

# JAKS Resources Bhd

## Improving Outlook

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### INVESTMENT MERIT

**We are bringing a closure to our previous 'Trading Buy' call on JAKS given that the share price had performed relatively well with a year-to-date return of 52% coupled with its rich valuations as it is trading at FY18E PER of 12.0x which is higher than its peer average of 11.0x. We are projecting FY17-18E CNPs of RM41.5m-RM56.1m. Not Rated with a Fair Value of RM1.54 based on Sum-of-Parts valuation.**

**Striving hard to deliver...** Since our last trading buy call with a fair value of RM1.53 back in March-2016, its earnings performance has been weak, registering a net profit of only RM0.7m for FY16 vis-à-vis net profit of RM41.5m in FY15, down by 98%, YoY. Its weak earnings delivery was mainly due to unexpected losses from its investment property i.e. EVOLVE concept mall, liquidated and ascertained damages from its Besut and Pacific Star projects. However, its 1Q17 saw a turnaround with its net profit surging >600%, YoY to RM7.5m, mainly driven by the strong contribution from its Vietnam project.

**Construction in progress.** While JAKS had faced some delays in their local and overseas construction jobs back in FY16 due to various reasons, we believe works have finally picked up pace as they staged strong growth in their construction revenue at 51% YoY in 1Q17, of which 60% were from local jobs while the remaining 40% from its Vietnam project. Going forward, we are expecting its construction division to be the main anchor for the group's profitability for the next two years underpinned by a decent outstanding order-book size of RM2.6b of which 63% are from Vietnam while the remaining from Malaysia.

**Asset disposal still on the cards.** To recap, JAKS' net gearing was high at 0.86x back in FY16 and management has always been looking for suitors to dispose of its Evolve Concept mall for de-gearing purposes. While net gearing had significantly improved to 0.63x in 1Q17 thanks to its cash call exercise which raised RM59.6m from the recent placement of new shares, management are still looking to further lighten up its balance sheet through the sale of its assets i.e. Evolve Concept Mall and its land in USJ measuring c.15 acres which we reckon would easily raise proceeds of up to RM400.0-500.0m, bringing them into a net cash position.

**Earnings forecast.** Going forward, we are projecting FY17-18E CNPs of RM41.5-56.1m, staging a strong recovery from its poor FY16 performance with an estimated net profit growth of >100%, YoY, driven by its construction division's outstanding order-book of RM2.6b, as its local and overseas projects continue to pick up pace.

**Closing position.** We are closing our previous position for JAKS with a take profit call at a fair value of RM1.54 based on Sum-of-Parts valuation. At our Target Price of RM1.54, it implies FY18E PER of 12.0x, which is relatively rich as compared to its peers' average of 11.0x, especially when there were several times of hiccups in earnings delivery in the past. Furthermore, its share price has performed relatively well since beginning of the year, registering a year-to-date return of 49%. We believe that the next catalyst for JAKS would be the disposal of assets, which will lighten its balance sheet to take on more jobs in the future both locally and overseas.

|            | Rating    | Fair Value |
|------------|-----------|------------|
| Last Price | -         | RM1.52     |
| Kenanga    | Not Rated | RM1.54     |
| Consensus  | Hold      | RM1.60     |

### Stock Information

|                      |                     |
|----------------------|---------------------|
| Shariah Compliant    | No                  |
| Stock Name           | JAKS Resources Bhd  |
| CAT Code             | 4723                |
| Industry             | Capital Goods       |
| Industry Sub-sector  | Construction & Eng. |
| YTD stock price chg  | 49.0%               |
| Market Cap (RM m)    | 732.9               |
| Issued shares (m)    | 482.2               |
| 52-week range (Hi)   | 1.79                |
| 52-week range (Low)  | 0.89                |
| 3-mth avg daily vol: | 4,197,873           |
| Free Float           | 63%                 |
| Beta                 | 1.4                 |
| Altman's Z-score     | 1.16                |

### Major Shareholders

|               |       |
|---------------|-------|
| YIN KOON YEW  | 20.5% |
| LAM POAH ANG  | 8.6%  |
| PHENG TAN KIT | 8.3%  |

### Financials

| FYE Dec (RM'm)         | 2016A      | 2017E       | 2018E       |
|------------------------|------------|-------------|-------------|
| Turnover               | 640.4      | 705.2       | 872.2       |
| EBIT                   | 14.6       | 86.7        | 92.2        |
| PBT                    | -7.3       | 70.5        | 76.2        |
| <b>Core Net Profit</b> | <b>0.7</b> | <b>41.5</b> | <b>56.1</b> |
| Consensus (NP)         | n.a.       | 61.9        | 85.4        |
| Earnings Revision      | n.a.       | n.a.        | n.a.        |
| Core EPS (sen)         | 0.2        | 9.5         | 12.8        |
| EPS growth (%)         | -98%       | 5539%       | 35%         |
| NDPS (sen)             | 0.0        | 0.0         | 0.0         |
| BV/Share (RM)          | 1.15       | 1.25        | 1.37        |
| PER (x)                | 917.2      | 16.3        | 12.0        |
| Price/BV (x)           | 1.3        | 1.2         | 1.1         |
| Net Gearing (x)        | 1.0        | 0.7         | 0.2         |
| Dividend Yield (%)     | 0.0%       | 0.0%        | 0.0%        |

### Quarterly Financial Data

|                  | 3Q16  | 4Q16  | 1Q17  |
|------------------|-------|-------|-------|
| Revenue          | 209.1 | 149.3 | 154.8 |
| PBT              | 12.2  | -27.3 | 3.0   |
| Net Profit (NP)  | 13.9  | -24.0 | 7.5   |
| EPS (sen)        | 3.16  | -5.47 | 1.72  |
| EPS growth (QoQ) | 41%   | -273% | 131%  |
| Rev growth (QoQ) | 31%   | -29%  | 4%    |
| PBT Margin       | 6%    | -18%  | 2%    |

### Peers Comparisons

|  | PER (FY17) | Div. Yld (%) | Mkt Cap (RM'm) |
|--|------------|--------------|----------------|
|--|------------|--------------|----------------|

Refer to peersheet at back



**Comment:** JAKS is currently in a mild downwards consolidation after rallying 64 sen (59.3%) from RM1.08 to RM1.72 in the period from 28-Feb to 5-Apr. Technical outlook for JAKS is increasingly negative at this juncture, with share prices trading below its 20-day and 50-day SMAs, with an emergence of a “death-cross” between the two key SMAs in end-May. Its MACD failed to recover as well, after a downward cross to below its signal line in April. From here, expect bias to be on the downside towards RM1.48 (S1) and RM1.39 (S2) further below. Any bounce towards RM1.55-1.60 (R1) can be viewed as an opportunity to sell into strength

**About the stock:**

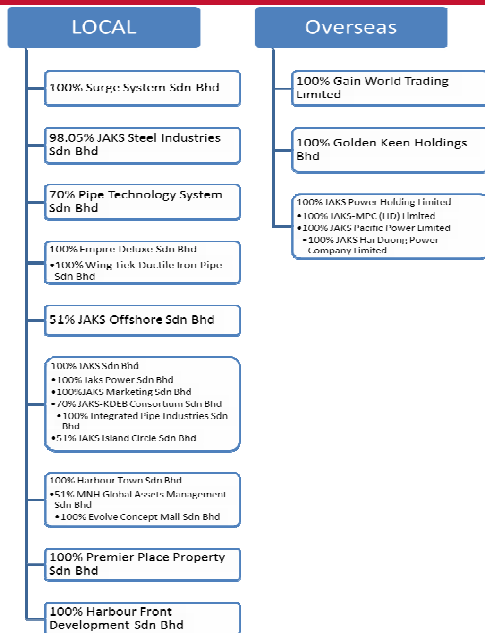
**Name** : JAKS Resources Berhad  
**Bursa Code** : JAKS  
**CAT Code** : 4723

**Key Support & Resistance level**

**Resistance** : RM1.55-1.60 (R1)  
**Support** : RM1.48 (S1) RM1.39 (S2)  
**Outlook** : Bearish

Source: Kenanga Research

**CORPORATE STRUCTURE**



**BUSINESS OVERVIEW**

- JAKS group of companies is primarily engaged in water supply and infrastructure construction projects, manufacturing, supply and trading of mild steel pipes, steel pipes and other steel related products.
- The Group expanded its construction activities to cover property construction in recent years. With the experience and skills gained in the construction business, the Group has moved into property development of mixed residential and commercial development projects with strategically located projects at Ara Damansara and Section 13 in Petaling Jaya.
- Internationally, the Group is diversifying into power and other large scale infrastructure projects. The strategy to invest overseas is to provide a safeguard against any adverse effects of cyclical local business activities especially in the manufacturing and construction sectors.

**BUSINESS SEGMENTS**

The Group has 5 operating segments, namely:

- Manufacturing:** Mainly manufacturing of pipes.
- Trading:** Mainly trading in sheet piles, steel bars, mild steel and special pipes, other steel related products, building materials and supply of products for the water supply industry.
- Construction:** Provision of sub-contracting activities, general contractor, supplier of building materials and also construction.
- Investment:** Investment holding.
- Property development:** Development of residential and commercial activities.

16 June 2017

Peer Comparison

CORE COVERAGE

| NAME                         | Price<br>(15/6/17) | Mkt Cap<br>(RMm) | PER (x) |             |             | Est.<br>Div.<br>Yld.<br>(%) | Est.<br>ROE<br>(%) | P/BV<br>(x) | Net Profit (RMm) |             |             | 1 Yr<br>Fwd NP<br>Growth<br>(%) | 2 Yr<br>Fwd NP<br>Growth<br>(%) | Target<br>Price<br>(RM) | Rating         | YTD (%) |
|------------------------------|--------------------|------------------|---------|-------------|-------------|-----------------------------|--------------------|-------------|------------------|-------------|-------------|---------------------------------|---------------------------------|-------------------------|----------------|---------|
|                              | (RM)               |                  | Actual  | 1 Yr<br>Fwd | 2 Yr<br>Fwd |                             |                    |             | Actual           | 1 Yr<br>Fwd | 2 Yr<br>Fwd |                                 |                                 |                         |                |         |
| EVERSENDAI CORP BHD          | 1.13               | 875              | -6.2    | 14.8        | 13.0        | 1%                          | 6%                 | 0.9         | -140.3           | 58.9        | 67.1        | -142%                           | 14%                             | 0.80                    | Underperform   | 96.5    |
| GAMUDA BHD                   | 5.39               | 13141            | 24.3    | 21.4        | 20.5        | 2%                          | 10%                | 1.8         | 626.1            | 709.5       | 741.7       | 13%                             | 5%                              | 5.45                    | Market Perform | 12.8    |
| IJM CORP BHD                 | 3.49               | 12653            | 25.3    | 23.0        | 20.6        | 2%                          | 6%                 | 1.3         | 499.9            | 549.5       | 612         | 10%                             | 11%                             | 3.51                    | Market Perform | 9.1     |
| KIMLUN CORP BHD              | 2.27               | 704              | 8.6     | 10.0        | 9.0         | 3%                          | 12%                | 1.2         | 82.2             | 70.7        | 78.3        | -14%                            | 11%                             | 2.27                    | Market Perform | 9.1     |
| MUHIBBAH ENGINEERING (M) BHD | 2.77               | 1331             | 16.4    | 14.1        | 13.5        | 1%                          | 11%                | 1.5         | 87.7             | 101.5       | 106.2       | 16%                             | 5%                              | 2.74                    | Market Perform | 24.2    |
| HOCK SENG LEE BERHAD         | 1.62               | 890              | 15.8    | 14.5        | 12.0        | 1%                          | 8%                 | 1.2         | 56.4             | 61.4        | 74.3        | 9%                              | 21%                             | 1.50                    | Underperform   | 1.2     |
| WCT HOLDINGS BHD             | 2.14               | 2996             | 42.3    | 24.4        | 21.7        | 1%                          | 5%                 | 1.3         | 84.8             | 146.9       | 165.3       | 73%                             | 13%                             | 1.83                    | Underperform   | 24.4    |
| MITRAJAYA HOLDINGS BHD       | 1.39               | 933              | 10.8    | 10.3        | 10.6        | 4%                          | 15%                | 1.5         | 97.3             | 102.1       | 98.6        | 5%                              | -3%                             | 1.49                    | Market Perform | 10.3    |
| SUNWAY CONSTRUCTION GROUP    | 2.00               | 2586             | 22.0    | 17.8        | 17.6        | 2%                          | 25%                | 4.5         | 117.7            | 145.2       | 146.9       | 23%                             | 1%                              | 2.00                    | Market Perform | 17.6    |
| KERJAYA PROSPEK GROUP BHD    | 3.28               | 1691             | 18.5    | 14.7        | 12.6        | 2%                          | 15%                | 2.3         | 100.0            | 125.9       | 146.3       | 26%                             | 16%                             | 3.10                    | Market Perform | 51.2    |
| <i>Average</i>               |                    |                  |         | 17.7        | 16.5        | 15.1                        |                    |             |                  |             |             |                                 |                                 |                         |                |         |

NOT RATED/ON OUR RADAR

| NAME            | Price | Mkt Cap<br>(RMm) | PER (x) |             |             | Est.<br>Div.<br>Yld.<br>(%) | Est.<br>ROE<br>(%) | P/BV<br>(x) | Net Profit (RMm) |             |             | 1 Yr<br>Fwd NP<br>Growth<br>(%) | 2 Yr<br>Fwd NP<br>Growth<br>(%) | Target<br>Price<br>(RM) | Rating      | YTD (%) |
|-----------------|-------|------------------|---------|-------------|-------------|-----------------------------|--------------------|-------------|------------------|-------------|-------------|---------------------------------|---------------------------------|-------------------------|-------------|---------|
|                 | (RM)  |                  | Actual  | 1 Yr<br>Fwd | 2 Yr<br>Fwd |                             |                    |             | Actual           | 1 Yr<br>Fwd | 2 Yr<br>Fwd |                                 |                                 |                         |             |         |
| MUDAJAYA        | 1.47  | 791              | -3.0    | 20.6        | 15.0        | n.a.                        | n.a.               | n.a.        | -264.9           | 38.5        | 52.9        | -115%                           | 37%                             | n.a.                    | Not Rated   | 61.5    |
| PROTASCO        | 1.09  | 462              | 8.5     | 6.3         | 6.3         | 6%                          | 17%                | 1.1         | 44.4             | 59.8        | 60.1        | 35%                             | 1%                              | 1.36                    | Trading Buy | -3.5    |
| PINTARAS JAYA   | 4.05  | 667              | 37.1    | 15.6        | 13.0        | 5%                          | 13%                | 2.0         | 17.8             | 42.2        | 50.6        | 137%                            | 20%                             | 4.2                     | Trading Buy | 15.1    |
| GABUNGAN AQRS   | 1.43  | 558              | 24.7    | 18.7        | 9.5         | 1%                          | 1%                 | 0.3         | 22.6             | 29.8        | 58.9        | 32%                             | 98%                             | 1.51                    | Trading Buy | 58.0    |
| GADANG HOLDINGS | 1.28  | 839              | 7.9     | 8.5         | 8.2         | 3%                          | 18%                | 1.5         | 94.2             | 86.8        | 90.8        | -8%                             | 5%                              | 2.44                    | Not Rated   | 21.9    |
| AZRB            | 1.10  | 585              | 20.5    | 18.3        | n.a.        | 2%                          | n.a.               | n.a.        | 26               | 29          | n.a.        | 12%                             | n.a.                            | n.a.                    | Not Rated   | 73.2    |
| TRC SYNERGY     | 0.74  | 356              | 11.9    | 10.8        | 13.5        | 1%                          | 8%                 | 0.8         | 29.9             | 32.9        | 26.3        | 10%                             | -20%                            | n.a.                    | Not Rated   | 94.7    |
| BINA PURI       | 0.42  | 112              | 100.2   | 6.7         | 6.7         | n.a.                        | n.a.               | n.a.        | 1                | 14.9        | 14.9        | 1390%                           | 0%                              | n.a.                    | Not Rated   | -3.4    |
| GKENT           | 4.02  | 1510             | 14.9    | 16.1        | 14.2        | 2%                          | 23%                | 3.7         | 101.4            | 93.8        | 106         | -7%                             | 13%                             | 2.8                     | Trading Buy | 32.2    |
| PESONA          | 0.66  | 440              | 21.6    | 12.2        | 8.9         | 3%                          | 22%                | 2.8         | 20               | 35.3        | 48.5        | 77%                             | 37%                             | 0.485                   | Take Profit | 9.1     |
| JAKS            | 1.52  | 733              | 0.9     | 10.8        | 7.8         | 0%                          | 13%                | 1.4         | 736              | 61.9        | 85.4        | -92%                            | 38%                             | 1.54                    | Not Rated   | 49.0    |
| <i>Average</i>  |       |                  |         | 22.3        | 13.2        | 10.3                        |                    |             |                  |             |             |                                 |                                 |                         |             |         |

Source: Kenanga Research

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Published and printed by:

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