

Outthink. Outperform.

Slow burner

JAKS's 3Q15 results were below our expectations, partly on weaker-than-expected construction profit as a result of licensing delays. However, the issue has been resolved, and progress billings should pick up in 4Q15. Once it receives a legal opinion from the Vietnam Ministry of Justice expected in Nov-15, JAKS should be close to financial closure on the Vietnam power plant project. **BUY.**

9M15 results below expectations

JAKS's 9M15 results were below our expectations. 9M15 core net profit of RM12.2m (+73.4% yoy) accounted for just 54% of our full-year forecast due to lower-than-expected property unbilled sales recognition and construction profit. No dividends were declared.

Delays in licensing pull down construction division

While 3Q15 revenue grew 21.7% yoy, JAKS's results were a miss because we had expected stronger revenue from its construction and property segments. 3Q15 construction revenue fell by 10.4% qoq due to delays in obtaining certain licenses from government authorities that were subsequently resolved in 4Q15. The property division (+9.3% yoy) recognised more unbilled sales in 3Q15, but was below our expectations due to prevailing soft market conditions. Property unbilled sales stood at RM364m in 3Q15 (2Q15: RM386m). On stable margins, lower finance costs and tax, JAKS's 3Q15 net profit doubled yoy.

Developments in 4Q15

We gather from management that JAKS is on track to receive an issuance of legal opinion in Nov-15 by the Vietnam Ministry of Justice for the power plant project. With this in mind, we still expect the project to begin construction in 1Q16 and therefore make no changes to our FY16-17E EPS. We however lower our FY15E EPS by 15.9% to reflect the weaker-than-expected 9M15 results.

Maintain BUY rating and TP of RM1.60

We maintain our BUY call and make no change to our 12-month target price of RM1.60, based on a 20% discount to our RNAV (realisable net asset value) valuation of RM2.00, as our FY16-17E EPS remain unchanged. We believe JAKS is still on track to unlock value in its Vietnam project. Additional water-related infrastructure project wins and positive earnings surprises from the construction of non-technical work on the Vietnam project would be key rerating catalysts for JAKS, in our view.

Earnings & Valuation Summary

FYE 31 Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	586.4	491.1	483.8	924.7	939.7
EBITDA (RMm)	42.7	73.8	67.2	189.0	191.8
Pretax profit (RMm)	19.8	53.9	47.2	169.3	172.3
Net profit (RMm)	7.5	14.0	18.9	67.7	68.9
EPS (sen)	1.7	3.2	4.3	15.4	15.7
PER (x)	67.8	36.4	26.9	7.5	7.4
Core net profit (RMm)	7.5	14.0	18.9	67.7	68.9
Core EPS (sen)	1.7	3.2	4.3	15.4	15.7
Core EPS growth (%)	172.8	86.1	35.3	258.3	1.8
Core PER (x)	67.8	36.4	26.9	7.5	7.4
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	24.5	16.4	18.1	6.4	6.3
Chg in EPS (%)			(15.9)	-	-
Affin/Consensus (x)			0.9	0.8	0.7

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

JAKS Resources

JAK MK
Sector: Utilities

RM1.16 @ 17 Nov 2015

BUY (maintain)

Upside 38%

Price Target: RM1.60

Previous Target: RM1.60



Price Performance

	1M	3M	12M
Absolute	+0.9%	+50.6%	+112%
Rel to KLCI	+4.0%	+42.2%	+130%

Stock Data

Issued shares (m)	438.4
Mkt cap (RMm)/(US\$m)	508.5/116.0
Avg daily vol - 6mth (m)	5.7
52-wk range (RM)	0.38-1.24
Est free float	75%
BV per share (RM)	1.06
P/BV (x)	1.09
Net cash/(debt) (RMm) (3Q15)	(501.5)
ROE (2015E)	12.3%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Ang Lam Poah	7.4%
Original Invention	5.0%
Dimensional Fund	4.1%

Source: Affin Hwang, Bloomberg

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Risks

The key risk to our view lies in a potential delay or an inability to secure financial closure for the Vietnam project, as it is a significant component of our valuation for JAKS. Other risks include delays in monetising the shopping mall and slower-than-expected property sales.

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q15	QoQ % chg	YoY % chg	9M15	YoY % chg	Comments
Revenue	114.2	29.3	21.7	314.2	4.1	Better yoy in 9M15 mainly due to higher construction revenue (+70.5% yoy).
Op costs	(98.8)	31.8	21.7	(272.9)	6.2	
EBITDA	15.3	15.4	21.9	41.4	(7.5)	
<i>EBITDA margin (%)</i>	<i>13.4</i>	<i>-1.6ppt</i>	<i>+0.0ppt</i>	<i>13.2</i>	<i>-1.7ppt</i>	
Depn and amort	(0.8)	(14.0)	(31.1)	(2.7)	(11.5)	
EBIT	14.5	17.6	27.4	38.7	(7.2)	
Int expense	(4.3)	11.2	56.9	(11.8)	12.3	
Pretax profit	10.2	20.6	17.9	26.8	(13.8)	
Tax	(2.5)	(21.0)	(18.3)	(8.3)	(24.6)	
<i>Tax rate (%)</i>	<i>24.6</i>	<i>-13.0ppt</i>	<i>-10.9ppt</i>	<i>31.0</i>	<i>-4.4ppt</i>	
MI	(1.8)	(12.5)	(36.9)	(6.3)	(51.8)	
Net profit	5.9	81.4	112.7	12.2	73.4	Lower yoy partly due to higher finance costs.
EPS (sen)	1.4	82.4	114.3	2.8	73.3	
Core net profit	5.9	81.4	112.7	12.2	73.4	Below Affin Hwang expectations.

Source: Affin Hwang, Company data

Fig 2: JAKS RNAV Valuation

JAKS RNAV Segmental	Equity Value (RMm)	Comments
Property		
- Pacific Star	33.3	51% stake in RM1.2bn GDV due for completion by 2016; c.RM400m of unbilled sales plus c.RM100m of unsold units.
- USJ 1	107.1	100% stake in GDV of RM2.0bn (5-year development) assuming 2016 launch.
Construction	490.0	PER at 10x based on 2016E net profit of RM49m, which includes non-technical work from Vietnam project.
Mall	234.6	51% stake of 460k sq ft NLA @ RM1,000 psf.
Gross debt	(601.6)	
Cash balance	41.6	
Total RNAV (without Vietnam project)	305.0	
RNAV/per share (RM)	0.70	
Vietnam IPP	571.7	With financial closure @ 30% stake (WACC: 10.2%, IRR: 14%).
Total RNAV (with Vietnam project)	876.7	
RNAV/per share (RM)	2.00	
Discount to total RNAV (with Vietnam project)	20.0%	
Target price (RM)	1.60	
No of shares (mil)	438.4	

Source: Affin Hwang estimates

Disclaimer**Equity Rating Structure and Definitions**

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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