

Company Results

23 November 2015

Ikhmas Jaya Group Berhad

BUY

Earnings beat expectation; Bags new contract

Target Price: RM0.90

| | |
|--------------|---------|
| Share Price | RM0.695 |
| Target Price | RM0.90 |

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) | 361.4 |
| 52-week price Range | RM0.54-0.84 |
| Beta (against KLCI) | N.A |
| 3-m Average Daily Volume | 4.02m |
| 3-m Average Daily Value | RM2.65m |

Share Performance

| | 1m | 3m | 12m |
|------------------|------|------|-----|
| Absolute (%) | 1.50 | 3.00 | N.A |
| Relative (%-pts) | 4.50 | 9.80 | N.A |

Major Shareholders

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

Historical Chart



Source: Bloomberg

What's new

- Ikhmas Jaya reported net profit of RM7.2m for its 3QFY15. The quarterly earnings inched up 6.7% qoq and 7.1% yoy despite lower revenue that slid 1.4% qoq and 11.4% yoy.
- Above expectation.** The Group achieved cumulative net profit of RM22.4m for 9MFY15, soaring 44.7% yoy as compared to RM15.5m a year earlier. The 9MFY15's net profit was above our expectation by achieving 92% of our full-year net profit estimate of RM24. given better margin for Skypark project.
- Meanwhile, the Group also announced that it has won a contract worth RM161.2m from MRCB to undertake substructure works** for Tower 2, 3, 5 and 6 of the proposed mixed development in PJ Sentral. Works are expected to commence on 20 November 2015 and complete by 19 July 2017 which lasts for a period of 20 months.

Comment

- Improved margin.** Despite the Group recorded lower quarterly revenue by 1.4% qoq and 11.6% yoy mainly attributable to lower work done in piling and foundation works, quarterly profit before tax (PBT) increased 5% qoq and 8.1% yoy respectively thank to better margin which saw a growth of 0.93 pts qoq and 2.75 pts yoy. We understand that the better margin was attributed by higher gross margin in infrastructure project, namely the Skypark project. Likewise, the effect was reflected in the cumulative financial performance which we see 4.6 pts growth in PBT margin for 9MFY15 as compared to 9MFY14.
- We expect the Group is able to sustain its current margin level** till the completion of Skypark project, probably by 1HFY16. Moving forward, we are optimistic that management is able to secure future jobs with decent profit margins given that the Group is selective on jobs with project margin being the main consideration. In addition, Ikhmas Jaya also prefers for design scope work as it usually commands higher margin.
- Current order book stands at RM360m.** Ikhmas Jaya's current order book stands at RM360m after taking account into the newly clinched substructure works' project of RM161m. The Group's clear earnings visibility is anchored by current healthy order book that translates into 1.5x of FY14's earnings given a margin of 9%.
- More to come.** Looking forward, we believe the group is able to secure more jobs and further replenish its order book. We understand that the Group is in high chance of getting another few more contracts in piling and building

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works totalling RM740-840m in coming months.

Earnings Outlook/ Revision

- **We revised upward our earning forecast for FY15-FY17 by 6%-20% to better reflect the improved margin which expect earnings to grow at 24.7% and 26.9%yoy respectively for FY16 and FY17** that backed by revenue growth of 26.3% and 24.8% for FY16 and FY17.

Valuation/Recommendation

- **Maintain BUY with higher target price of RM0.90 (previous was 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.
- We believe the Group's growth trajectory is sustainable in mid term given that more construction works are in the pipeline, especially under government's initiative such as ETP, TOD (Transit-Oriented Development) and the Corridor and City Transformation Programmes that would render job opportunities to Ikhmas Jaya.

Figure 1: Quarterly Figures

| Year to 31 December | 3QFY15 (RMm) | 2QFY15 (RMm) | QoQ % chg | 3QFY14 (RMm) | YoY % chg | 9MFY15 (RMm) | 9MFY14 (RMm) | YoY % chg |
|------------------------------|-----------------|-----------------|--------------|-----------------|--------------|-----------------|-----------------|--------------|
| Revenue | 63.5 | 64.4 | -1.4% | 71.8 | -11.6% | 204.3 | 198.5 | 2.9% |
| Gross profit | 18.4 | 16.9 | 8.8% | 15.3 | 20.1% | 54.2 | 39.6 | 37.0% |
| Profit before tax | 9.6 | 9.1 | 5.0% | 8.9 | 8.1% | 30.1 | 20.1 | 49.3% |
| Net Profit | 7.2 | 6.8 | 6.7% | 6.8 | 7.1% | 22.4 | 15.5 | 44.7% |
| Profit Before Tax Margin (%) | 15.1% | 14.2% | 0.93 pts | 12.4% | 2.75 pts | 14.7% | 10.1% | 4.6 pts |
| Net profit margin (%) | 11.4% | 10.5% | 0.86 pts | 9.4% | 1.99 pts | 11.0% | 7.8% | 3.2 pts |

Figure 2: 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 | 73.0 | 89.6 | 111.5 |
| 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 | 54.8 | 65.3 | 81.7 |
| 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 | 44.8 | 55.3 | 70.4 |
| 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 | 39.7 | 49.5 | 62.8 |
| Taxes | -3.07 | -3.85 | -7.57 | -7.43 | -10.32 | -12.87 | -16.34 |
| Profit for the year | 8.38 | 13.49 | 21.46 | 21.41 | 29.38 | 36.64 | 46.50 |
| Net Income(to shareholders) | 8.38 | 13.34 | 21.44 | 21.55 | 29.09 | 36.28 | 46.04 |
| EPS | 0.016 | 0.026 | 0.041 | 0.041 | 0.056 | 0.070 | 0.089 |
| Growth | | | | | | | |
| Revenue Growth | - | 39.5% | 1.2% | 42.9% | 8.0% | 26.3% | 24.8% |
| EBITDA Growth | - | 48.9% | 63.9% | 6.9% | 30.4% | 19.1% | 25.1% |
| Operating Profit Growth | - | 54.7% | 66.3% | 4.4% | 34.0% | 23.4% | 27.4% |
| PBT Growth | - | 51.4% | 67.4% | -0.7% | 37.7% | 24.7% | 26.9% |
| Net Profit Growth | - | 61.0% | 59.1% | -0.2% | 37.2% | 24.7% | 26.9% |
| Margin | | | | | | | |
| Gross Margin | 18.8% | 18.5% | 26.1% | 19.7% | 23.0% | 22.4% | 22.3% |
| EBITDA Margin | 11.1% | 11.8% | 19.1% | 14.3% | 17.3% | 16.3% | 16.3% |
| Operating Margin | 8.6% | 9.5% | 15.6% | 11.4% | 14.1% | 13.8% | 14.1% |
| Pretax Margin | 7.9% | 8.5% | 14.1% | 9.8% | 12.5% | 12.4% | 12.6% |
| Net Margin | 5.8% | 6.6% | 10.5% | 7.3% | 9.3% | 9.1% | 9.3% |
| Net Margin (to shareholders) | 5.8% | 6.6% | 10.4% | 7.3% | 9.2% | 9.1% | 9.2% |

Source: Company, JF Apex

Figure 3: Peer Comparison

| Company | Price | Market | PE (x) | | | ROE | P/B |
|-----------------------|-----------|--------|--------|-------|-------|------|-----|
| | 11-Nov-15 | cap | 2014 | 2015 | 2016F | (%) | (x) |
| | (RM) | RM'm | | | | | |
| IKHMAS JAYA GROUP BHD | 0.71 | 369.2 | 17.3 | 12.7* | 10.1 | 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 |

*Forward PE for Ikhmas Jaya's 2015 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* | **360 | 29.1* | 14.1* | 9.2* |
| 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*

***Latest order book*

Source: Bloomberg, Company, JF Apex, Media

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
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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