

**AmInvestment Bank****Company report****Joshua Ng**

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# IKHMAS JAYA GROUP

(IJGB MK EQUITY, IJGB KL)

8 Nov 2016

**Booking In Additional Costs****BUY**

(Maintained)

**Rationale for report: Company update**

Price RM0.63  
 Fair Value RM0.76  
 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	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)	-	28.4	39.9	40.9
DPS (sen)	1.0	1.5	1.5	1.8
PE (x)	12.9	22.9	10.7	8.0
EV/EBITDA (x)	7.5	12.8	6.7	4.9
Div yield (%)	-	-	-	-
ROE (%)	17.7	7.3	14.6	17.2
Net Gearing (%)	21.6	29.7	16.3	0.9

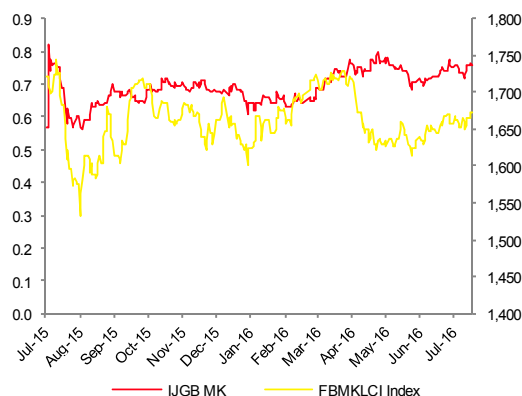
**Stock and Financial Data**

Shares Outstanding (million) 520.0  
 Market Cap (RMmil) 325.0  
 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) 0.7

Price performance	3mth	6mth	12mth
Absolute (%)	(14.4)	(13.8)	(8.1)
Relative (%)	(14.4)	(13.6)	(6.4)

**Investment Highlights**

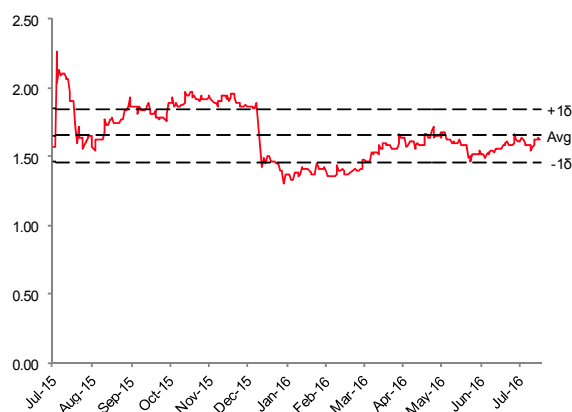
- Following a recent meeting, we maintain our BUY recommendation but cut FY16F/17F/18F earnings forecasts by 30%, 10% and 1% respectively, and cut our FV by 10% to RM0.76 (from RM0.84), based on 13x revised FY17F EPS of 5.9sen, at a slight premium to our 1-year forward target PE of 10-12x for small-cap construction stocks, to reflect a relatively less competitive piling segment vis-à-vis general contracting.
- The earnings cuts are largely to reflect additional costs to be booked in from the RM278mil Subang Skypark railway track project (95% completion) largely due to additional materials, as well as additional manpower incurred in accordance with the client's instruction to speed up the project towards completion. Ikhmas is only likely to recover these additional costs upon the handover of the project (which is beyond FY16).
- On a brighter note, Ikhmas is 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 about another RM500mil in total. YTD, its job wins stand at RM438mil. We are keeping our replenishment target for Ikhmas at RM500mil annually in FY16-18F - just to be prudent.
- We now project earnings of Ikhmas to contract by -43.6% in FY16F (versus -19.5% previously), 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 1).
- 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: OUTSTANDING ORDERBOOK

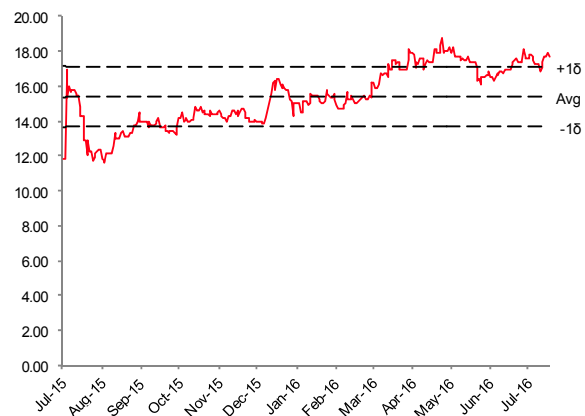
Project	Outstanding Value (RMmil)
Service apartment, Persiaran Stonor	162.5
Opus, Jalan Talalla	143.1
Mixed development, PJ Sentral	125.3
MITC Bridge, Melaka	65.3
Parcel D, KL Eco City	25.6
MRCB's Cyberjaya project	20.5
Subang Skypark railway track	15.1
5-storey flats, Pulau Redang	10.4
Others	21.6
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

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	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	-	-	-	-	-
<b>Pretax profit</b>	<b>28.8</b>	<b>32.8</b>	<b>18.7</b>	<b>40.1</b>	<b>53.5</b>
Taxation	(7.4)	(8.5)	(4.5)	(9.6)	(12.8)
Minorities/pref dividends	0.1	0.9	-	-	-
<b>Net profit</b>	<b>21.5</b>	<b>25.2</b>	<b>14.2</b>	<b>30.5</b>	<b>40.7</b>
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
<b>Total non-current assets</b>	<b>81.9</b>	<b>105.4</b>	<b>112.4</b>	<b>112.3</b>	<b>111.6</b>
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
<b>Total current assets</b>	<b>205.6</b>	<b>260.4</b>	<b>242.5</b>	<b>265.2</b>	<b>298.9</b>
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
<b>Total current liabilities</b>	<b>165.9</b>	<b>153.7</b>	<b>133.7</b>	<b>133.7</b>	<b>133.7</b>
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
<b>Total long-term liabilities</b>	<b>25.4</b>	<b>23.4</b>	<b>23.4</b>	<b>23.4</b>	<b>23.4</b>
<b>Shareholders' funds</b>	<b>95.9</b>	<b>188.7</b>	<b>197.7</b>	<b>220.4</b>	<b>253.3</b>
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)
<b>Cash flow from operations</b>	<b>11.1</b>	<b>(25.4)</b>	<b>5.6</b>	<b>44.0</b>	<b>54.0</b>
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	-	-	-
<b>Cash flow from investing</b>	<b>(4.5)</b>	<b>(26.5)</b>	<b>(16.8)</b>	<b>(12.0)</b>	<b>(12.0)</b>
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)
<b>Cash flow from financing</b>	<b>(6.1)</b>	<b>62.1</b>	<b>(6.7)</b>	<b>(9.2)</b>	<b>(8.4)</b>
<b>Net cash flow</b>	<b>0.4</b>	<b>10.1</b>	<b>(17.9)</b>	<b>22.7</b>	<b>33.6</b>
<b>Net cash/(debt) b/f</b>	<b>(10.3)</b>	<b>(9.8)</b>	<b>0.3</b>	<b>(17.6)</b>	<b>5.1</b>
<b>Net cash/(debt) c/f</b>	<b>(9.8)</b>	<b>0.3</b>	<b>(17.6)</b>	<b>5.1</b>	<b>38.7</b>
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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