



AmInvestment Bank

Company report

AmInvestment Bank Bhd

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IKHMAS JAYA GROUP

(IJGB MK EQUITY, IJGB KL)

CONSTRUCTION

08 Sep 2016

A Soft Patch In FY16, But Prospects Remain Bright

BUY

(Maintained)

Rationale for report: Company update

Price RM0.65
Fair Value RM0.84
52-week High/Low RM0.82/RM0.61

Key Changes

Fair value
EPS

YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	268.7	272.8	395.4	480.1
Core net profit (RM mil)	25.2	20.3	33.7	40.9
FD Core EPS (sen)	4.8	3.9	6.5	7.9
FD Core EPS growth (%)	16.8	(19.5)	66.4	21.3
Consensus Net Profit (RM mil)	-	32.5	41.5	44.4
DPS (sen)	1.0	1.5	1.5	1.8
PE (x)	13.3	16.6	9.9	8.2
EV/EBITDA (x)	7.8	10.2	6.3	4.9
Div yield (%)	1.5	2.3	2.3	2.8
ROE (%)	17.7	10.3	15.6	16.6
Net Gearing (%)	21.6	25.8	11.6	nm

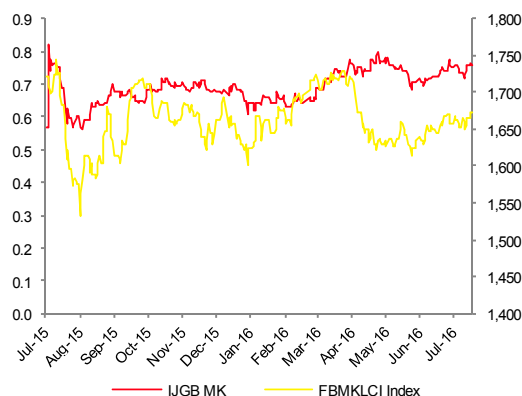
Stock and Financial Data

Shares Outstanding (million) 520.0
Market Cap (RMmil) 335.4
Book Value (RM/share) 0.36
P/BV (x) 1.8
ROE (%) 17.7
Net Gearing (%) 21.6

Major Shareholders IJ Holdings (65.0%)

Free Float 34.3
Avg Daily Value (RMmil) 0.9

Price performance	3mth	6mth	12mth
Absolute (%)	(14.6)	(2.3)	-
Relative (%)	(16.0)	(1.8)	(6.3)



Investment Highlights

- We are cutting our FY16F/FY17F/18F earnings forecasts for Ikhmas by 29%, 9% and 8% respectively, following a recent meeting. This is largely to reflect further delays in two key projects, namely:
 - A flyover package for a road upgrading project outside of the Klang Valley due to the delay in the handover of the site (the project has encountered problems in relocation of utilities, which is not part of the job scope of Ikhmas); and
 - A basement package for a high-rise project in the Klang Valley, again, as Ikhmas is still awaiting the complete handover of the site (as foundation works on certain parts of the site have to be rectified due to unexpected soil conditions, which are, again, not part of the job scope of Ikhmas).
- On a brighter note, Ikhmas reiterated its guidance 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. However, we are inclined to be more prudent by keeping our replenishment target for Ikhmas at RM500mil annually in FY16-18F.
- We now project earnings of Ikhmas to contract by -19.5% in FY16F (vs. +13.3% previously), but bounce back strongly by +66.4% in FY17F from a low base. We believe our FY17F earnings forecast is highly achievable, backed by an outstanding orderbook of RM666mil (Exhibit 1) - of which about a third comes from the two delayed projects. There are indications that the site handover will finally take place in the immediate months, which means the two projects will very likely be in full swing and contribute significantly in FY17F.
- We cut our FV by 9% to RM0.84 (from RM0.92) based on 13x revised FY17F EPS of 6.5sen, 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.
- We like Ikhmas as it is a good proxy to the booming local construction sector. Its earnings visibility is anchored by a sizeable order backlog, coupled with strong prospects for job wins with piling/foundation sub-contracts from MRT2, Pan Borneo Highway, SUKE and DASH starting to hit the market over the next 3-6 months. Maintain BUY.

EXHIBIT 1: 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 2: PB BAND CHART

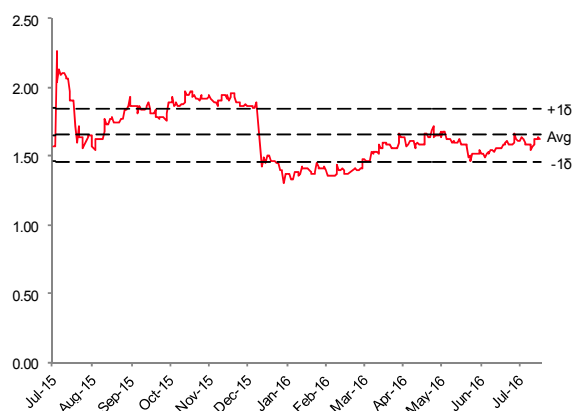


EXHIBIT 3: PE BAND CHART

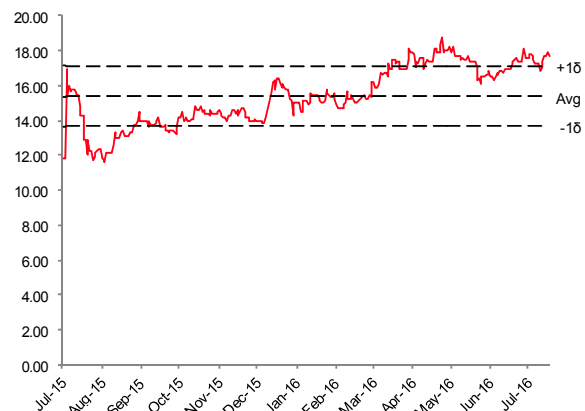


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	293.5	268.7	272.8	395.4	480.1
EBITDA	42.0	48.5	37.9	57.6	66.8
Depreciation/Amortisation	(8.6)	(10.9)	(9.9)	(12.0)	(12.8)
Operating income (EBIT)	33.4	37.6	28.1	45.6	54.1
Other income & associates	-	-	-	-	-
Net interest	(4.6)	(4.8)	(1.4)	(1.2)	(0.3)
Exceptional items	-	-	-	-	-
Pretax profit	28.8	32.8	26.7	44.4	53.8
Taxation	(7.4)	(8.5)	(6.4)	(10.6)	(12.9)
Minorities/pref dividends	0.1	0.9	-	-	-
Net profit	21.5	25.2	20.3	33.7	40.9
Core net profit	21.5	25.2	20.3	33.7	40.9
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	23.8	49.8	83.6
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	248.6	274.5	308.4
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	203.8	229.7	262.8
Minority interests	0.2	-	-	-	-
BV/share (RM)	0.18	0.36	0.39	0.44	0.51
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	28.8	32.8	26.7	44.4	53.8
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)	(5.0)	(9.5)	(12.6)
Cash flow from operations	11.1	(25.4)	11.5	46.9	53.9
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	(1.4)	(1.2)	(0.3)
Cash flow from financing	(6.1)	62.1	(6.6)	(9.0)	(8.1)
Net cash flow	0.4	10.1	(11.9)	26.0	33.8
Net cash/(debt) b/f	(10.3)	(9.8)	0.3	(11.6)	14.4
Net cash/(debt) c/f	(9.8)	0.3	(11.6)	14.4	48.2
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	-	(8.5)	1.5	44.9	21.4
EBITDA growth (%)	-	15.4	(21.8)	51.8	16.1
Pretax margin (%)	9.8	12.2	9.8	11.2	11.2
Net profit margin (%)	7.3	9.4	7.4	8.5	8.5
Interest cover (x)	7.3	7.8	20.0	38.3	184.8
Effective tax rate (%)	25.8	25.8	24.0	24.0	24.0
Dividend payout (%)	-	20.7	38.5	23.1	22.9
Debtors turnover (days)	111	273	299	207	170
Stock turnover (days)	-	-	1	-	-
Creditors turnover (days)	64	132	109	66	54

Source: Company, AmlInvestment Bank Bhd estimates

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