

Company Results

24 February 2016

Ikhmas Jaya Group Berhad

BUY

Looking beyond FY15

Maintained

Share Price	RM0.65
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)	338.0
52-week price Range	RM0.54-0.84
Beta (against KLCI)	N.A
3-m Average Daily Volume	1.02m
3-m Average Daily Value	RM0.69m

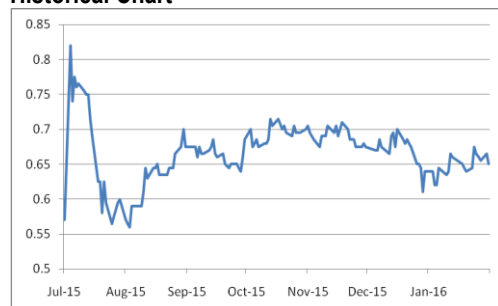
Share Performance

	1m	3m	12m
Absolute (%)	1.6	-3.7	N.A
Relative (%-pts)	-1.6	-7.8	N.A

Major Shareholders

	%
IJ Holdings	65.0
Prudential Unit Trusts	0.95
Choong Lai Yuen	0.26

Historical Chart



Source: Bloomberg

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Result

- Ikhmas Jaya reported net profit of RM2.4m for its 4QFY15. The quarterly earnings slid 67.2% qoq and 58.8% yoy in view of revenue inched up 1.4% qoq but decreased 32.2% yoy.
- Below expectation.** The Group achieved cumulative net profit of RM24.4m for 12MFY15, advanced 16.6% yoy as compared to RM21.3m a year earlier. The 12MFY15's net profit was below our expectation by achieving 83% of our full-year net profit estimate of RM29m given lacklustre performance in 4QFY15.

Comment

- 4QFY15's earnings bogged down by lower margin.....** The Group 4QFY15's revenue inched up 1.4% qoq given the commencement of a few piling, foundation and buildings projects after offsetting work reduction in infrastructure projects but failed to translate into higher earnings as net profit margin slumped 7.7pts qoq. The lower margin was mainly attributed to higher administration cost i.e. 1.) Additional staff costs; 2.) Year-end bonus and higher depreciation cost incurred in 4Q. Meanwhile, net profit dropped 58.8% yoy which was in line with lower revenue (-32.2% yoy) and lower net margin (-2.38 pts yoy). We believe lower revenue recorded was due to relatively higher infrastructure works that had been recognized in last year.
- but full year's margin improved.** The Group's revenue for 12MFY15 slid 8.5% yoy but net profit advanced 16.6% yoy, thanks to the better overall margin achieved in FY15. The lower revenue was due to delay in projects caused by valid technical reasons. However, net profit margin inched up 2pts to 9.2pts due to increase in work done from infrastructure and design & build projects which command better margin, that in line with Group's main consideration in jobs selection. Moving forward, we believe the Group is able to sustain its current net margin of 9% as the Group prefers design scope work that enjoys higher margin.
- Current outstanding order book stands at RM520m.** Ikhmas Jaya's current order book stands at RM520m after taking into account the newly clinched substructure and subcontract work projects with a total value of RM231.7m in early this year, i.e. RM166.4m worth of substructure work from Star Effort Sdn Bhd that is expected to commence on 2 January 2016 and complete by 1 June 2018 (29 months), and contract worth RM65.3m from Kayangan Kemas Sdn Bhd to undertake sub-contract works for supply materials, labour and machinery for the construction of Bridge which is expected to commence on March 2016 and complete by

August 2017 (18 months). The Group's clear earnings visibility is anchored by current healthy order book that translates into 1.92x FY15's earnings given a margin of 9%.

- **Order book replenishment from year-to-date stood at RM393m with 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 works totalling RM430-600m in coming months.
- **Aiming for wider job scope.** On top of that, we also understand that the Group is bidding for expressway infrastructure works namely DASH, SUKE, DUKE 3 and Pan Borneo Highway, which are expected to be awarded in stages starting June this year. Meanwhile, the Group is venturing into track laying, i.e KVMRT2, LRT3. We are positive with the Group's new venture as it expands its expertise and job scope to cover wider range of construction works besides its existing niche in bridge construction, bored piling and in-house design.

Earnings Outlook/ Revision

- **We maintain our earnings forecast for FY16 and FY 17** as we believe the Group is able to clinch some sizeable construction works for this year to meet our orderbook assumption of RM900m for FY16 and yet sustain its margin.
- **We reckon that the Group's net earnings will pick up strongly, up 51.3% in FY16.**

Valuation/Recommendation

- **Maintain BUY with the same target price of RM0.90** 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	4QFY15 (RMm)	3QFY15 (RMm)	QoQ % chg	4QFY14 (RMm)	YoY % chg	12MFY15 (RMm)	12MFY14 (RMm)	YoY % chg
Revenue	64.4	63.5	1.4%	95.0	-32.2%	268.7	293.5	-8.5%
Gross profit	13.1	18.4	-28.9%	18.3	-28.5%	67.3	57.9	16.3%
Profit before tax	2.8	9.6	-70.8%	8.7	-67.8%	32.9	28.8	14.0%
Net Profit	2.4	7.2	-67.2%	5.8	-58.8%	24.8	21.3	16.6%
Profit Before Tax Margin (%)	4.4%	15.1%	-10.75pts	9.2%	-4.81pts	12.2%	9.8%	2.4pts
Net profit margin (%)	3.7%	11.4%	-7.70pts	6.1%	-2.38pts	9.2%	7.2%	2.0pts

Figure 2: Financial Summary

Financial Year	2011	2012	2013	2014	2015	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	268.656	400.5	500
Gross Profit	27.35	37.63	53.58	57.9	67.3	92.4	114.9
Other income	1.49	1.46	0.22	0.26	0.6	1.1	0.9
Administration expenses	-6.86	-7.07	-6.62	-8.98	-10.7	-13.8	-17.2
Other operating expenses	-5.88	-8.04	-7.87	-7.15	-8.4	-13.0	-15.6
EBITDA	16.1	23.98	39.31	42.03	48.8	66.7	83.1
Amor. & Depreciation	-3.65	-4.72	-7.28	-8.60	-10.9	-10.9	-12.2
Operating Profit	12.45	19.26	32.03	33.43	37.9	55.7	71.0
Finance income	0.25	0.33	0.53	0.69	0.65	0.9	1.2
Finance Costs	-1.25	-2.26	-3.54	-5.28	-5.71	-6.9	-9.2
PBT	11.45	17.34	29.03	28.84	32.9	49.7	63.0
Taxes	-3.07	-3.85	-7.57	-7.43	-8.54	-12.93	-16.37
Profit for the year	8.38	13.49	21.46	21.41	24.32	36.80	46.59
Net Income(to shareholders)	8.38	13.34	21.44	21.55	24.08	36.43	46.12
EPS	0.016	0.026	0.041	0.041	0.046	0.070	0.089
Growth							
Revenue Growth	-	39.5%	1.2%	42.9%	-8.5%	49.1%	24.8%
EBITDA Growth	-	48.9%	63.9%	6.9%	16.2%	36.5%	24.7%
Operating Profit Growth	-	54.7%	66.3%	4.4%	13.4%	47.0%	27.3%
PBT Growth	-	51.4%	67.4%	-0.7%	14.0%	51.3%	26.6%
Net Profit Growth	-	61.0%	59.1%	-0.2%	13.6%	51.3%	26.6%
Margin							
Gross Margin	18.8%	18.5%	26.1%	19.7%	25.1%	23.1%	23.0%
EBITDA Margin	11.1%	11.8%	19.1%	14.3%	18.2%	16.6%	16.6%
Operating Margin	8.6%	9.5%	15.6%	11.4%	14.1%	13.9%	14.2%
Pretax Margin	7.9%	8.5%	14.1%	9.8%	12.2%	12.4%	12.6%
Net Margin	5.8%	6.6%	10.5%	7.3%	9.1%	9.2%	9.3%
Net Margin (to shareholders)	5.8%	6.6%	10.4%	7.3%	9.0%	9.1%	9.2%

Source: Company, JF Apex

Figure 3: Peer Comparison

Company	Price	Market	-----PE (x)-----			ROE	P/B
	23-Feb-16	cap	2014	2015	2016F	(%)	(x)
	(RM)	RM'm					
IKHMAS JAYA GROUP BHD	0.65	338.0	17.3	14.0	9.3	20.8	2.2
ECONPILE HOLDINGS BHD	1.04	556.4	17.8	11.6	10.0	25.4	2.8
PINTARAS JAYA BHD	3.24	527.4	10.4	15.1	27.7	14.1	1.5

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	-27.1	362.8	268.0	520	24.3	14.1	9..0
ECONPILE HOLDINGS BHD	-29.4	333.5	429.0	600	46.6	14.8	10.9
PINTARAS JAYA BHD	-29.2	383.5	243.0	*190	51.9	26.0	21.4

*Based on new jobs won

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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