



AmInvestment Bank

Company report

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IKHMAS JAYA GROUP

(IJGB MK EQUITY, IJGB KL)

CONSTRUCTION

23 Nov 2016

A Soft Patch In 9MFY16

BUY

(Maintained)

Rationale for report: Company result

Price RM0.60
Fair Value RM0.76
52-week High/Low RM0.82/RM0.59

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	14.2	30.5	40.7
FD Core EPS (sen)	4.8	2.7	5.9	7.8
FD Core EPS growth (%)	16.8	(43.6)	115.0	33.3
Consensus Net Profit (RM mil)	-	25.3	38.3	40.7
DPS (sen)	1.0	1.5	1.5	1.8
PE (x)	12.4	22.0	10.2	7.7
EV/EBITDA (x)	7.3	12.3	6.5	4.7
Div yield (%)	1.7	2.5	2.5	3.0
ROE (%)	17.7	7.3	14.6	17.2
Net Gearing (%)	21.6	29.7	16.3	0.9

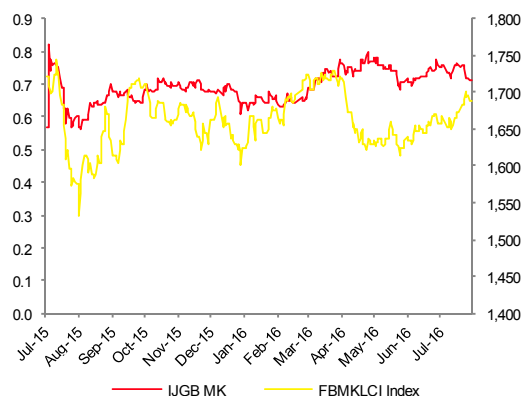
Stock and Financial Data

Shares Outstanding (million) 520.0
Market Cap (RMmil) 312.0
Book Value (RM/share) 0.36
P/BV (x) 1.7
ROE (%) 17.7
Net Gearing (%) 21.6

Major Shareholders IJ Holdings (65.0%)

Free Float 34.3
Avg Daily Value (RMmil) 0.6

Price performance	3mth	6mth	12mth
Absolute (%)	(16.1)	(22.1)	(13.7)
Relative (%)	(13.0)	(22.2)	(12.1)



Investment Highlights

- We maintain our forecasts, BUY call and FV of RM0.76 based on 13x FY17F EPS of 5.9sen, 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.
- 9MFY16 net profit of Ikhmas came in broadly within our expectations at 68% of our full-year forecast but missed market expectations at only 39% the full-year consensus estimates.
- 9MFY16 net profit fell 57% YoY largely due to: 1) 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, and 2) additional costs booked in from the RM278mil Subang Skypark railway track project (95% completion at present) largely due to additional materials, as well as additional manpower incurred pursuant to the client's instruction to speed up the completion of the project. Ikhmas is only likely to recover these additional costs upon handover of the project (which is beyond FY16).
- During a recent meeting, Ikhmas was upbeat on new orderbook replenishment over the immediate term. It is hopeful to secure from a reputable private developer a bored piling job and a massive infrastructure package worth >RM500mil in total, as well as design & build government building jobs worth another RM500mil. YTD, its job wins stand at RM438mil. We are more inclined to be prudent by keeping our replenishment target for Ikhmas at RM500mil annually in FY16-18F.
- We project earnings of Ikhmas to contract by -43.6% in FY16F, but more than double by +115.0% in FY17F from a low base. We believe our FY17F earnings forecast is highly achievable, backed by an outstanding orderbook of RM590mil (Exhibit 2).
- 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.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY16 1Q	FY16 2Q	FY16 3Q	QoQ Chg	FY15 9M	FY16 9M	YoY Chg
Turnover	51.1	62.5	50.8	(19%)	204.3	164.4	(20%)
EBIT	7.1	8.2	2.5	(70%)	33.7	17.7	(47%)
Net inc/(exp)	(1.6)	(1.3)	(1.8)	37%	(3.7)	(4.7)	28%
Associates	0.0	0.0	0.0	nm	0.0	0.0	nm
Pretax profit	5.5	6.9	0.6	(91%)	30.1	13.0	(57%)
Taxation	(1.4)	(1.8)	(0.5)	(72%)	(7.6)	(3.7)	(51%)
Minority interest	0.2	0.1	0.1	nm	0.0	0.4	nm
Net profit	4.3	5.2	0.2	(96%)	22.4	9.7	(57%)
EPS (sen)	0.8	1.0	0.0	(96%)	4.4	1.9	(58%)
EBIT margin	14%	13%	5%	(8%)	17%	11%	(6%)
Pretax margin	11%	11%	1%	(10%)	15%	8%	(7%)
Effective tax rate	26%	26%	79%	53%	25%	29%	3%

Source: Bursa Malaysia

EXHIBIT 2: OUTSTANDING ORDERBOOK

Project	Outstanding Value (RMmil)
Service apartment, Persiaran Stonor	162.5
Opus, Jalan Talalla	143.1
Mixed development, PJ Sentral	125.3
MITC Bridge, Melaka	65.3
Parcel D, KL Eco City	25.6
MRCB's Cyberjaya project	20.5
Subang Skypark railway track	15.1
5-storey flats, Pulau Redang	10.4
Others	21.6
Total	589.5

Source: Company

EXHIBIT 3: PB BAND CHART

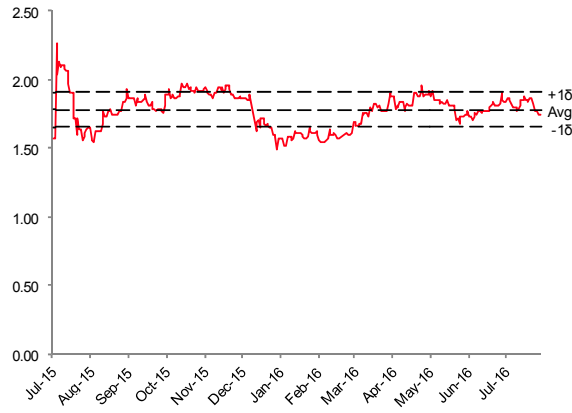


EXHIBIT 4: PE BAND CHART

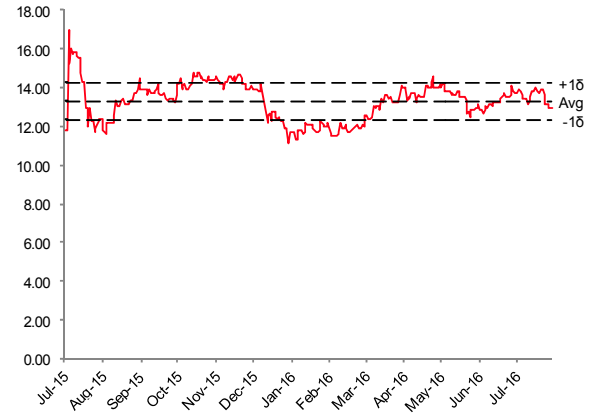


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	293.5	268.7	272.8	395.4	480.1
EBITDA	42.0	48.5	30.0	53.6	66.8
Depreciation/Amortisation	(8.6)	(10.9)	(9.9)	(12.0)	(12.8)
Operating income (EBIT)	33.4	37.6	20.2	41.6	54.1
Other income & associates	-	-	-	-	-
Net interest	(4.6)	(4.8)	(1.5)	(1.4)	(0.6)
Exceptional items	-	-	-	-	-
Pretax profit	28.8	32.8	18.7	40.1	53.5
Taxation	(7.4)	(8.5)	(4.5)	(9.6)	(12.8)
Minorities/pref dividends	0.1	0.9	-	-	-
Net profit	21.5	25.2	14.2	30.5	40.7
Core net profit	21.5	25.2	14.2	30.5	40.7
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	17.8	40.5	74.1
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	242.5	265.2	298.9
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	197.7	220.4	253.3
Minority interests	0.2	-	-	-	-
BV/share (RM)	0.18	0.36	0.38	0.42	0.49
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	28.8	32.8	18.7	40.1	53.5
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)	(3.0)	(8.2)	(12.3)
Cash flow from operations	11.1	(25.4)	5.6	44.0	54.0
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	(1.5)	(1.4)	(0.6)
Cash flow from financing	(6.1)	62.1	(6.7)	(9.2)	(8.4)
Net cash flow	0.4	10.1	(17.9)	22.7	33.6
Net cash/(debt) b/f	(10.3)	(9.8)	0.3	(17.6)	5.1
Net cash/(debt) c/f	(9.8)	0.3	(17.6)	5.1	38.7
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	-	(8.5)	1.5	44.9	21.4
EBITDA growth (%)	-	15.4	(38.1)	78.4	24.7
Pretax margin (%)	9.8	12.2	6.8	10.2	11.1
Net profit margin (%)	7.3	9.4	5.2	7.7	8.5
Interest cover (x)	7.3	7.8	13.5	29.3	94.2
Effective tax rate (%)	25.8	25.8	24.0	24.0	24.0
Dividend payout (%)	-	20.7	55.0	25.6	23.0
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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