

Focus on core assets to deliver value

We have revised up our TP on Jaks Resources (JAKS) to RM2.00 from RM1.60, after reviewing the value of its asset, as the company has decided to realign its focus on Vietnam given the slowdown in the property market in Malaysia. We are also reiterating our BUY call on JAKS as we believe the current valuation has not fully reflected the upside from its Vietnam power plant project.

Vietnam power plant – the main value driver

More than 84% of our TP is derived from the Vietnam power plant project, either through the EPC contract or future cash flow from the power plant. We believe that the risk of a delay in the project is lower than previously anticipated, as the construction work has already started on the ground. Most of the construction work is being carried out by CPECC, a subsidiary of CEEC, which specialises in the construction of power plants.

There could be more upside than just a project IRR of 10%

Management has guided that the project IRR is only at 10% on the basis that the plant would be operating at 76% utilisation rate. However, there is a possibility that the plant could actually operate at a higher utilisation rate on increased demand for stable electricity in Vietnam. A 1% increase in utilisation will raise the power plant RNAV by 5% or the group RNAV by 2%.

Disposing non-core assets will help clean up balance sheet

We are positive on the management direction to realign its priority focusing on its construction tender and Vietnam venture, as the disposal of its non-core assets will reduce its debt exposure. Despite the relatively weak property market, we do not think that management will dispose those assets at a loss hence our valuation at book value should be reasonable, even if the disposal might take some time to complete.

Risks

Downside risks to our call include: i) a change in Vietnam government policy on foreign-owned power plant projects; and ii) lower-than-expected orderbook wins.

Maintain BUY with a higher TP of RM2.00

We maintain our BUY rating with a revised up TP of RM2.00, based on a 20% discount to the group RNAV. The catalyst for the stock will be continued delivery of EPC profit from the Vietnam power plant project, as we believe most investors are still not fully convinced about the JV's ability to deliver the project on time.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	490.9	449.4	680.7	971.7	1,013.1
EBITDA (RMm)	73.8	81.7	70.8	113.2	127.2
Pretax profit (RMm)	54.3	55.4	38.8	82.2	97.0
Net profit (RMm)	14.0	41.6	43.6	73.9	86.9
EPS (sen)	3.2	9.5	10.0	16.9	19.8
PER (x)	32.2	10.9	10.4	6.1	5.2
Core net profit (RMm)	14.0	12.4	43.6	73.9	86.9
Core EPS (sen)	3.2	2.8	10.0	16.9	19.8
Core EPS growth (%)	86.9	(11.6)	>100	69.4	17.7
Core PER (x)	32.2	36.4	10.4	6.1	5.2
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	16.4	14.9	17.1	10.7	9.5
Chg in EPS (%)			(2.7)	7.2	22.0
Affin/Consensus (x)			-	-	-

Source: Company, Bloomberg, Affin Hwang forecasts

Company Update

Jaks Resources

JAK MK
Sector: Utilities

RM1.01 @ 3 Jan 2017

BUY (maintain)

Upside 98%

Price Target: RM2.00

Previous Target: RM1.60



Price Performance

	1M	3M	12M
Absolute	1.0%	1.0%	-18.5%
Rel to KLCI	0.6%	2.1%	-15.7%

Stock Data

Issued shares (m)	438.4
Mkt cap (RMm)/(US\$m)	442.7/98.5
Avg daily vol - 6mth (m)	1.0
52-wk range (RM)	0.81-1.24
Est free float	74.0%
BV per share (RM)	1.20
P/BV (x)	0.84
Net cash/(debt) (RMm)	-469.17
ROE (2016E)	7.0
Derivatives	No
Shariah Compliant	No

Key Shareholders

LAM POAH ANG	8.6%
ORIGINAL	6.0%
PHILIP CAPITAL	5.5%

Source: Affin Hwang, Bloomberg

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Focus on core assets to deliver value

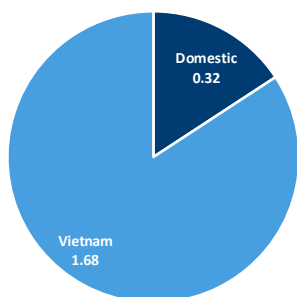
We revise up our TP for Jaks Resources (JAKS) to RM2.00, as we move forward our valuation base to 2017, and revalue both its core and non-core assets. The higher RNAV is mainly due to a stronger recognition of construction profit in 2017 as work progress in Vietnam picks up pace. Based on our RM2.00 TP the implied PER for FY17E and FY18E are 12x and 10x, which are in line with its historical trend.

Fig 1: Our 12-month TP is based on a 20% discount to its current RNAV

	Equity Value (RM mn)	Per share	Comments
Construction (domestic)	79	0.18	PER at 8x
Pacific Star	200	0.46	20% discount to remaining RNAV
Disposable assets (non-core)			
Evolve City Mall	202	0.46	51% stake at book value
Pacific Star Retail Podium	27	0.06	51% stake at book value
Other lands for disposal	49	0.11	Book Value
Total domestic asset value	558	1.27	
-) Gross Debt	-413	-0.94	Excluding minority interest share
+) Cash	28	0.06	
RNAV (without Vietnam)	173	0.39	
Vietnam IPP	412	0.94	DCF (Only JAKS's 30% stake)
Vietnam EPC contract	518	1.18	PER at 8x
RNAV (Vietnam only)	930	2.12	
Group RNAV	1,103	2.52	
Discount to RNAV	20%	20%	
Target Price (RM)	882	2.00	
# of shares	438.4		

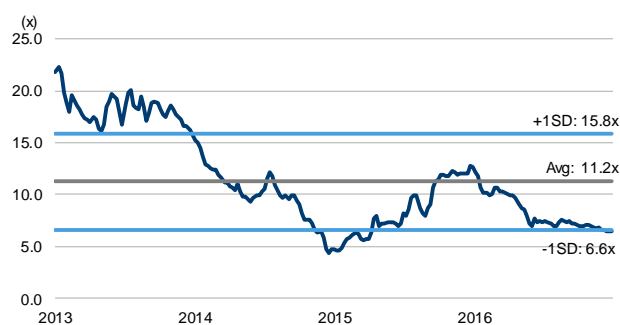
Source: Affin Hwang estimates and forecasts

Fig 2: Bulk of the RNAV is derived from the Vietnam IPP project



Source: Affin Hwang forecasts

Fig 3: JAKS' forward PER chart since 2013

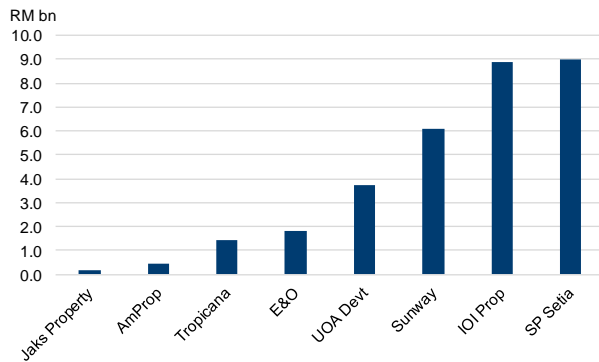


Source: Bloomberg, Affin Hwang forecasts

Property development – 20% discount to RNAV

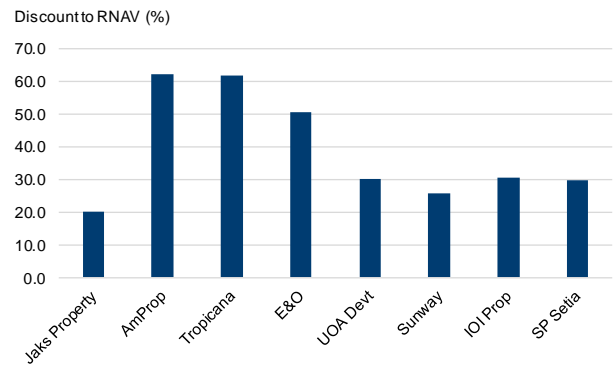
We are valuing its property development asset, Pacific Star (in which Jaks has a 51% stake), based on a 20% discount to its remaining RNAV. Although the discount used is less than for most of the listed developers we cover, we still think it is reasonable. The monetising of the GDV is shorter for JAKS, as the profit for Pacific Star will be fully realised by 2019.

Fig 4: Mkt cap comparison of Jaks Property to other listed property developers



Source: Bloomberg, Affin Hwang forecasts

Fig 5: We ascribe a lower discount for JAKS's property division as the RNAV will be fully monetised by 2019

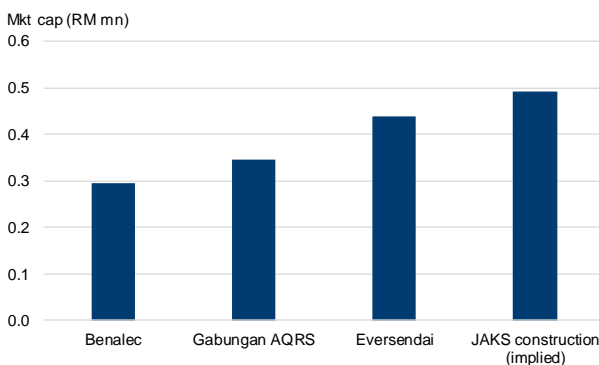


Source: Bloomberg, Affin Hwang forecasts

Construction – 8x FY17 PER

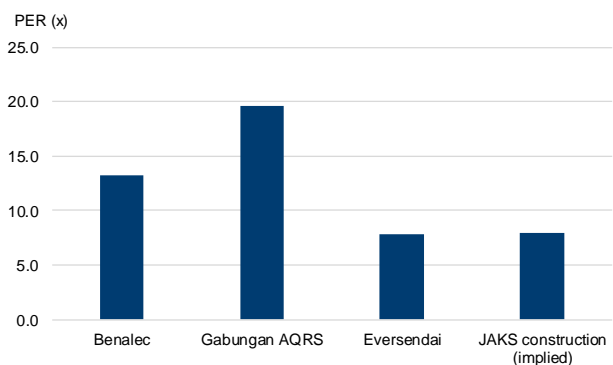
For the construction business (both local and foreign), we are valuing it based on 8x FY17 PER, which is comparable against other construction companies listed locally.

Fig 6: Mkt cap comparison of Jaks Construction to other similar size construction companies



Source: Bloomberg, Affin Hwang forecasts

Fig 7: The 8x forward PER we use for Jaks Construction is not aggressive relative to its peers that have similar market caps



Source: Bloomberg, Affin Hwang forecasts

Investment property – Book value is the base price

We have changed our valuation methodology for JAKS's investment property from market value to book value (a more prudent approach), as the weak sentiment among property investors might further delay management's ability to dispose the assets.

Fig 8: List of JAKS's investment property which are likely to be disposed of in the next 2-3 years

	Book Value (RM mn)	Stake	Value to RNAV (RM mn)
Evolve City Mall	396	51%	202
Pacific Star Retail Podium	53	51%	27
Freehold land (Lot 526, 527, 528 and 62506)*	39	100%	39
Freehold land (Lot 541)*	7	100%	7
Leasehold land (P.T. No. 12186)*	3	100%	3
Total Value			278

*For details of the location of the land please refer to the 2015 annual report, pgs 126 & 127
Source: Bloomberg, Affin Hwang forecasts

Although Evolve Concept Mall is operating at a loss, management has indicated that it will not dispose the asset at below book; hence valuing the mall at its book value seems reasonable, in our view.

The Pacific Star retail podium is currently still under construction and only 25% completed, hence the value contribution to the segment and group is minimal at the moment.

Management has also indicated that it is in the process of disposing all (or most) of its undeveloped land bank, as it prefers to monetise the value of the land upfront rather than develop it.

Vietnam IPP – DCF at 10% project IRR

Both the EPC and IPP from the Vietnam power plant project are the largest value contributor to JAKS's RNAV. For its IPP contract, we are valuing it based on a DCF methodology with a finite operating lifespan of 25 years, and WACC of 14%.

Fig 9: RNAV sensitivity to changes in WACC and USD/MYR

		USD/MYR				
		3.80	4.00	4.10	4.20	4.30
WACC	10%	894	941	964	988	1,011
	12%	608	640	656	672	688
	14%	382	402	412	422	432
	16%	201	211	217	222	227
	18%	53	56	57	59	60

Source: Affin Hwang forecasts



Fig 10: Based on DCF methodology, the Vietnam power plant is worth around RM412mn to JAKS's RNAV

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Capex	-299	-318	-355	-449	-449	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Installed Capacity (MW/hour)					1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	
Installed Capacity (mil kWh/year)					10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	10,512	
Utilisation					76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%	
Energy Sold (mil kWh)					7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	7,989	
Tariff (USD/kWh)	0.07				0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	
Revenue (USD m)					556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	
EBITDA margin					50%	49%	48%	47%	46%	45%	44%	43%	42%	41%	40%	38%	36%	34%	32%	30%	28%	26%	24%	22%	20%	20%	20%	20%	20%	
EBITDA (USD m)					278	272	267	261	256	250	245	239	233	228	222	211	200	189	178	167	156	145	133	122	111	111	111	111	111	
Cash flow from the project	-299.2	-317.9	-355.3	-448.8	-171	272	267	261	256	250	245	239	233	228	222	211	200	189	178	167	156	145	133	122	111	111	111	111	111	
Project IRR	10.3%																													
Jaks stake	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
Jaks cash equity					83.4	81.7	80.0	78.4	76.7	75.0	73.4	71.7	70.0	68.4	66.7	63.4	60.0	56.7	53.4	50.0	46.7	43.4	40.0	36.7	33.4	33.4	33.4	33.4	33.4	
Cash flow from project	-30.0	-50.0	-50.0	-20.0	-42.1	-40.4	-39.4	-38.5	-37.5	-36.5	-35.5	-34.6	-33.6	-32.6	-31.7	-30.7	-29.7	-28.8	-27.8	-26.8	-25.9	-24.9	-23.9	-22.9	-22.0	-21.0	-20.0	-19.1	-18.1	
Loan repayment					-42.1	-40.4	-39.4	-38.5	-37.5	-36.5	-35.5	-34.6	-33.6	-32.6	-31.7	-30.7	-29.7	-28.8	-27.8	-26.8	-25.9	-24.9	-23.9	-22.9	-22.0	-21.0	-20.0	-19.1	-18.1	
Equity cash flow	-30.0	-50.0	-50.0	-20.0	41.3	41.3	40.6	39.9	39.2	38.5	37.8	37.1	36.4	35.7	35.0	32.7	30.3	27.9	25.6	23.2	20.8	18.5	16.1	13.7	11.4	12.3	13.3	14.3	15.3	
Jaks Equity IRR	18.5%																													
Jaks WACC	14.0%																													
NPV					319.3																									
Less Debt					-218.8																									
Value to Jaks					100.5																									
in MYR @ 4.1 USD/MYR					412.2																									

Source: Company Data, Affin Hwang forecasts

Construction + Vietnam is JAKS's future

We forecast an earnings CAGR of 28% for 2016-18, driven by both the earnings contribution from the EPC contract, and followed by its construction project. However, this would likely be tempered by losses from the Evolve Concept Mall, due to its lower-than-expected occupancy rate.

Domestic construction – stable operation with decent record

We expect the domestic construction division to contribute around RM260-290mn in revenue for the next 3 years, or RM13-15mn based on a 5% PBT margin on the back on a RM1,115mn orderbook.

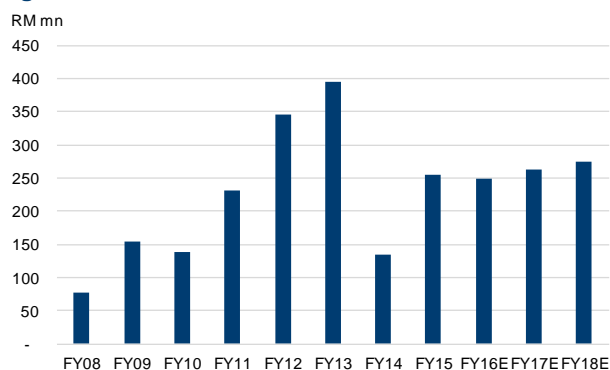
Fig 11: JAKS current orderbook should deliver revenue of RM260-290mn over the next 3 years

(RM mn)	Contract Value	Start	End	Outstanding Order Book
Water / Sewage Infrastructure				
Besut Dam, Terrengganu	345	2010	2015	0.4
Langat II Package 5*	55	2015	2017	42.5
Puchong Pipe Laying	237	2013	2017	130.8
Jinjang, Kepong Pipe Laying	399	2014	2018	107.7
Jinjang, Kepong, Sewerage Plant	380	2016	2018	179.2
Road/ Building Infrastructure				
Sadong Bridge, Sarawak	211	2012	2016	5.3
Bayan Lepas Road Upgrade & Flyover	208	2014	2016	46.8
Pacific 63	70	2013	2016	14.6
Hospital Sir Aman, Sarawak	166	2016	2018	79.6
SUKE	508	2016	2019	50.8
Total				1,115.4

Source: Company Data, Affin Hwang forecasts

Although most of JAKS's tenders (contracts) had been won through direct negotiation, we think its track record is decent, as it has successfully replenished its orderbook over the past 5 years. As such, we are hopeful that JAKS's domestic construction segment will continue to deliver.

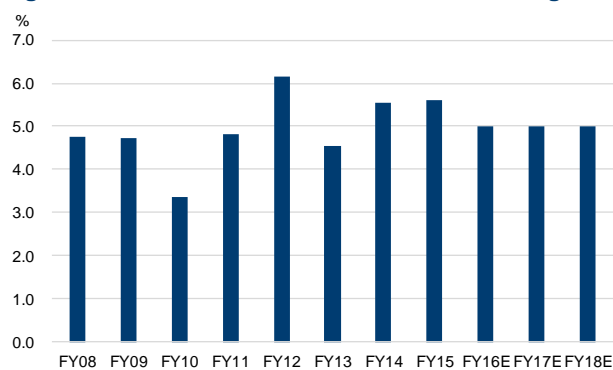
Fig 12: JAKS's construction revenue trend since FY08



*FY08-13 is based on Oct year-end

Source: Company Data, Affin Hwang forecasts

Fig 13: JAKS's domestic construction PBT margin



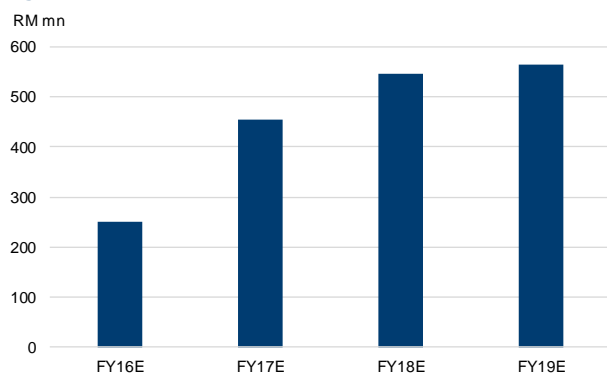
*FY08-13 is based on Oct year-end

Source: Company Data, Affin Hwang forecasts

Vietnam construction – EPC contract progressing well

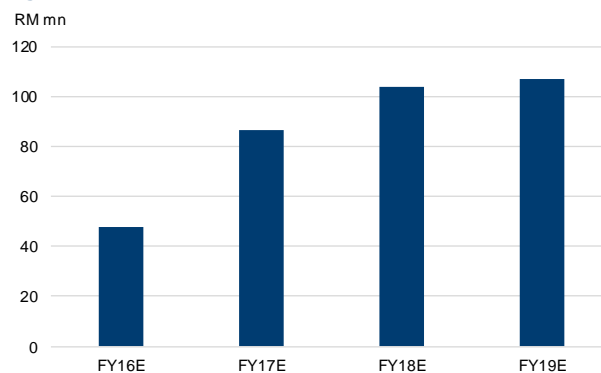
The EPC contract from the Vietnam IPP JV is worth around US\$454.5mn and is expected to be completed by 2021. The revenue contribution to JAKS per year should be around RM450-550mn from FY17-19, with a 19% PBT margin.

Fig 14: Revenue contribution from the EPC contract



Source: Company Data, Affin Hwang forecasts

Fig 15: PBT contribution from the EPC contract



Source: Company Data, Affin Hwang forecasts

Due to its lack of expertise in power plant related EPCC works, JAKS has contracted out the EPCC contract to another subcontractor, which management has indicated is a contractor related to the main contractor of the power plant project.

In the event that the power plant completion is delayed, the subcontractor will bear the financial penalty that is imposed by the government. The impact on JAKS would be the delay in recognition of EPCC revenue, and the income from the sale of electricity from the power plant.

Vietnam IPP – A lucrative IRR project

Fig 16: Some of the key assumptions used for the valuation

Utilisation Rate	76%
USD/MYR	4.10
WACC	14%

Source: Affin Hwang forecasts

There is also upside risk from our base assumption (based on the minimum offtake guaranteed by the Vietnam government). The plant is expected to operate at a 76% utilisation rate, which is below its maximum optimal capacity of 85%. A 1% increase in the utilisation rate will raise the RNAV value of the plan by 5%

Fig 17: RNAV sensitivity to changes in utilisation rate and USD/MYR

		USD/MYR				
		3.80	4.00	4.10	4.20	4.30
Utilisation rate	70%	268	283	290	297	304
	75%	363	382	392	401	411
	76%	382	402	412	422	432
	80%	458	482	494	506	518
	85%	552	581	596	611	625

Source: Affin Hwang forecasts

We believe that the scenario of operating at above the minimum offtake is possible due to the high demand for electricity and uncertainty in the progress of other mega power plants.

Management has also indicated that it is interested in bidding for other power plants project in Vietnam, and the delivery of this power plant will help establish JAKS as a reputable operator in the country.

Jaks Resources – FINANCIAL SUMMARY

Profit & Loss Statement						Key Financial Ratios and Margins					
FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E	FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
Revenue	490.9	449.4	680.7	971.7	1,013.1	Growth					
Operating expenses	(417.1)	(367.8)	(609.9)	(858.6)	(886.0)	Revenue (%)	(16.3)	(8.5)	51.5	42.8	4.3
EBITDA	73.8	81.7	70.8	113.2	127.2	EBITDA (%)	72.8	10.7	(13.3)	59.9	12.4
Depreciation	(4.1)	(6.7)	(14.9)	(14.3)	(13.8)	Net profit (%)	86.9	196.3	5.0	69.4	17.7
EBIT	69.7	74.9	55.9	98.9	113.3	Profitability					
Net int inc/(exp)	(15.3)	(19.5)	(17.0)	(16.7)	(16.3)	EBITDA margin (%)	15.0	18.2	10.4	11.6	12.6
Exceptional items	-	-	-	-	-	PBT margin (%)	11.1	12.3	5.7	8.5	9.6
Pretax profit	54.3	55.4	38.8	82.2	97.0	Net profit margin (%)	2.9	9.2	6.4	7.6	8.6
Tax	(20.0)	(8.1)	(9.7)	(20.5)	(24.2)	Effective tax rate (%)	36.7	14.7	25.0	25.0	25.0
Minority interest	(20.3)	(5.7)	14.5	12.2	14.2	ROA (%)	1.0	2.8	3.0	4.6	5.1
Net profit	14.0	41.6	43.6	73.9	86.9	Core ROE (%)	2.6	7.0	7.0	10.8	11.4
						ROCE (%)	1.6	4.5	4.8	7.7	8.5
						Dividend payout ratio (%)	-	-	-	-	-
						Liquidity					
						Current ratio (x)	1.3	1.3	1.2	1.2	1.2
						Op. cash flow (RMm)	73.8	81.7	70.8	113.2	127.2
						Free cashflow (RMm)	234.8	91.4	157.9	(10.9)	(21.1)
						FCF/share (sen)	53.6	20.9	36.0	(2.5)	(4.8)
						Asset management					
						Debtors turnover (days)	81.8	56.4	56.4	56.4	56.4
						Stock turnover (days)	24.7	9.1	4.5	4.5	4.5
						Creditors turnover (days)	147.0	149.1	149.1	149.1	149.1
						Capital structure					
						Net gearing (%)	113.9	101.9	84.2	61.0	43.4
						Interest cover (x)	4.8	4.2	4.2	6.8	7.8
						Quarterly Profit & Loss					
						FYE 31 Dec (RMm)	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16
						Revenue	114.2	135.2	122.8	159.1	209.1
						Operating expenses	(98.8)	(94.9)	(113.2)	(141.7)	(186.1)
						EBITDA	15.3	40.3	9.6	17.4	23.0
						Depreciation	(0.8)	(4.0)	(3.3)	(3.3)	(3.9)
						EBIT	14.5	36.3	6.3	14.2	19.2
						Int expense	(4.3)	(7.7)	(6.1)	(6.6)	(7.0)
						Exceptional items	-	-	-	-	-
						Pretax profit	10.2	28.5	0.2	7.6	12.2
						Tax	(2.5)	0.2	(1.4)	(1.4)	(1.7)
						Minority interest	(1.8)	0.6	2.2	3.6	3.4
						Net profit	5.9	29.3	1.1	9.8	13.9
						Margins (%)					
						EBITDA	13.4	29.8	7.8	10.9	11.0
						PBT	8.9	21.1	0.2	4.8	5.8
						Net profit	5.2	21.7	0.9	6.2	6.6
						Balance Sheet Statement					
						FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
						Fixed assets	28.0	19.9	17.2	15.0	13.4
						Other long term assets	671.9	707.7	777.7	827.7	857.7
						Total non-curr assets	699.9	727.6	794.9	842.7	871.1
						Cash and equivalents	80.3	46.0	28.1	99.0	160.1
						Stocks	25.7	9.2	6.7	9.6	10.0
						Debtors	110.1	71.2	105.1	150.0	156.4
						Other current assets	527.2	631.2	511.2	511.2	511.2
						Total current assets	743.2	757.6	651.1	769.8	837.7
						Creditors	152.7	150.4	152.1	267.0	300.5
						Short term borrowings	260.7	230.3	200.3	200.3	200.3
						Other current liabilities	137.6	181.9	181.9	181.9	181.9
						Total current liab	551.0	562.7	534.4	649.3	682.8
						Long term borrowings	343.1	326.2	286.2	276.2	266.2
						Other long term liabilities	0.2	0.2	0.2	0.2	0.2
						Total long term liab	343.3	326.4	286.4	276.4	266.4
						Shareholders' Funds + MI	548.9	596.0	625.2	686.8	759.5
						Cash Flow Statement					
						FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
						Pretax profit	54.3	55.4	38.8	82.2	97.0
						Depreciation & amortisation	4.1	6.7	14.9	14.3	13.8
						Working capital changes	192.9	69.4	(29.8)	67.1	26.7
						Cash tax paid	(20.0)	(8.1)	(9.7)	(20.5)	(24.2)
						Others	6.1	(29.7)	145.9	(151.8)	(132.2)
						Cashflow from operations	237.5	93.6	160.1	(8.7)	(18.9)
						Capex	(2.7)	(2.2)	(2.2)	(2.2)	(2.2)
						Others	(314.1)	(119.9)	(70.0)	(50.0)	(30.0)
						Cash flow from investing	(316.8)	(122.1)	(72.2)	(52.2)	(32.2)
						Debt raised/(repaid)	126.9	(97.7)	(70.0)	(10.0)	(10.0)
						Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
						Net int inc/(exp)	(4.9)	(8.0)	0.0	0.0	0.0
						Dividends paid	0.0	0.0	0.0	0.0	0.0
						Others	(70.9)	61.1	0.0	0.0	0.0
						Cash flow from financing	51.2	(44.5)	(70.0)	(10.0)	(10.0)
						Free Cash Flow	234.8	91.4	157.9	(10.9)	(21.1)

Source: Company, Affin Hwang forecasts

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