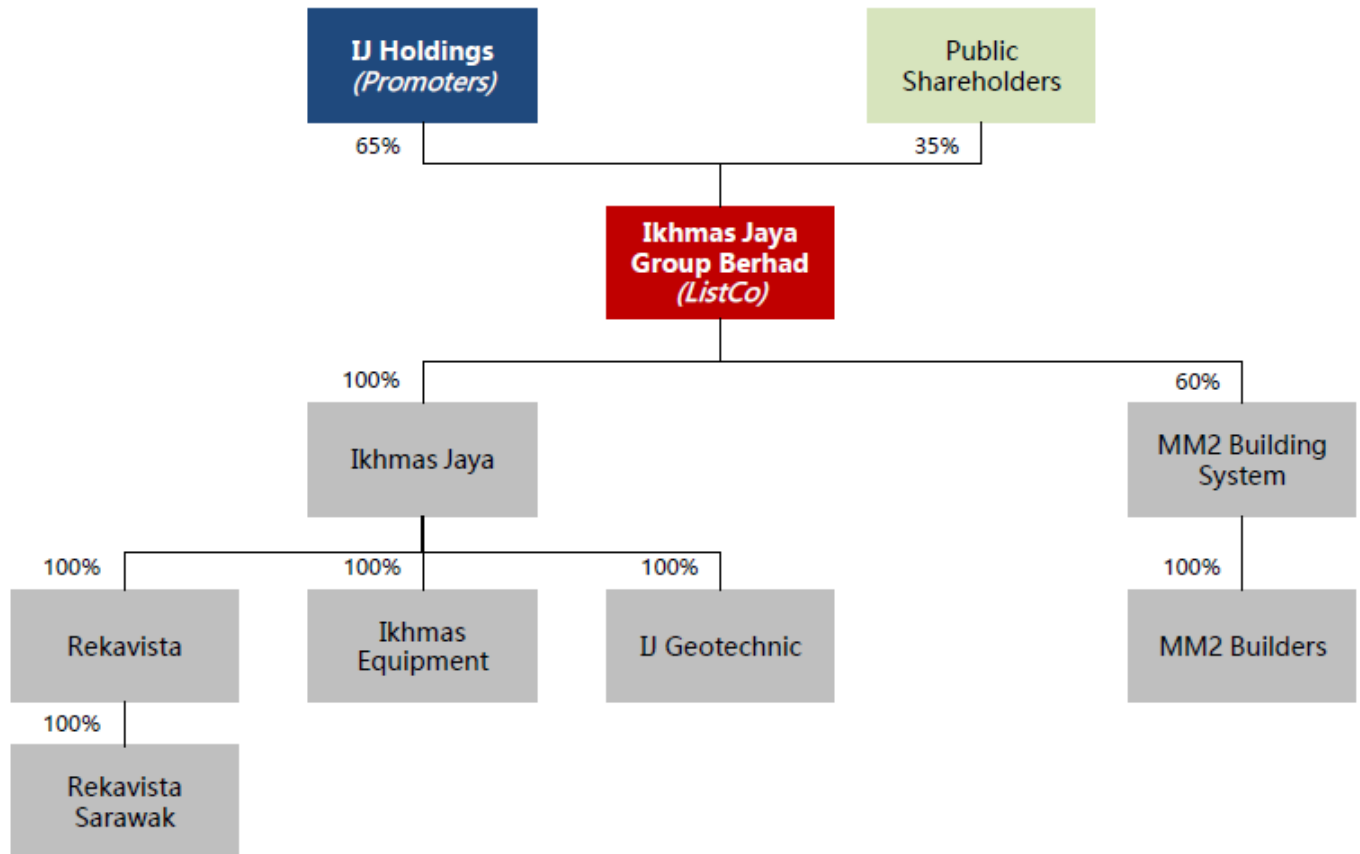
c) Yap Yoon Fatt, Head of Plant Division

He is responsible for project operations and maintenance of machinery. He has more than 25 years of experience in construction field in the areas of site supervision of heavy construction equipment for bored piles and earthworks. He is valued for his negotiation skills, particularly the areas involving foundation and piling works. He started his career with Kejuruteraan Mahajaya Sdn Bhd as a Survey Assistant in 1982.

d) Lum Yuet Ngoh, Chief Financial Officer

She is responsible for the Company's financial affairs and treasury functions. She is a Chartered Accountant of the Malaysian Institute of Accounts (MIA) since 200. During her tenure in Mahajaya Berhad, she was involved in the preparation of its group accounts, reviewing the audit schedules and tax planning.

1.1 Group Structure upon Listing

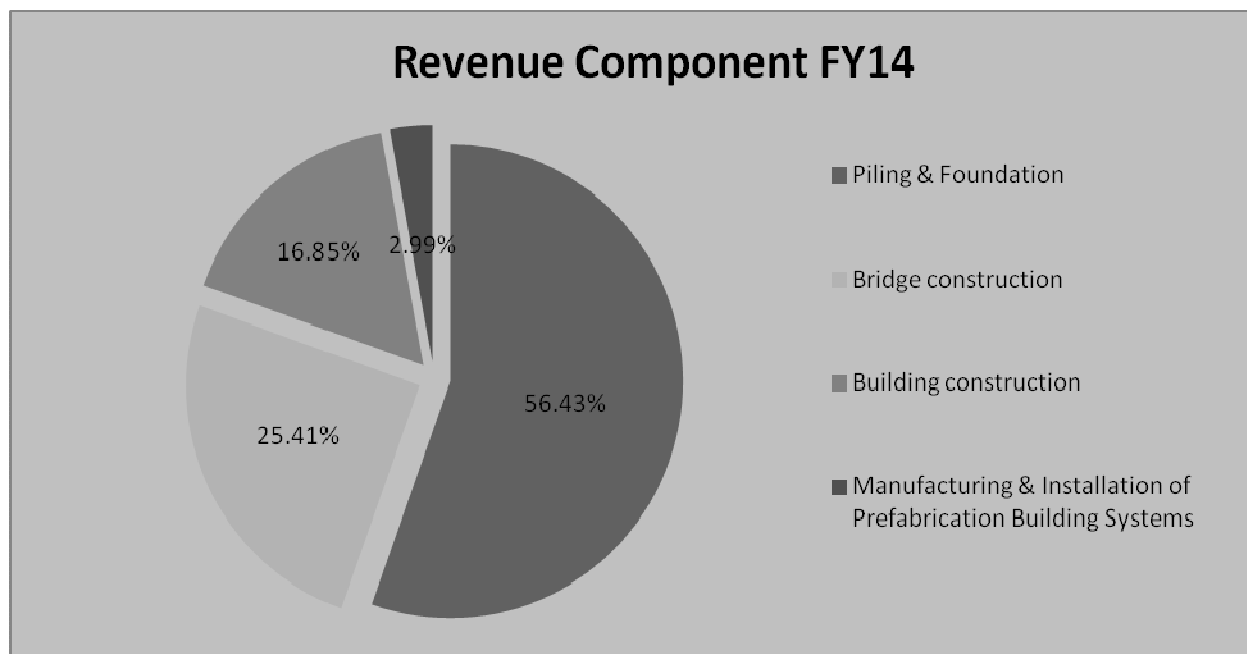


Companies in Ikhmas Jaya Group Berhad:-

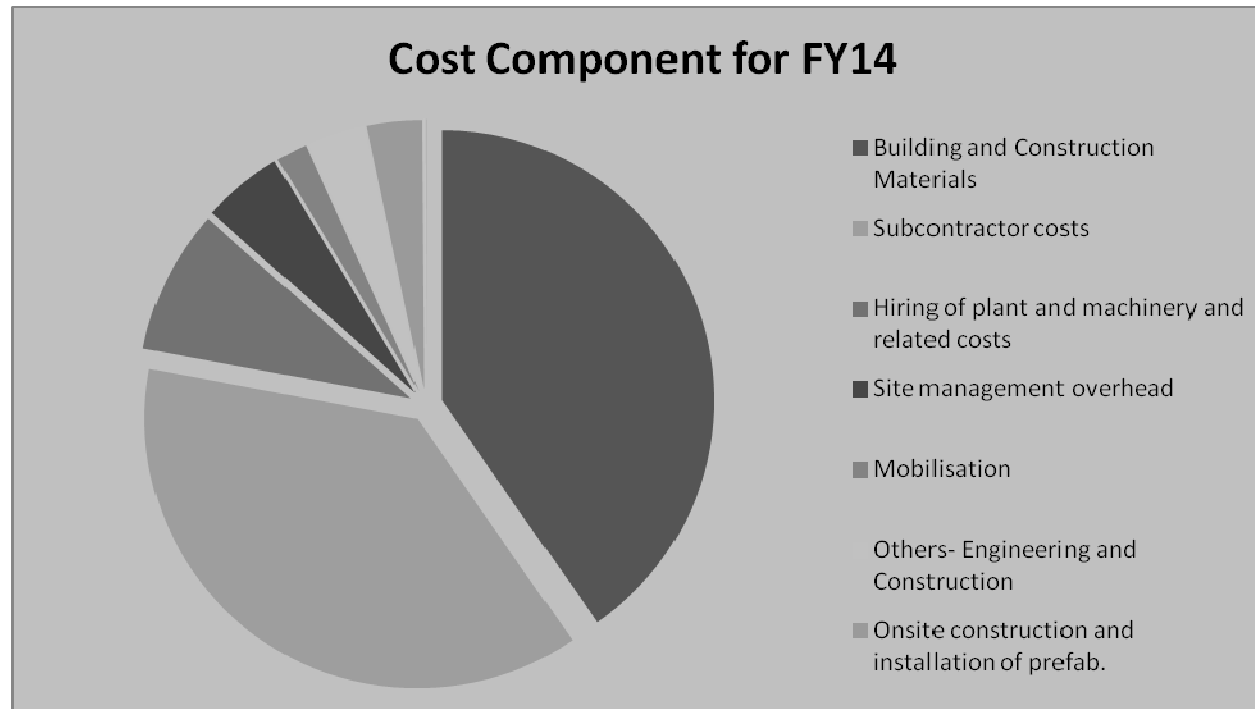
1. Ikhmas Jaya Sdn Bhd : Piling and foundation works, construction of bridges and buildings, and other civil works
2. Rekavista Sdn Bhd : General civil and building construction
3. Rekavista Sarawak Sdn Bhd : General civil and building construction
4. IJ Geotechnic Sdn Bhd : Geotechnical works and provision of CSM technology
5. MM2 Building System Sdn Bhd : Manufacturing of prefabricated building system
6. MM2 Builders Sdn Bhd : Installation of prefabricated building system
7. Ikhmas Equipment Sdn Bhd : Rental of construction equipment

Source: Company, MIDFR

2.0 Revenue and cost components for FY14



Source: Company, MIDFR



Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.