

Company Results

1 June 2017

Ikhmas Jaya Group Berhad

BUY

Earnings to pick up in coming quarters

Maintained

Share Price	RM0.705
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)	366.60
52-week price Range	RM0.57-0.78
Beta (against KLCI)	0.99
3-m Average Daily Volume	1.52m
3-m Average Daily Value	RM1.01m

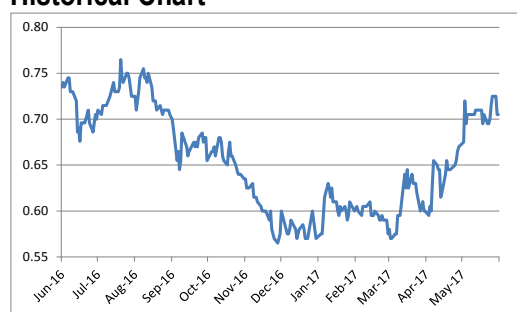
Share Performance

	1m	3m	12m
Absolute (%)	5.2	17.5	-5.4
Relative (%-pts)	5.4	16.9	-12.8

Major Shareholders

	%
IJ Holdings	65.0
Lembaga Tabung Haji	5.46
Oversea Chinese Banking	6.74

Historical Chart



Source: Bloomberg

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Result

- Ikhmas Jaya slid to a net loss of RM1.8m for its 1QFY17, as compared to a net profit of RM1.5m in last quarter and RM4.3m in the preceding year quarter.** The lackluster performance was mainly attributed to spill over effect of projects deferment. As a result, cost of sales catapulted in view of the delay in finalisation account of some of the completed projects.
- Below expectation.** Hence, 3MFY17 recorded net los of RM1.8m as compared to our full year net earnings forecast of RM 30m in FY17.

Comment

- Revenue in 1QFY17 decreased 7.2% qoq but improved 42.1% yoy.** The Group recorded RM72.6m revenue in 1QFY17 as compared to RM 78.2m in last quarter and RM51.1m in the preceding year quarter. The unfavourable revenue recognised in 1QFY17 on quarterly basis was mainly due to lower contribution from a bore piling project as a result of project delay and multi-handover of working sites. Meanwhile, lower revenue recognition also affected by lower recognition in new commencement projects. On the flip side, the jump in revenue on yearly basis was in tandem with the orderbook secured by the Group.
- Spill over effect in project deferment resulted in the delay of finalisation account for some of the completed projects within 1QFY17.** The Group experienced elevated cost of sales that were not in tandem with the revenue recognised. We learnt that there were earnings from variation orders (VO) amounted to c.RM5m failed to be captured in this quarter which would buoy the Group's bottom line to RM3m. Thus, we opine that the Group earnings will pick up in next quarter in view of higher progress billings and the recognition of the VO.
- The Group has successfully replenished its orderbok of RM144.3m year to date, which accounted for 36.1% of our RM 400m estimated target orderbook for FY17.** As such, the current outstanding order book stands at RM612m, which translates into 2x FY15's earnings given a margin of 8%. Besides that, we believe the Group is able to secure more jobs ahead and further replenish its order book.

Earnings Outlook/ Revision

- **We retain our earnings forecast for FY17 and FY18 as we believe earnings to pick up substantially in 2QFY17 onwards after finalizing the earnings in variation order (VO).**
- 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, 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

	1QFY17 (RMm)	4QFY16 (RMm)	QoQ % chg	1QFY16 (RMm)	YoY % chg
Revenue	72.6	78.2	-7.2%	51.1	42.1%
Gross profit	4.5	12.3	-63.3%	15.8	-71.5%
Profit before tax	-1.2	2.1	-155.7%	5.5	-
Net Profit	-1.8	1.5	-218.0%	4.3	-
					121.2%
					142.0%
PBT Margin (%) / pts	-1.62	2.70	-4.32	10.84	-12.46
Net profit margin (%) / pts	-2.49	1.96	-4.45	8.43	-10.92

Source: Company, JF Apex

Figure 2: Peer Comparison

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

Source: Bloomberg, Company, JF Apex

Figure 3: 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

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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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