



AmInvestment Bank

Company report

AmInvestment Bank Bhd

www.amesecurities.com

IKHMAS JAYA GROUP

(IJGB MK EQUITY, IJGB KL)

CONSTRUCTION

30 Aug 2016

A Soft Patch In 1HFY16

BUY

(Maintained)

Rationale for report: Company result

Price RM0.71
Fair Value RM0.92
52-week High/Low RM0.82/RM0.58

Key Changes

Fair value ⇄
EPS ⇄

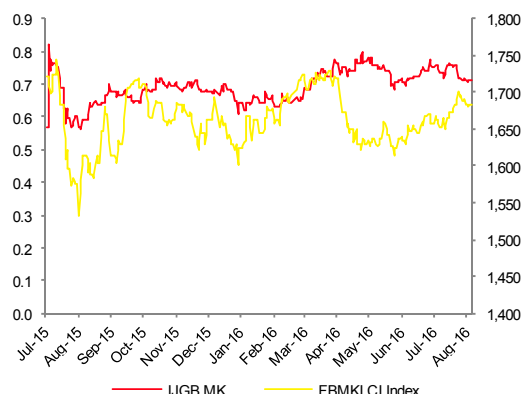
YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	268.7	352.9	419.0	563.5
Core net profit (RM mil)	25.2	28.5	36.9	44.4
FD Core EPS (sen)	4.8	5.5	7.1	8.5
FD Core EPS growth (%)	16.8	13.3	29.6	20.3
Consensus Net Profit (RM mil)	-	32.5	41.5	44.4
DPS (sen)	1.0	1.5	1.5	1.8
PE (x)	14.7	13.0	10.0	8.3
EV/EBITDA (x)	8.5	7.9	6.0	4.9
Div yield (%)	1.3	2.0	2.0	2.4
ROE (%)	17.7	14.2	16.3	17.1
Net Gearing (%)	21.6	20.9	6.3	nm

Stock and Financial Data

Shares Outstanding (million)	520.0
Market Cap (RMmil)	369.2
Book Value (RM/share)	0.36
P/BV (x)	2.0
ROE (%)	17.7
Net Gearing (%)	21.6
Major Shareholders	IJ Holdings (65.0%)

Free Float	34.3
Avg Daily Value (RMmil)	0.8

Price performance	3mth	6mth	12mth
Absolute (%)	(6.0)	12.7	20.3
Relative (%)	(8.4)	10.9	15.4



Investment Highlights

- We maintain our forecasts, BUY call and FV of RM0.92 based on 13x FY17F EPS of 7.1sen, at a slight premium to our 1-year forward target PE of 10-12x for small-cap construction stocks, to reflect a relatively less competitive piling segment vis-à-vis general contracting.
- 1HFY16 net profit of Ikhmas came in at only 33% of our full-year forecast and 29% the full-year consensus estimates respectively. However, we consider the results within expectations as we expect a stronger 2H.
- 1HFY16 net profit eased 37% YoY largely due to the delays in two key projects, namely, a flyover package for a road upgrading project outside of the Klang Valley, and a basement package for a high-rise project in the Klang Valley.
- During a recent meeting, Ikhmas guided for best-case job wins of another RM500mil before the year is out, on top of RM438mil secured YTD, pinning its hopes on sizeable public works. We are more inclined to be prudent by keeping our replenishment target for Ikhmas at RM500mil annually in FY16-18F. At present, its outstanding orderbook stands at RM666mil (Exhibit 2).
- Ikhmas was not successful in its bids for the Pan Borneo Highway, SUKE and PR1MA housing work packages - but for a good reason. It believes the winners generally have not priced in enough buffers for price increases and delays.
- Given the intense competition at the main contracting level for the Pan Borneo Highway, MRT2 and key expressway projects, Ikhmas now focuses on "opportunistic" sub-contracting works for these projects.
- For the Pan Borneo Highway, there is a possibility that Ikhmas will take on sub-contracting work packages. Nonetheless, it will be selective with the main consideration being the main contractors must have control over the supply and pricing of building materials.
- Similarly, for MRT2 and key expressway projects, Ikhmas is prepared to participate as a sub-contractor by leveraging on its forte in bored piling. In addition, it is all ready to double up as a "rescuer" for the projects' existing contractors fail to perform.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY16 1Q	FY16 2Q	QoQ Chg	FY15 6M	FY16 6M	YoY Chg
Turnover	51.1	62.5	22%	140.8	113.6	(19%)
EBIT	7.1	8.2	15%	23.0	15.3	(34%)
Net inc/(exp)	(1.6)	(1.3)	(15%)	(2.6)	(2.9)	12%
Associates	0.0	0.0	nm	0.0	0.0	nm
Pretax profit	5.5	6.9	24%	20.5	12.4	(39%)
Taxation	(1.4)	(1.8)	25%	(5.3)	(3.2)	(39%)
Minority interest	0.2	0.1	(27%)	0.0	0.3	nm
Net profit	4.3	5.2	21%	15.2	9.5	(37%)
EPS (sen)	0.8	1.0	20%	3.9	1.8	(53%)
EBIT margin	14%	13%	(1%)	16%	13%	(3%)
Pretax margin	11%	11%	0%	15%	11%	(4%)
Effective tax rate	26%	26%	0%	26%	26%	0%

Source: Bursa Malaysia

EXHIBIT 2: OUTSTANDING ORDERBOOK

Project	Outstanding Value (RMmil)
Service apartment, Persiaran Stonor	161.7
Opus, Jalan Talalla	155.1
Mixed development, PJ Sentral	139.1
MITC Bridge, Melaka	65.3
Parcel D, KL Eco City	31.4
MRCB's Cyberjaya project	29.6
Subang Skypark railway track	22.4
5-storey flats, Pulau Redang	13.5
Others	47.9
Total	666.0

Source: Company

EXHIBIT 3: PB BAND CHART

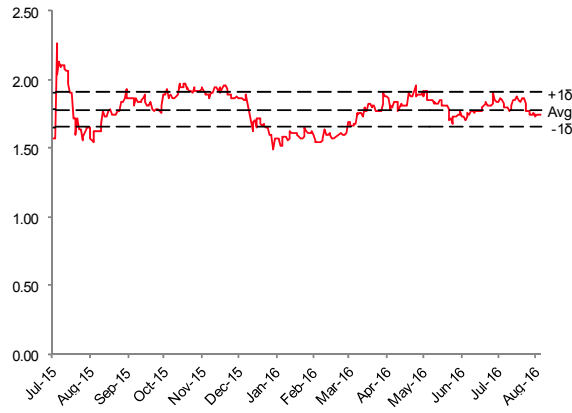


EXHIBIT 4: PE BAND CHART

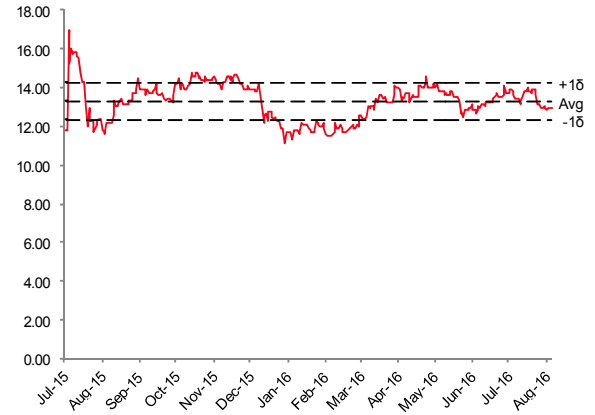


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	293.5	268.7	352.9	419.0	563.5
EBITDA	42.0	48.5	52.1	63.9	71.1
Depreciation/Amortisation	(8.6)	(10.9)	(9.9)	(12.0)	(12.8)
Operating income (EBIT)	33.4	37.6	42.2	51.9	58.3
Other income & associates	-	-	-	-	-
Net interest	(4.6)	(4.8)	(4.7)	(3.3)	0.1
Exceptional items	-	-	-	-	-
Pretax profit	28.8	32.8	37.5	48.6	58.4
Taxation	(7.4)	(8.5)	(9.0)	(11.7)	(14.0)
Minorities/pref dividends	0.1	0.9	-	-	-
Net profit	21.5	25.2	28.5	36.9	44.4
Core net profit	21.5	25.2	28.5	36.9	44.4
Balance Sheet (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Fixed assets	79.5	102.2	109.1	109.1	108.3
Intangible assets	-	-	-	-	-
Other long-term assets	2.4	3.3	3.3	3.3	3.3
Total non-current assets	81.9	105.4	112.4	112.3	111.6
Cash & equivalent	27.1	35.7	32.1	61.2	98.6
Stock	0.2	0.4	0.4	0.4	0.4
Trade debtors	178.2	223.8	223.8	223.8	223.8
Other current assets	0.1	0.5	0.5	0.5	0.5
Total current assets	205.6	260.4	256.8	286.0	323.3
Trade creditors	102.5	91.3	71.3	71.3	71.3
Short-term borrowings	57.3	61.1	61.1	61.1	61.1
Other current liabilities	6.1	1.3	1.3	1.3	1.3
Total current liabilities	165.9	153.7	133.7	133.7	133.7
Long-term borrowings	19.9	15.4	15.4	15.4	15.4
Other long-term liabilities	5.6	8.1	8.1	8.1	8.1
Total long-term liabilities	25.4	23.4	23.4	23.4	23.4
Shareholders' funds	95.9	188.7	212.0	241.1	277.7
Minority interests	0.2	-	-	-	-
BV/share (RM)	0.18	0.36	0.41	0.46	0.53
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	28.8	32.8	37.5	48.6	58.4
Depreciation/Amortisation	8.6	10.9	9.9	12.0	12.8
Net change in working capital	(20.7)	(57.0)	(20.0)	-	-
Others	(5.7)	(12.1)	(4.3)	(8.4)	(14.1)
Cash flow from operations	11.1	(25.4)	23.1	52.2	57.1
Capital expenditure	(4.2)	(27.1)	(16.8)	(12.0)	(12.0)
Net investments & sale of fixed assets	0.6	0.5	-	-	-
Others	(0.9)	0.1	-	-	-
Cash flow from investing	(4.5)	(26.5)	(16.8)	(12.0)	(12.0)
Debt raised/(repaid)	(19.2)	(6.5)	-	-	-
Equity raised/(repaid)	0.2	68.2	-	-	-
Dividends paid	-	-	(5.2)	(7.8)	(7.8)
Others	12.9	0.3	(4.7)	(3.3)	0.1
Cash flow from financing	(6.1)	62.1	(9.9)	(11.1)	(7.7)
Net cash flow	0.4	10.1	(3.6)	29.2	37.4
Net cash/(debt) b/f	(10.3)	(9.8)	0.3	(3.3)	25.8
Net cash/(debt) c/f	(9.8)	0.3	(3.3)	25.8	63.2
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	-	(8.5)	31.4	18.7	34.5
EBITDA growth (%)	-	15.4	7.3	22.8	11.2
Pretax margin (%)	9.8	12.2	10.6	11.6	10.4
Net profit margin (%)	7.3	9.4	8.1	8.8	7.9
Interest cover (x)	7.3	7.8	9.0	15.8	nm
Effective tax rate (%)	25.8	25.8	24.0	24.0	24.0
Dividend payout (%)	-	20.7	27.4	21.1	21.1
Debtors turnover (days)	111	273	231	195	145
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	64	132	84	62	46

Source: Company, AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad ("AmInvestment") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.