JF APEX SECURITIES BERHAD
(47680-X)

Company Results

23 November 2016

Ikhmas Jaya Group Berhad

BUY

Looking beyond FY16

Maintained

Share Price	**RM0.60**
Target Price	**RM0.76**

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

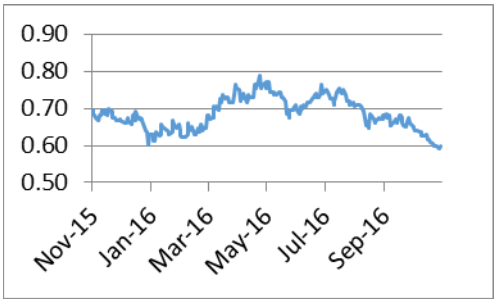
Bursa / Bloomberg code	5268 / IJGB MK
Board / Sector	Main / Ind-Prod
Syariah Compliant status	Yes
Issued shares (m)	520
Par Value (RM)	0.25
Market cap. (RM'm)	312.00
52-week price Range	RM0.59-0.82
Beta (against KLCI)	N.A
3-m Average Daily Volume	0.93m
3-m Average Daily Value	RM0.62m

Share Performance

	1m	3m	12m
Absolute (%)	-9.1	-8.4	-14.3
Relative (%-pts)	-6.8	-12.7	-12.1

Major Shareholders	**%**
IJ Holdings	65.0
Lembaga Tabung Haji	5.41
Aminvestment Services Bhd	1.18
Prudential Unit Trusts	0.95
KAF Investment Funds Bhd	0.82

Historical Chart



Source: Bloomberg

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Result

- Ikhmas Jaya posted net profit of RM0.2m for its 3QFY16, which plunged 95.7% qoq and 97% yoy. Similarly, revenue retreated 18.8% qoq and 20% yoy. The unappealing performance was mainly due to lower revenue being recognized in current quarter as certain projects was facing hindrance to progress.
- **Below expectation.** Hence, 9MFY16 Net profit of RM9.7m only accounted for 36.8% of our full year earnings forecast of RM26.33m.

Comment

- **Lacklustre quarterly performance caused by lower revenue and compounded by lower gross profit margin.** The lacklustre performance in 3QFY16 was mainly due to lower revenue being recognized as certain projects' progress took a breather due to technical issue on counter party. Furthermore, the margin was also compressed due to additional cost incurred in an infrastructure project coupled with additional cost take up in final accounts of 2 pilling projects.
- **Cumulative 9MFY16's revenue slid 19.5% yoy with net profit dived 57.4% yoy.** The slide in 9MFY16's revenue to RM164.4 from RM204.3m was due to completion of a building construction project and 2 piling projects in 9MFY15 as compared to pro-longed hindrance for certain projects in 9MFY16. Furthermore, 9MFY16's net profit was fazed by additional cost being booked in under Subang Skypark railway track project with 95% completion. We learnt that it was mainly attributed to additional materials and manpower incurred correspondingly with counter party's request to speed up the project. Unfortunately, extra costs might be only recovered beyond FY16. As such, 9MFY16's net profit margin eroded 5.27 pts to 5.93%.
- **Looking forward, the group's performance will continue embroiling in current doldrums but ameliorate in FY17.** We understand that the group will book in the additional cost incurred within FY16, therefore expecting an insipid performance in 4th quarter. Nevertheless, we anticipate the earnings to pick up in FY17 given the scant progress billings in FY16 to regain its strength and recover in FY17.
- **Meanwhile, the Group's clear earnings visibility is anchored by current outstanding order book of RM520m,** which translates into 1.9x FY15's earnings given a margin of 9%. Meanwhile, we believe the Group is able to secure more jobs ahead 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 48% and 17% respectively mainly due to lower than expected revenue recognized given unforeseen event and additional cost incurred in FY16.**

Valuation/Recommendation

- **Maintain BUY with lower target price of RM0.76 (previously was RM0.90) after adjusting earning forecast and pegged with 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 will resume its growth trajectory in FY17 given more construction works 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	3QFY16 (RMm)	2QFY16 (RMm)	QoQ % chg	3QFY15 (RMm)	YoY % chg	9MFY16 (RMm)	9MFY15 (RMm)	YoY % chg
Revenue	50.8	62.5	-18.8%	63.5	-20.0%	164.4	204.3	-19.5%
Gross profit	10.9	17.1	-35.8%	18.4	-40.5%	43.9	54.2	-19.2%
Profit before tax	0.6	6.9	-90.7%	9.6	-93.3%	13.0	30.1	-56.6%
Net Profit	0.2	5.2	-95.7%	7.4	-97.0%	9.7	22.9	-57.4%
PBT Margin (%) / pts	1.26	10.98	-9.73	15.10	-13.85	7.94	14.72	-6.78
Net profit margin (%) / pts	0.45	8.34	-7.90	11.71	-11.27	5.93	11.20	-5.27

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	252.96	391.65
Gross Profit	27.35	37.63	53.58	57.9	67.34	56.06	89.30
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	-10.12	-16.45
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	37.94	63.85
Operating Profit	12.45	19.26	32.03	33.43	37.57	23.94	48.85
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	18.24	41.35
Taxes	-3.07	-3.85	-7.57	-7.43	-8.46	-4.74	-10.75
Profit for the year	8.38	13.49	21.46	21.41	24.30	13.50	30.60
Net Income(to shareholders)	8.38	13.34	21.44	21.55	25.16	13.51	30.59
EPS	0.016	0.026	0.041	0.041	0.048	0.026	0.059
Growth							
Revenue Growth	-	39.5%	1.2%	42.9%	-8.5%	-5.8%	54.8%
EBITDA Growth	-	48.9%	63.9%	6.9%	15.4%	-21.8%	68.3%
Operating Profit Growth	-	54.7%	66.3%	4.4%	12.4%	-36.3%	104.0%
PBT Growth	-	51.4%	67.4%	-0.7%	13.6%	-44.3%	126.6%
Net Profit Growth	-	59.2%	60.7%	0.5%	16.7%	-46.3%	126.4%
Margin							
Gross Margin	18.8%	18.5%	26.1%	19.7%	25.1%	22.2%	22.8%
EBITDA Margin	11.1%	11.8%	19.1%	14.3%	18.1%	15.0%	16.3%
Operating Margin	8.6%	9.5%	15.6%	11.4%	14.0%	9.5%	12.5%
Pretax Margin	7.9%	8.5%	14.1%	9.8%	12.2%	7.2%	10.6%
PAT Margin	5.8%	6.6%	10.5%	7.3%	9.0%	5.3%	7.8%
Net Margin (to shareholders)	5.8%	6.6%	10.4%	7.3%	9.4%	5.3%	7.8%

Source: Company, JF Apex

Figure 3: Peer Comparison

Company	Price 23-Nov-16 (RM)	Market cap RM'm	------------PE (x)------------- 2014	2015	2016	ROE (%)	P/B (x)	Est. FY17 Earning RM'm
IKHMAS JAYA GROUP BHD	0.6	312		15.84	10.41	14.3	1.60	30
ECONPILE HOLDINGS BHD	1.88	1005.8	10.22	14.02	12.27	25.4	3.13	77.2
PINTARAS JAYA BHD	3.52	576.3	9.68	12.4	23.49	15.9	1.69	39

Source: Bloomberg, Company, JF Apex

Name	CAPEX (RM'm)	Total Assets (RM'm)	Revenue (RM'm)	Outstanding Order book (RM'm)	Net Profit (RM'm)	Operating Margin (%)	Net Margin (%)
IKHMAS JAYA GROUP BHD*	-27	363	253*	520	13.5*	9.5*	5.3*
ECONPILE HOLDINGS BHD**	-30	413	462	641	66	19.6	14.3
PINTARAS JAYA BHD	-2.4	404	137		17.8	13.1	21.4

* Based on in-house forecast for FY16

Source: Bloomberg, Company, JF Apex, Media

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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

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