

Company Results

1 March 2017

Ikhmas Jaya Group Berhad

BUY

FY17: Set for growth impetus

Maintained

Share Price	RM0.575
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)	299.00
52-week price Range	RM0.57-0.82
Beta (against KLCI)	N.A
3-m Average Daily Volume	0.28m
3-m Average Daily Value	RM0.16m

Share Performance

	1m	3m	12m
Absolute (%)	-4.2	0.9	-8.7
Relative (%-pts)	-5.4	-4.4	-10.8

Major Shareholders

	%
IJ Holdings	65.0
Lembaga Tabung Haji	5.51
AIA Bhd	3.48
Aminvestment Services Bhd	1.15
Nogres Bank	0.80

Historical Chart



Source: Bloomberg

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Result

- Ikhmas Jaya registered a net profit of RM1.5m for its 4QFY16, which increased 5.7x times qoq but down 32.7% yoy. Cumulatively, the group posted net profit of RM11.3m for 12MFY16, plunging 55.2% yoy. The unappealing performance was mainly attributed to deferment in 2 projects due to the delay in site handover and higher administration and depreciation cost incurred in FY16.
- Below expectation.** Hence, 12MFY16 net profit of RM11.3m only accounted for 83.5% of our full year earnings forecast of RM13.51m.

Comment

- Revenue jumped in 4QFY16 but ebbed by lower gross profit margin.** The improvement in revenue with 54% qoq growth was due to pick up in progress of projects. However, lower gross profit of 15.8% (-5.8 pts qoq, -4.6pts yoy) eroded the earnings, which resulted in a net profit of RM1.5m, -32.7% yoy. We believe the lower gross profit margin recorded was due to additional materials and manpower incurred in view of deferment of certain projects with counter party's request to speed up the project.
- FY16 earnings (-55.2%yoy) bogged down by lower revenue and higher administration and depreciation cost.** The slide in 12MFY16's revenue to RM242.6m from RM268.7m was due to completion of a building construction project and 2 piling projects in 12MFY15 as compared to pro-longed hindrance for certain projects in 12MFY16. Furthermore, 12MFY16's net profit was fazed by higher administration (+16.5% yoy) and depreciation (+29.2% yoy) costs. As such, 12MFY16's net profit margin undermined 4.71 pts to 4.65%.
- Looking forward, we opine that the group will ameliorate from current doldrums and see strong growth in FY17.** We believe the earnings to pick up strongly in FY17 given the scant progress billings in FY16 to regain its strength and recover in FY17 especially the previously delayed projects which have finally seen some advancement.
- Meanwhile, the Group's clear earnings visibility is anchored by current outstanding order book of RM540m,** which translates into 1.73x FY15's earnings given a margin of 8%. 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 retain our earnings forecast for FY17 and introduce our earnings forecast for FY18 of RM30.6m.**
- Risk in our earnings forecast will be the execution of projects which might be affected by unforeseen hindrance in projects delivery.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM0.76. We derived our valuation by pegging at 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.
- **We 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

	4QFY16 (RMm)	3QFY16 (RMm)	QoQ % chg	4QFY15 (RMm)	YoY % chg	12MFY16 (RMm)	12MFY15 (RMm)	YoY % chg
Revenue	78.2	50.8	54.0%	64.4	21.5%	242.6	268.7	-9.7%
Gross profit	12.3	10.9	12.5%	13.1	-5.9%	56.2	67.3	-16.6%
Profit before tax	2.1	0.6	230.7%	2.7	-21.9%	15.2	32.8	-53.8%
Net Profit	1.5	0.2	577.4%	2.3	-32.7%	11.3	25.2	-55.2%
PBT Margin (%) / pts	2.70	1.26	1.44	4.20	-1.50	6.25	12.20	-5.95
Net profit margin (%) / pts	1.96	0.45	1.51	3.53	-1.58	4.65	9.36	-4.71

Figure 2: Financial Summary

Financial Year	2011	2012	2013	2014	2015	2016	2017F	2018F
Items	RM'M	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	242.57	391.65	370.04
Gross Profit	27.35	37.63	53.58	57.9	67.34	56.18	89.30	88.44
Other income	1.49	1.46	0.22	0.26	0.38	0.25	1.00	1.00
Administration expenses	-6.86	-7.07	-6.62	-8.98	-10.81	-12.59	-16.45	-15.54
Other operating expenses	-5.88	-8.04	-7.87	-7.15	-8.42	-8.14	-10.00	-10.00
EBITDA	16.1	23.98	39.31	42.03	48.49	35.70	63.85	63.90
Operating Profit	12.45	19.26	32.03	33.43	37.57	21.58	48.85	48.90
Finance income	0.08	0.33	0.53	0.69	0.91	0.71	1.20	1.20
Finance Costs	-1.25	-2.26	-3.54	-5.28	-5.71	-7.18	-8.70	-8.70
PBT	11.45	17.34	29.03	28.84	32.77	15.12	41.35	41.40
Taxes	-3.07	-3.85	-7.57	-7.43	-8.46	-4.91	-10.75	-10.76
Profit for the year	8.38	13.49	21.46	21.41	24.30	10.21	30.60	30.63
Net Income(to shareholders)	8.38	13.34	21.44	21.55	25.16	11.28	30.59	30.90
EPS	0.016	0.026	0.041	0.041	0.048	0.022	0.059	0.059
Growth								
Revenue Growth	-	39.5%	1.2%	42.9%	-8.5%	-9.7%	61.5%	-5.5%
EBITDA Growth	-	48.9%	63.9%	6.9%	15.4%	-26.4%	78.8%	0.1%
Operating Profit Growth	-	54.7%	66.3%	4.4%	12.4%	-42.5%	126.3%	0.1%
PBT Growth	-	51.4%	67.4%	-0.7%	13.6%	-53.8%	173.4%	0.1%
Net Profit Growth	-	59.2%	60.7%	0.5%	16.7%	-55.2%	171.2%	1.0%
Margin								
Gross Margin	18.8%	18.5%	26.1%	19.7%	25.1%	23.2%	22.8%	23.9%
EBITDA Margin	11.1%	11.8%	19.1%	14.3%	18.1%	14.7%	16.3%	17.3%
Operating Margin	8.6%	9.5%	15.6%	11.4%	14.0%	8.9%	12.5%	13.2%
Pretax Margin	7.9%	8.5%	14.1%	9.8%	12.2%	6.2%	10.6%	11.2%
PAT Margin	5.8%	6.6%	10.5%	7.3%	9.0%	4.2%	7.8%	8.3%
Net Margin (to shareholders)	5.8%	6.6%	10.4%	7.3%	9.4%	5.3%	7.8%	8.4%

Source: Company, JF Apex

Figure 3: Peer Comparison

Forward looking

Company	Price 28- Feb- 17 (RM)	Market cap RM'm	-----PE (x)----- ---			Est. ROE (%)	Est. P/E (x)	Est. Revenue (RM'm)	Est. FY17 Earning RM'm	Est. Net Margin (%)	Outstanding Order book (RM'm)
			2014	2015	2016						
IKHMAS	0.575	299		11.46	24.7	14.7	9.75	393	30	7.63	540
ECONPILE	2.08	1112.8	12.51	9.86	13.47	28.3	14.35	576	79	13.75	c.1578
PINTARAS	3.44	563.4	9.5	14.57	17.34	9.82*	13.23	191	39	20.42	

Historical data

Name	FYE	CAPEX (RM'm)	Total Assets (RM'm)	Revenue (RM'm)	Net Profit (RM'm)	Operating Margin (%)	Net Margin (%)
IKHMAS JAYA GROUP BHD	31-Dec-16	27.1	449	242.6	11.3	8.90	4.20
ECONPILE HOLDINGS BHD	30-Jun-16	30.8	413	462.1	46.6	19.60	14.62
PINTARAS JAYA BHD	30-Jun-16	2.5	404	136.9	17.8	13.15	12.99

* Based on FY16 actual ROE

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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