



JAKS RESOURCES BERHAD

Outperform

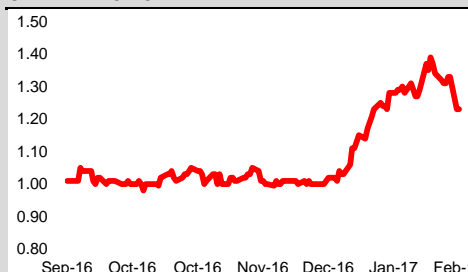
DESCRIPTION

Primarily engaged in the integrated water works industry in the early years, and now moved into infrastructural projects and land development in both domestic and international market. The new focus now is on its 30%-owned JV to build a 1200MW coal fired power plant in Vietnam.

12-Month Target Price	RM1.50
Current Price	RM1.23
Expected Return	22%

Market	Main
Sector	Construction
Bursa Code	4723
Bloomberg Ticker	JAK MK
Shariah Compliant	No

SHARE PRICE CHART



52 Week Range (RM)	RM0.81 – RM1.40
3-Month Average Vol ('000)	3,366.0

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-3.9	17.1	21.8
Relative Returns	-5.9	16.4	20.6

KEY STOCK DATA

Market Capitalisation (RM m)	539.2
No. of Shares (m)	438.4

MAJOR SHAREHOLDERS

	%
Koon Yew Yin	9.1
Ang Lam Poah	8.7
Original Invention	6.0

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Deferred Profits

JAKS Resources (JAKS), contrary to our earlier expectations of stronger earnings in 4QFY16, delivered a net loss of RM24.0m during the quarter. However, the earning miss was primarily due to deferral of profit recognition in Vietnam and certain one-off items. All in, the headline net profit in FY16 was only at RM0.7m, far cry from our and consensus expectations of full year net profit of RM40.6m and RM44.2m respectively. We had earlier expected profits from its power plant construction in Vietnam to drive its 4QFY16 net earnings, but the profit from Vietnam is now deferred to FY17. That said, we understand that substantial progress has already been done for the equipment that was originally to be partly-recognized in 2016 but now deferred to FY17 upon completion and delivery to site. Separately, JAKS also announced a private placement of up to c.10% of existing issued shares or c.43m shares estimated to raise RM52.6m to be used as working capital and to finance construction costs of on-going projects. Earnings are kept unchanged for now. Maintain **Outperform** and RM1.50 TP, derived from c.30% discount to our SOTP estimates of RM2.20, or implied c.10x of FY17 EPS.

- Construction division.** With absence of contribution from Vietnam, revenue growth in 4QFY16 was mainly from local construction projects. Outstanding order book is estimated at RM2.76bn, with c.RM2.74bn from its Vietnam IPP EPC contract. Contribution from Vietnam is expected to gather pace in 2H2017, and hence we expect the Group's earnings to be stronger thereafter.
- Property division.** Revenue in 4QFY16 was mainly driven by Pacific Star, which currently has unbilled sales of RM361.6m (+RM128.2m QoQ). However, as expected, the property division's earnings were dragged by Evolve Concept Mall, which registered a loss of RM7.3m (JAKs' 51% stake of RM3.7m). Separately, it also incurred LAD provision of RM11m for Menara Star 2 during the quarter but we understand that it has a good chance to write back these losses. As indicated in our earlier report, we understand property business will take a back seat for now, with plans to dispose the investment assets such as undeveloped land and Evolve Concept Mall in the near term.

KEY FORECAST TABLE

FYE Dec (RM m)	2015A	2016A	2017F	2018F	2019F	CAGR
Revenue	461.2	640.4	1,000.2	1,163.4	1,132.9	25.2%
Operating Profit	74.5	16.5	137.9	161.5	162.5	21.5%
Pre-tax Profit	55.3	-7.3	106.8	130.8	132.7	24.5%
Net Profit	41.5	0.7	64.9	79.5	80.7	18.1%
EPS (Sen)	9.5	0.2	14.8	18.1	18.4	18.1%
P/E (x)	13.0	732.7	8.3	6.8	6.7	
DPS (Sen)	0.0	0.0	0.0	0.0	0.0	
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

Results Review (RM m)	4Q16	4Q15	3Q16	Y-o-y (%)	Q-o-q (%)	YTD FY16	YTD FY15	YTD (%)	Comments
Revenue	149.3	146.9	209.1	1.6	-28.6	640.4	461.2	38.9	
EBIT	-23.0	35.8	19.2	-164.4	-219.8	16.5	74.5	-77.8	
PBT	-27.3	28.4	12.2	-196.1	-324.0	-7.3	55.3	-113.2	
Net profit	-24.0	29.2	13.9	-182.2	-273.3	0.7	41.5	-98.2	Absence of profits from Vietnam
Margins:									
EBIT	-15.4	24.4	9.2	-39.8	-24.6	2.6	16.1	-13.6	
PBT	-18.3	19.4	5.8	-37.7	-24.1	-1.1	12.0	-13.1	
Net Profit	-16.1	19.9	6.6	-36.0	-22.7	0.1	9.0	-8.9	

Source: Bloomberg, PublicInvest Research estimates

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Dec (RM m)	2015A	2016A	2017F	2018F	2019F
Revenue	461.2	640.4	1,000.2	1,163.4	1,132.9
Gross Profit	93.0	90.6	179.7	211.5	209.1
Operating expenses	-18.5	-74.1	-41.8	-50.1	-46.6
Operating Profit	74.5	16.5	137.9	161.5	162.5
Other Gains / (Losses)	4.1	0.4	3.5	4.1	5.3
Finance Costs	-22.1	-24.2	-34.7	-34.8	-35.0
Pre-tax Profit	55.3	-7.3	106.8	130.8	132.7
Income Tax	-8.1	-8.7	-25.6	-31.4	-31.9
Effective Tax Rate (%)	-14.7	119.5	-24.0	-24.0	-24.0
Minorities	-5.7	16.7	-16.2	-19.9	-20.2
Net Profit	41.5	0.7	64.9	79.5	80.7
Growth					
Revenue (%)	-6.1	38.8	56.2	16.3	-2.6
Gross Profit (%)	-16.7	-2.5	98.3	17.7	-1.2
Net Profit (%)	196.2	-98.2	8718.6	22.5	1.5

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2015A	2016A	2017F	2018F	2019F
Property, Plant & Equipment	19.9	17.1	18.0	18.8	19.8
Cash and Cash Equivalents	87.4	101.7	137.6	121.9	145.7
Receivables	71.2	263.6	274.0	318.7	310.4
Other Assets	1,306.7	1,175.5	1,207.9	1,241.8	1,283.2
Total Assets	1,485.2	1,557.9	1,637.5	1,701.2	1,759.1
Payables	328.2	443.8	443.8	443.8	443.8
Borrowings	556.6	530.9	533.4	535.9	538.4
Dues to Customers	0.0	0.0	0.0	0.0	1.0
Other Liabilities	4.41	0.17	34.80	40.42	38.27
Total Liabilities	889.2	974.9	1,012.0	1,020.1	1,021.5
Shareholders' Equity	501.1	504.8	547.3	602.9	659.4
Total Equity and Liabilities	1,485.2	1,557.9	1,637.5	1,701.2	1,759.1

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2015A	2016A	2017F	2018F	2019F
Book Value Per Share	1.1	1.2	1.2	1.4	1.5
NTA Per Share	0.8	0.8	0.9	1.0	1.2
EPS (Sen)	9.5	-3.8	14.8	18.1	18.4
DPS (Sen)	0.0	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
ROA (%)	2.8	-1.1	4.0	4.7	4.6
ROE (%)	8.3	-3.3	11.9	13.2	12.2

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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