

Company Results

27 May 2016

Ikhmas Jaya Group Berhad

BUY

Low topline as affected by projects recognition gap

Maintained

Share Price	RM0.78
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)	405.60
52-week price Range	RM0.54-0.84
Beta (against KLCI)	N.A
3-m Average Daily Volume	3.13m
3-m Average Daily Value	RM2.31m

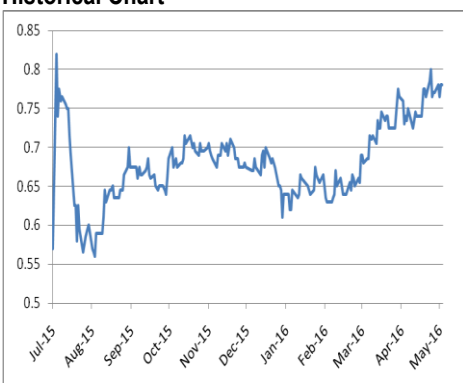
Share Performance

	1m	3m	12m
Absolute (%)	5.4	9.9	N.A
Relative (%-pts)	9.4	26.3	N.A

Major Shareholders

	%
IJ Holdings	65.0
Prudential Unit Trusts	2.18
Kenanga Unit Trust Berhad	1.10

Historical Chart



Source: Bloomberg

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Result

- Ikhmas Jaya posted net profit of RM4.3m for its 1QFY16, up 81.3% qoq but down 58.8% yoy with revenue dropped 20.6% qoq and 32.2% yoy.
- Below expectation.** Net profit of RM4.3m only accounted for 12% of our full year earnings forecast of RM36.43m mainly due to projects recognition gap, i.e. timing difference of recognition of construction progress.

Comment

- Projects transition gap weighed on revenue.** Current quarter revenue dropped 32.2% yoy mainly due to decrease in works done for two major projects which are close to completion stage while newly secured projects on hand are at initial stage. Meanwhile, current lower quarter PBT, which plunged by 67.8% yoy, was due to weaker revenue and PBT margin (slid 4.0 pts to 10.8% on yearly basis). The higher cost was due to higher depreciation and insurance costs for additional plant and machinery acquired with its IPO proceed. In addition, operating expenses was lifted by increase in administration expenses in relation to additional staff cost and compliance costs as a listed company. We believe the increase in operating expenses was in line with the business growth given more projects were secured.
- PBT almost doubled on quarter basis given low base in last quarter.** Current quarter revenue dropped 20.6% qoq but PBT almost doubled. The compelling result was mainly due to lower base in last quarter with PBT margin jumped 6.49 pts to 10.84%. Better margin recorded in this quarter was attributed to reassessment of budgeted contract costs for completed projects and adjustments made in the margins of project costs close to completion stage in the preceding quarter as a result of reassessment. We believe it was mainly due to certain construction jobs where extra jobs were not included in the initial plan.
- Current outstanding order book stands at RM636.2m.** Ikhmas Jaya's current order book stands at RM636.2m after taking into account the newly clinched project from MRCB Sentral Properties Sdn. Bhd., to undertake sub-contract foundation work substructure and subcontract work projects with a total value of RM32.86m (7months). The Group's clear earnings visibility is anchored by current healthy order book, which translates into 2.35x FY15's earnings given a margin of 9%.
- Order book replenishment from year-to-date stood at RM599.3m 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, aiming for 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 more revenue will be recognize in coming quarters as newly started projects progress over times. In addition, 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 an unchanged 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	1QFY16 (RMm)	4QFY15 (RMm)	QoQ % chg	1QFY15 (RMm)	YoY % chg	3MFY16 (RMm)	3MFY15 (RMm)	YoY % chg
Revenue	51.08	64.4	-20.66%	76.34	-32.20%	268.7	293.5	-8.50%
Gross profit	15.85	13.1	21.09%	18.92	-28.50%	67.3	57.9	16.30%
Profit before tax	5.54	2.8	97.61%	11.34	-67.80%	32.9	28.8	14.00%
Net Profit	4.31	2.4	81.38%	8.50	-58.80%	24.8	21.3	16.60%
PBT Margin (%) / pts	10.84	4.35	6.49	14.85	-4.00	12.24	9.81	2.43
Net profit margin (%) / pts	8.43	3.69	4.74	11.13	-2.70	9.23	7.26	1.97

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	Est. FY16 Earning
	26-May-16 (RM)	cap RM'm	2014	2015	2016F	(%)	(x)	RM'm
IKHMAS JAYA GROUP BHD	0.78	405.6		15.84	10.4	14.34	1.60	38.6
ECONPILE HOLDINGS BHD	1.31	700.9	10.22	14.02	12.27	25.4	3.13	64.6
PINTARAS JAYA BHD	3.52	575.8	9.68	12.4	23.49	15.9	1.69	33.2

Source: Bloomberg, Company, JF Apex

Name	CAPEX	Total Assets	Revenue	Outstanding Order book (RM'm)	Net Profit	Operating	Net Margin
	(RM'm)	(RM'm)	(RM'm)		(RM'm)	Margin (%)	(%)
IKHMAS JAYA GROUP BHD	-27.1	362.8	268	636	24.3	14.1	9.4
ECONPILE HOLDINGS BHD	-29.4	333.5	429	608	46.6	14.8	10.9
PINTARAS JAYA BHD	-29.2	383.5	243	300	51.9	26.6	21.4

*Based on new jobs won

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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