

## Company Results

30 August 2016

# Ikhmas Jaya Group Berhad

**BUY**

*Scant revenue recognition in 1HFY16*

**Maintained**

<b>Share Price</b>	<b>RM0.71</b>
<b>Target Price</b>	<b>RM0.90</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)	369.20
52-week price Range	RM0.54-0.84
Beta (against KLCI)	N.A
3-m Average Daily Volume	1.06m
3-m Average Daily Value	RM0.78m

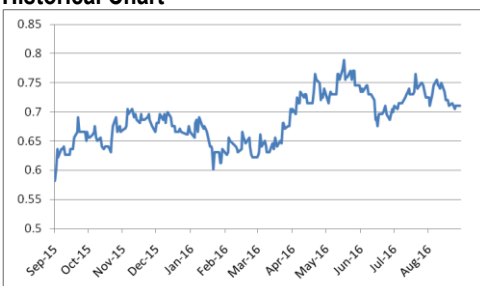
### Share Performance

	1m	3m	12m
Absolute (%)	-3.4	0.0	20.3
Relative (%-pts)	-5.0	-8.9	15.4

### Major Shareholders

	%
IJ Holdings	65.0
Aminvestment Services Bhd	1.10
Prudential Unit Trusts	0.95
Norges Bank	0.80

### Historical Chart



Source: Bloomberg

### The Research Team

**03-87361118, ext. 754**

zjlow@jfapex.com.my

## Result

- Ikhmas Jaya posted net profit of RM5.2m for its 2QFY16, up 21.1% qoq but down 24.9% yoy. Similarly, revenue improved 22.4% qoq but inched down 3% yoy.
- Below expectation.** 6MFY16 Net profit of RM9.5m only accounted for 26% of our full year earnings forecast of RM36.43m mainly due to late handling over of site by clients for 2 major new projects coupled with higher operating expenses.

## Comment

- Lower revenue and higher operating expenses bogged down earnings for 6MFY16.** 6MFY16's revenue and net profit slid 19.3% yoy and 38.3% yoy to RM113.6m and RM9.5m respectively as lower jobs recognition in 1QFY16 given projects transition gap coupled with hindrance in 2 new projects as late handling over the site by clients. In addition, earnings were further eroded by higher operating cost as a result of higher depreciation costs for additional plant and machinery acquired and increase in administration expenses in relation to additional staff and extra compliance costs as a listed company. Overall, cumulative net profit margin slid 2.59 pts to 8.4%.
- 2QFY16 earnings lifted by higher revenue on quarterly basis but fazed by lower margin on yearly basis.** 2QFY16's net profit improved by 21% qoq, underpinned by a growth in revenue of 22.4% qoq. However, 2QFY16's net profit slid 24.9% yoy in view of lower revenue of 3% yoy. The unappealing performance was mainly dragged down by lower margin (down 2.4pts yoy to 8.4%) given higher operating expenses.
- Current outstanding order book stands at RM574m.** The Group's clear earnings visibility is anchored by current healthy order book, which translates into 2x 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 RM400m in coming months.

## Earnings Outlook/ Revision

- We slashed our earnings forecast for FY16 and FY17 by 25-40% mainly due to lower than expected revenue recognized given unforeseen event and higher operating cost.**

### Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM0.90 after rolling over our valuation and pegged at 13x FY2017F PE.** The target PE assigned is at the range of upcycle PE for small-and-mid cap contractors amid current booming infrastructure works.
- **Despite the earnings cut, we still maintain our positive view on the Group as bored pilling and fundamental works still remain vibrant.** We believe the Group's growth trajectory is sustainable in mid term given 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	2QFY16 (RMm)	1QFY16 (RMm)	QoQ % chg	2QFY15 (RMm)	YoY % chg	6MFY16 (RMm)	6MFY15 (RMm)	YoY % chg
Revenue	62.5	51.1	22.4%	64.4	-3.0%	113.6	140.8	-19.3%
Gross profit	17.1	15.8	7.6%	16.9	0.8%	32.9	35.8	-8.2%
Profit before tax	6.9	5.5	24.0%	9.1	-24.8%	12.4	20.5	-39.4%
Net Profit	5.2	4.3	21.1%	6.9	-24.9%	9.5	15.4	-38.3%
PBT Margin (%) / pts	10.98	10.84	0.14	14.18	-3.19	10.92	14.54	-3.62
Net profit margin (%) / pts	8.34	8.43	-0.09	10.78	-2.44	8.38	10.97	-2.59

**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	268.66	317.20	416.70
Gross Profit	27.35	37.63	53.58	57.9	67.34	75.49	99.17
Other income	1.49	1.46	0.22	0.26	0.38	1.00	1.00
Administration expenses	-6.86	-7.07	-6.62	-8.98	-10.81	-12.69	-17.50
Other operating expenses	-5.88	-8.04	-7.87	-7.15	-8.42	-9.00	-10.00
EBITDA	16.1	23.98	39.31	42.03	48.49	54.81	72.67
Operating Profit	12.45	19.26	32.03	33.43	37.57	40.81	57.67
Finance income	0.08	0.33	0.53	0.69	0.91	0.90	1.20
Finance Costs	-1.25	-2.26	-3.54	-5.28	-5.71	-6.60	-8.70
PBT	11.45	17.34	29.03	28.84	32.77	35.11	50.17
Taxes	-3.07	-3.85	-7.57	-7.43	-8.46	-9.13	-13.05
Profit for the year	8.38	13.49	21.46	21.41	24.30	25.98	37.13
Net Income(to shareholders)	8.38	13.34	21.44	21.55	25.16	26.33	37.09
EPS	0.016	0.026	0.041	0.041	0.048	0.051	0.071
<b>Growth</b>							
Revenue Growth	-	39.5%	1.2%	42.9%	-8.5%	18.1%	31.4%
EBITDA Growth	-	48.9%	63.9%	6.9%	15.4%	13.0%	32.6%
Operating Profit Growth	-	54.7%	66.3%	4.4%	12.4%	8.6%	41.3%
PBT Growth	-	51.4%	67.4%	-0.7%	13.6%	7.1%	42.9%
Net Profit Growth	-	59.2%	60.7%	0.5%	16.7%	4.7%	40.9%
<b>Margin</b>							
Gross Margin	18.8%	18.5%	26.1%	19.7%	25.1%	23.8%	23.8%
EBITDA Margin	11.1%	11.8%	19.1%	14.3%	18.1%	17.3%	17.4%
Operating Margin	8.6%	9.5%	15.6%	11.4%	14.0%	12.9%	13.8%
Pretax Margin	7.9%	8.5%	14.1%	9.8%	12.2%	11.1%	12.0%
PAT Margin	5.8%	6.6%	10.5%	7.3%	9.0%	8.2%	8.9%
Net Margin (to shareholders)	5.8%	6.6%	10.4%	7.3%	9.4%	8.3%	8.9%

Source: Company, JF Apex

**Figure 3: Peer Comparison**

Company	Price	Market	PE (x)			ROE	P/B	Est. FY16 Earning
	28-Aug-16	cap	-----			(%)	(x)	RM'm
	(RM)	RM'm	2014	2015	2016F			
IKHMAS JAYA GROUP BHD	0.71	369.2		15.84	11.3	14.34	1.60	26
ECONPILE HOLDINGS BHD	1.5	802.5	10.22	14.02	12.1	25.4	3.13	66*
PINTARAS JAYA BHD	3.6	588.7	9.68	12.4	24.1	15.9	1.69	33.2

\* Actual earnings

Source: Bloomberg, Company, JF Apex

Name	CAPEX	Total Assets	Revenue	Outstanding Order book (RM'm)	Net Profit	Operating Margin	Net Margin
	(RM'm)	(RM'm)	(RM'm)		(RM'm)	(%)	(%)
IKHMAS JAYA GROUP BHD*	-15	362.8	268	574	24.3	13.1	8.4
ECONPILE HOLDINGS BHD**	-20	413	462	641	65.9	19.8	14.3
PINTARAS JAYA BHD	-30	383.5	243	250	51.9	26.6	21.4

\* Based on in-house forecast for FY16

\*\* For the full period of FY16

Source: Bloomberg, Company, JF Apex, Media

**JF APEX SECURITIES BERHAD – CONTACT LIST**
**JF APEX SECURITIES BHD**
**Head Office:**

6<sup>th</sup> Floor, Menara Apex  
Off Jalan Semenyih  
Bukit Mewah  
43000 Kajang  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 8736 1118  
Facsimile: (603) 8737 4532

**PJ Office:**

15<sup>th</sup> Floor, Menara Choy Fook On  
No. 1B, Jalan Yong Shook Lin  
46050 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 7620 1118  
Facsimile: (603) 7620 6388

**DEALING TEAM**
**Head Office:**

Kong Ming Ming (ext 3237)  
Shirley Chang (ext 3211)  
Norisam Bojo (ext 3233)

**Institutional Dealing Team:**

Lim Teck Seng  
Sanusi Bin Mansor (ext 740)  
Fathul Rahman Buyong (ext 741)  
Ahmad Mansor (ext 744)  
Zairul Azman (ext 746)

**PJ Office:**

Mervyn Wong (ext 363)  
Azfar Bin Abdul Aziz (Ext 822)  
Tan Heng Cheong (Ext 111)

**RESEARCH TEAM**
**Head Office:**

Lee Chung Cheng (ext 758)  
Lee Cherng Wee (ext 759)  
Norsyafina binti Mohamad Zubir (ext 753)  
Low Zy Jing (ext 754)  
Nazhatul Shaza Binti Shukor (ext 755)

**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

**JF APEX SECURITIES BERHAD - DISCLAIMER**

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed by:

**JF Apex Securities Berhad** (47680-X)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)