

**Initiating Coverage**

**16 November 2015**

# Ikhmas Jaya Group Berhad

**BUY**

*Piling to greater heights*

**Target Price: RM0.81**

<b>Share Price</b>	<b>RM0.695</b>
<b>Target Price</b>	<b>RM0.81</b>

## Company Description

Ikhmas Jaya Group Berhad specializes in engineering and construction services. The Company designs, engineers and constructs piling and foundation, bridges and buildings.

## Stock Data

Bursa / Bloomberg code	5268 / IJGB MK
Board / Sector	Main / Ind-Prod
Syariah Compliant status	Yes
Issued shares (m)	520
Par Value (RM)	0.25
Market cap. (RM'm)	364
52-week price Range	RM0.54-0.84
Beta (against KLCI)	N.A
3-m Average Daily Volume	4.89m
3-m Average Daily Value	RM3.15m

## Share Performance

	1m	3m	12m
Absolute (%)	7.70	3.70	N.A
Relative (%-pts)	10.90	9.30	N.A

## Major Shareholders

	%
IJ Holdings	65.0
Yuen Choong Lai	0.26
Ang Wei Zhen	0.19

## Historical Chart



Source: Bloomberg

## The Research Team

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## Investment Highlights

- **We initiate coverage on Ikhmas Jaya with a target price of RM0.81, based on 13x FY2016F PE. We reckon that its jobs flow in near future will be strong as we understand that the Group is in the midst of bagging some sizeable contracts in piling and building works worth c.RM1b in coming months.**
- **This under-researched counter deserves a re-rating given its competitiveness and as a formidable participant** in the marketplace that provide total multi-skilled solutions with a competitive edge and versatility to secure projects. Ikhmas Jaya's initial focus was in general civil engineering works and over the course of 20 years the Group has expanded its expertise in covering piling and foundation, bridges and buildings.
- **Niche player in piling works to benefit from the robust construction sector.** Ikhmas Jaya is an established bore piling specialist with a track record of approximately 12 years. The Group is able to propose alternative design options to its customers in lower costs and without compromising quality and functionality. Hence, the ability to propose lower cost solutions provide competitive advantage for the Group to win tenders for bore piling works.
- **In-house Design and Engineering Capabilities provide competitive in piling & foundation and bridge projects.** The Group has in-house technical professionals including civil, structural and geotechnical engineers who involved in the technical design of piling and foundation works, and construction of bridges and buildings. With the involvement of design scopes, the Group is also able to command better margin for the jobs secured.
- **Strong fundamental and clear earnings visibility anchored by healthy orderbook.** Ikhmas Jaya has been enjoying robust earnings growth for the past few years with 4-year Compound Annual Growth Rate (CAGR) of 37%. Looking forward, Ikhmas Jaya has an outstanding order book of RM264.1m (as of 31 July 2015) coupled with a total tender book amounting to RM3.5b. Based on historical success rate of 15-20%, we expect Ikhmas Jaya to bag RM630-840m new jobs in FY16-FY17F to further replenish its existing order book.
- **Ability to undertake sizeable and various type of piling works backed by its own fleet of Machinery and Equipment (M&E) –** Ikhmas Jaya owns a diversified machinery and equipment to support the core business activities. As of 2QFY15, net book value of Ikhmas Jaya's machinery and equipment stands at approximately

RM77.7m (after utilizing proceeds from the IPO) and it is comparable to other significant piling contractors in town like Econpile (RM69.8m) and Pintaras Jaya (RM110.9m).

### Earnings Outlook

- **We expect earnings to grow at 35.7% yoy and 32.8% yoy for FY16 and FY17** respectively that back by revenue growth of 26.3% and 24.8% for FY16 and FY17. The strong growth in earnings is underpinned by its forward order books of c.RM80m and possible order book replenishment of c.RM750m in FY15 coupled with improving margin given that Ikhmas Jaya strives to secure higher margin works that preferably include design scope.

### Valuation/Recommendation

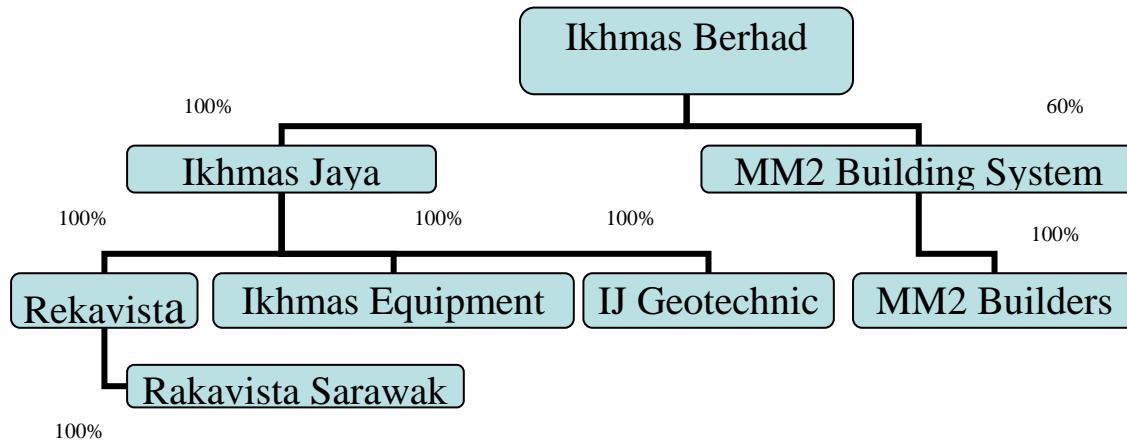
- **We initiate coverage on Ikhmas Jaya with a target price of RM0.81**, based on 13x FY2016F PE. The target PE assigned is at the range of upcycle PE for small-and-mid cap contractors amid current booming infrastructure works.

### Risk

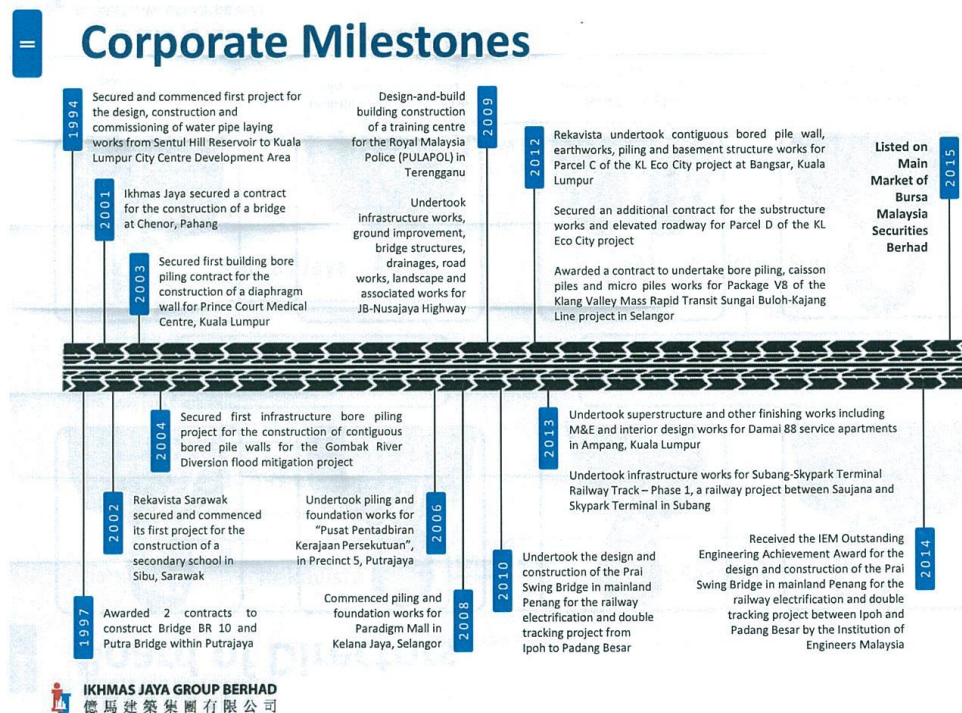
- **Cyclical business in nature**
- **High rivalry among existing competitors**
- **Continuous headwinds in property sector**
- **Execution of mega infrastructure project** – any delay of government projects under 11MP

## Background

Ikhmas Jaya was incorporated in 2013 as an investment holding company where its subsidiaries engaged in businesses activities such as engineering and construction, piling and foundation works, bridge construction, building construction and other civil works. The Group also ventured into the manufacturing of prefabricated building system through their subsidiary, MM2 building system. Over the years, Ikhmas Jaya has established as a bore piling specialist with a track record of approximately 12 years.



Source: Company



Source: Company



## Awards and Recognition

YEAR	AWARDS AND RECOGNITION
2006	Winner of Outstanding SMEs Category (1) of the Golden Bull Award 2006
2007	Second runner up for implementing the "Best Environmental Management System" by Putrajaya Holdings Sdn Bhd
2008	Winner of Outstanding SMEs Category (1) of the Golden Bull Award 2008
2009	Winner of Outstanding SMEs Category (1) of the Golden Bull Award 2009
2010	Ranked 5th position in the Super Golden Bull Category (2) of the Golden Bull Award 2010 2 million hours working without lost time injury – Certificate of Appreciation by MMC-Gamuda
2011	Ranked 1 <sup>st</sup> in the Super Golden Bull Category (2) of the Golden Bull Award 2011 500 thousand man-hours without lost time injury – Certificate of Appreciation by Pebinaan KS Tebrau Sdn Bhd Good management on safety, health and environment in the workplace and contribution to the reduction of work related injury and disease – Certificate of Appreciation by MMC-Gamuda
2013	OSH Management – Bore Pile Specialist Year 2013 – Certificate of Attendance by the Malaysian Occupational Safety & Health professional's Association (MOSHPA) IEM Outstanding Engineering Achievement Award for the design and construction of the Prai Swing Bridge
2014	2.6 million man-hours without lost time injury at Package V8 of the Klang Valley Mass Rapid Transit Sungai Buloh-Kajang Line project from 1 January 2013 to 31 December 2013 by UEM Construction Sdn Bhd ASEAN Outstanding Engineering Achievement Award for the design and construction of the Prai Swing Bridge for the Electrified Double Track Project between Ipoh and Padang Besar

 IKHTMAS JAYA GROUP BERHAD  
億馬建築集團有限公司

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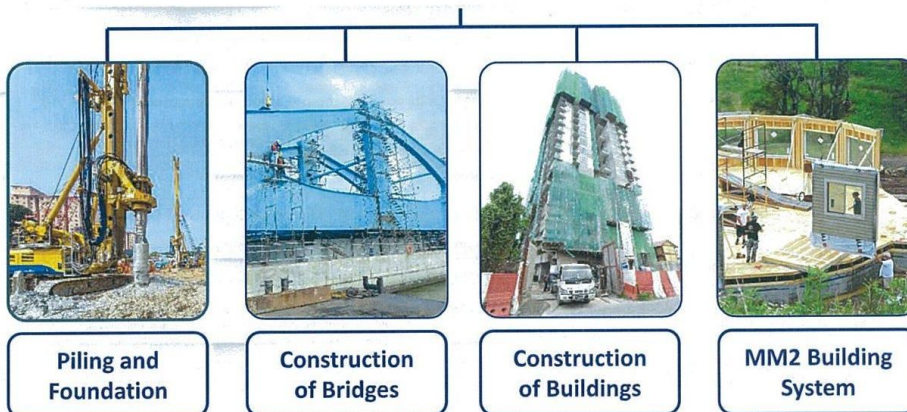
Source: Company

## Business Activities

## Business Overview



**IKHTMAS JAYA GROUP BERHAD**  
億馬建築集團有限公司



 IKHTMAS JAYA GROUP BERHAD  
億馬建築集團有限公司

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Source: Company

Ikhmas Jaya is a specialist in piling and foundation works that has synergy in constructing bridges and buildings as they commonly undertake piling and foundation works in conjunction with the construction of bridge and buildings. For the FYE2014, piling and foundation works was their largest revenue contributor, accounting for approximately 54.75% of group's total revenue; construction of bridges and buildings contributed approximately 42.26% and remaining 2.99% was contributed by other activity that include the manufacture and installation of prefabricated building system which is a complementary business activity as prefabricated building system is a building construction technology.

Ikhmas Jaya has targeted both private and public sector where revenue for FYE2014 comprised 49.98% in private sector and 50.02% in public sector. Ikhmas Jaya's customers include main contractors who are primary responsible for the delivery of the total project and project owners that directly award the relevant package for Ikhmas Jaya's work scope. Revenue from main contractors accounted for approximately 70.06% of group's total revenue for FYE2014.

Geographical wise, Ikhmas Jaya derived the large majority of revenue from Kuala Lumpur, Selangor and Putrajaya, which accounted for a combined total of approximately 95.05% of group's total revenue.

### Future plan and business strategies

Part of Ikhmas Jaya's future plans is to further enhance their bore piling capabilities by expanding their fleet of bore piling machinery. This is back by construction activities in Malaysia that have been vibrant since 2010 with value of construction work completed growing at a CAGR of 14% between 2010 and 2014; the value of construction projects awarded increased at a CAGR of 13.2% between 2010 and 2014. In order to capitalize on the anticipated growth in the future business opportunities, Ikhmas Jaya intends to purchases the bore piling machinery in 2015 and 2016 with an estimated value of RM9m depending on the number of new contracts secured by the group.

Another plan for Ikhmas Jaya is to relocate and expand their prefabricated building system manufacturing facility. The new manufacturing facility is expected to have total build-up area of approximately 46,150 sqf, including a 20,000 sqf warehouse with an estimated construction cost of RM5m. An additional line of prefabricated building system machinery and equipment will be added following the completion of new manufacturing facility. The rational of the expansion is in view of expecting demand to grow as the Malaysian Government has encouraged the usage of prefabricated building system in the construction industry particularly for the construction of low to medium cost houses as this building system can produce a large number of houses at affordable costs.

### Outstanding Order book

Projects	Total Contract Value (RM'M)	Outstanding Orderbook (RM'M)	Counterparty
Pulau Redang	32.8	12.7	Tunjang Jitu
KVMRT V8	98.2	21.4	UEM Builders
Damai88	110.7	32.9	D.J Design & Suppliers
Skypark Link	269.8	102	Konrotium Skypark Link
KL Eco City-Parcel D	108.7	48.2	SP Setia
LRT Kelana Jaya	15	12.3	Trans Resources Corporation
Duke 2- Section 1	16.5	5.7	Pembinaan Sahabatjaya
Duke 2 – Section 2	18.5	9.2	Pembinaan Hamid Abdul Rahman
Others		19.7	
<b>Total</b>		<b>264.1</b>	

Source: Company

## Investment Merits

**Niche player in piling works to benefit from the robust construction sector** – Ikhmas Jaya is an established bore piling specialist with a track record of approximately 12 years. The Group is able to propose alternative design options to its customers in lower costs and without compromising quality and functionality. Hence, the ability to propose lower cost solutions provide competitive advantage for the Group to win tenders for bore piling works.

**In-house Design and Engineering Capabilities provide competitive in piling & foundation and bridges projects** – The group has in-house technical professionals including civil, structural and geotechnical engineers who involved in the technical design of piling and foundation works, and construction of bridges and buildings. Ikhmas Jaya was awarded the prestigious IEM Outstanding Engineering Achievement Award in 2014 for their Prai Swing Bridge for the railway electrification and double tracking design-and-build project between Ipoh and Padang Besar. With the involvement of design scopes, the Group is also able to command better margin for the jobs secured

**Strong fundamental and clear earnings visibility anchored by healthy orderbook** – Ikhmas Jaya has been enjoying robust earnings growth for the past few years with 4-year Compound Annual Growth Rate (CAGR) of 37%. Looking forward, Ikhmas Jaya has an outstanding order book of RM264.1m (as of 31 July 2015) coupled with a total tender book amounting to RM3.5b. Based on historical success rate of 15-20%, we expect Ikhmas Jaya to bag RM630-840m new jobs in FY16-FY17F to further replenish its existing order book. Ikhmas Jaya has been in the Engineering and construction business for approximately 20 years and involved in various high-profile public and private sector projects such as Putra Bridge in Putrajaya, Duta-Ulu Kelang Expressway in Kuala Lumpur, railway electrification and double tracking project between Ipoh and Padang Besar at the Malaysia-Thailand Border, the Klang Valley Mass Rapid Transit Sungai Buloh-Kajang Line in Selangor, Kelana Jaya Light Rail Transit extension in Selangor and KL Eco City in Kuala Lumpur. We believe its established track record in the industry can provide confidence to potential customer that may increase their success rate in securing contracts.

**Ability to undertake sizeable and various type of piling works backed by its own fleet of Machinery and Equipment (M&E)** – Ikhmas Jaya owns a diversified machinery and equipment to support the core business activities. To name few such as, 25 crawler cranes, 18 bore piling hydraulic rigs, 20 excavators, 14 bore pile vibro hammers, 13 mobile cranes, 5 hydraulic breakers, 2 bore pile mechanical rigs, 1 CSM cutter machine and 1 tower crane. This enables the Group to undertake sizeable and various type of piling jobs at the same time without any capacity constraint, coupled with lower cost in respect of rental savings and mobilization costs. As of 2QFY15, net book value of Ikhmas Jaya's machinery and equipment stands at approximately RM77.7m, a record after utilizing proceeds from the IPO and it is comparable to other significant piling contractors in town like Econpile (RM69.8m) and Pintaras Jaya (RM110.9m).

**Leveraging from its MM2 building system (pre-fabricated)** – The MM2 building system is a construction process where a large proportion of the building is mass-produced off-site as prefabricated components, which are then installed on-site to complete the building. We believe with the in house capability to manufacture prefabricated components enable Ikhmas jaya to provide alternatives in term of design and construct affordable housing that is in tandem with government's endeavor to provide affordable house. Therefore, higher chances for Ikhmas jaya to bid and secure related jobs.

## Risks

**Cyclical business in nature** – almost all of Ikhmas Jaya's income was derived from piling and foundation works, and construction of bridges, and hence future cash flow and earnings are highly dependent on projects secured.

**High rivalry among existing competitors** – as at 30 April 2015, there were approximately 5709 operators registered with CIDB under the category of Piling Works for Civil Engineering Construction of which 2211 operators were registered with grade G7. Meanwhile, approximately 996 operators registered with CIDB under category of Piling Works for Building Construction of which 372 operators were registered with grade G7.

**Continuous headwinds in property sector** - a persistently high level of unsold property or an increase in property overhang will have an impact on property developments, this in turn may indirectly

have an impact for operators within the piling, foundation and construction industry as lower demand is foreseeable.

**Execution of mega infrastructure project** – any delay or postpone of government projects under 11MP, ETP or GTP will have a direct impact for operators within the piling, foundation and construction industry.

## Financial Review and Outlook

**Ikhmas Jaya's 1HFY15 revenue and net profit recorded RM140.1m and RM15.2m** respectively with revenue broadly in line with our expectation but net profit higher than our forecast. Ikhmas Jaya's 1HFY15 revenue and net profit accounted 44.4% and 62.6% respectively to our expectation. The higher than expected net profit was attributed by higher gross margin achieved that we believe was due to improving operating efficiency and capacity coupled with Skypark link project that generating higher margin as it involved engineering design works.

**Based on our forecast, we see revenue to grow at 26.3% yoy and 24.8% yoy for FY16 and FY17** respectively that translating to earnings growth of 35.7% for FY16 and 32.8% for FY17. The strong growth in earnings is underpinned by its forward order books of c.RM80m and possible order book replenishment of c.RM750m in FY15 coupled with improving margin given that Ikhmas Jaya strives to secure higher margin works that include design scope. Utilized proceed from IPO also helps to improve operational efficiency and capacity.

## Financial Summary

Financial Year	2011	2012	2013	2014	2015F	2016F	2017F
Items	RM'M	RM'M	RM'M	RM'M	RM'M	RM'M	RM'M
Revenue	145.4	202.87	205.34	293.51	317.1	400.5	500
Gross Profit	27.35	37.63	53.58	57.9	66.1	84.6	107.7
Other income	1.49	1.46	0.22	0.26	1.3	1.3	1.2
Administration expenses	-6.86	-7.07	-6.62	-8.98	-9.9	-12.8	-15.8
Other operating expenses	-5.88	-8.04	-7.87	-7.15	-9.5	-12.8	-15.4
EBITDA	16.1	23.98	39.31	42.03	47.9	60.2	77.9
Amor. & Depreciation	-3.65	-4.72	-7.28	-8.60	-10.0	-10.0	-11.3
Operating Profit	12.45	19.26	32.03	33.43	37.9	50.2	66.6
Finance income	0.25	0.33	0.53	0.69	0.71	0.9	1.2
Finance Costs	-1.25	-2.26	-3.54	-5.28	-5.79	-6.6	-8.7
PBT	11.45	17.34	29.03	28.84	32.8	44.5	59.0
Taxes	-3.07	-3.85	-7.57	-7.43	-8.52	-11.56	-15.35
Profit for the year	8.38	13.49	21.46	21.41	24.25	32.90	43.69
Net Income(to shareholders)	8.38	13.34	21.44	21.55	24.01	32.57	43.25
EPS	0.016	0.026	0.041	0.041	0.046	0.063	0.083
<b>Growth</b>							
Revenue Growth	-	39.5%	1.2%	42.9%	8.0%	26.3%	24.8%
EBITDA Growth	-	48.9%	63.9%	6.9%	13.9%	25.8%	29.3%
Operating Profit Growth	-	54.7%	66.3%	4.4%	13.2%	32.6%	32.7%
PBT Growth	-	51.4%	67.4%	-0.7%	13.6%	35.7%	32.8%
Net Profit Growth	-	61.0%	59.1%	-0.2%	13.3%	35.7%	32.8%
<b>Margin</b>							
Gross Margin	18.8%	18.5%	26.1%	19.7%	20.8%	21.1%	21.5%
EBITDA Margin	11.1%	11.8%	19.1%	14.3%	15.1%	15.0%	15.6%
Operating Margin	8.6%	9.5%	15.6%	11.4%	11.9%	12.5%	13.3%
Pretax Margin	7.9%	8.5%	14.1%	9.8%	10.3%	11.1%	11.8%
Net Margin	5.8%	6.6%	10.5%	7.3%	7.6%	8.2%	8.7%
Net Margin (to shareholders)	5.8%	6.6%	10.4%	7.3%	7.6%	8.1%	8.7%

Source: Company, JF Apex



## Valuation and Recommendation

**BUY with a target price of RM0.81.** We peg Ikhmas Jaya's valuation at PER of 13x (with FY16 EPS of 6.3 sen/share). The target PE assigned is at the range of upcycle PE for small-and-mid cap contractors amid current booming infrastructure works.

**We anticipate more construction works in the pipeline that would render job opportunities** for local piling operators in view of government initiatives under the 11<sup>th</sup> Malaysia Plan with the likes of ETP, TOD (Transit-Oriented Development) and the Corridor and City Transformation Programmes.

## Peer Comparison

Company	Price	Market	-----PE (x)-----			ROE	P/B
	11-Nov-15 (RM)	cap RM'm	2014	2015	2016F	(%)	(x)
IKHMAS JAYA GROUP BHD	0.71	369.2	17.3	15.4*	11.4	20.8	2.2
ECONPILE HOLDINGS BHD	1.03	551.1	17.8	11.9	10.3	25.4	2.8
PINTARAS JAYA BHD	3.55	577.9	10.4	10.9	11.5	15.9	1.7

*\*estimated PE for Ikhmas Jaya's 2015F PE*

*Source: Bloomberg, Company, JF Apex*

Name	CAPEX (RM'm)	Total Assets (RM'm)	Revenue (RM'm)	Outstanding Order book (RM'm)	Net Profit (RM'm)	Operating Margin (%)	Net Margin (%)
IKHMAS JAYA GROUP BHD	-6.4*	289.3*	317.1*	**264.1	24.2*	11.9*	7.6*
ECONPILE HOLDINGS BHD	-29.4	333.5	429.0	550	46.6	14.8	10.9
PINTARAS JAYA BHD	-29.2	383.5	243.0	70	51.9	26.0	21.4

*\*Based on 2015 forecast*

*\*\*As of 31 July 2015*

*Source: Bloomberg, Company, JF Apex, Media*



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**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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