

Company Updates

Ikhmas Jaya Group Berhad

Proposed private placement

18 July 2017

BUY

Maintained

Share Price	RM0.69
Target Price	RM0.80

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)	358.8
52-week price Range	RM0.57-0.78
Beta (against KLCI)	0.97
3-m Average Daily Volume	1.29m
3-m Average Daily Value	RM0.91m

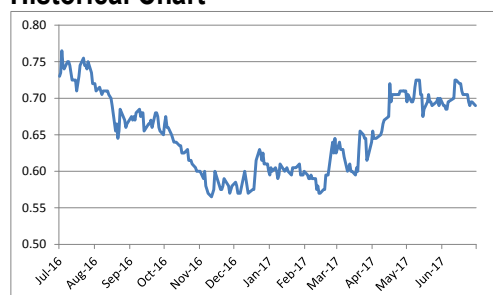
Share Performance

	1m	3m	12m
Absolute (%)	-1.4	-4.8	-6.8
Relative (%-pts)	0.6	4.5	-11.2

Major Shareholders

	%
IJ Holdings	65.0
Oversea Chinese Banking Corp Ltd	6.74
Lembaga Tabung Haji	4.81
Estimated Free Float	23.76

Historical Chart



Source: Bloomberg

The Research Team

03-87361118, ext. 754

zjlow@jfpex.com.my

What's new

- **The Group has announced a proposal to undertake a private placement** of up to 52 million new ordinary shares representing up to 10% of the total number of issued share of the group with issue price to be determined by the board and to be announced later.

Comment

- **We are neutral to the corporate exercise.** After the completion of the private placement, the outstanding number of shares will be enlarged to 572m from existing share base of 520m. Earnings wise, the EPS will be diluted by 6% to 5.53 sen after factoring in interest cost savings of 4% with an indicative placement price of RM0.65. In addition, Net Assets per share will be lifted to RM0.40 from RM0.38. Meanwhile, gearing will go down to 0.43x times from 0.50x times in view of higher equity base.
- **The proceeds raised are intended for general working capital.** The group expects to raise up to RM33.8m from the exercise. The utilisation is meant for payment to suppliers (RM21.97m), payment to sub-contractors (RM8.45m) and other operating expenses (RM2.62m).

Earnings Outlook/ Revision

- **Despite with the private placement, we revise upwards our earnings forecast for FY17 and FY18 by 3-14%** following adjustment in our assumption for target new orderbook in FY17 to RM500m from RM400m. This is in view that the group has successfully secured contracts with a total value of RM369.3m year-to-date, accounting 92.3% of our previous assumption.
- **Major risk to our earnings forecast is any unforeseen delay in execution and recognition of construction progress.**

Valuation/Recommendation

- **Maintain BUY with a higher target price of RM0.80 (previously RM0.76).** We derived our valuation by pegging at 13x FY2018F FD PE. Our target price has accounted for the enlarged share based upon completion of the private placement. 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: 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	404.26	420.04
Gross Profit	27.35	37.63	53.58	57.9	67.34	56.18	92.17	100.39
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	-16.98	-17.64
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	66.19	73.75
Operating Profit	12.45	19.26	32.03	33.43	37.57	21.58	51.19	58.75
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	43.69	51.25
Taxes	-3.07	-3.85	-7.57	-7.43	-8.46	-4.91	-11.36	-13.32
Profit for the year	8.38	13.49	21.46	21.41	24.30	10.21	32.33	37.92
Net Income(to shareholders)	8.38	13.34	21.44	21.55	25.16	11.28	32.60	35.07
EPS	0.016	0.026	0.041	0.041	0.044	0.020	0.057	0.061
Growth								
Revenue Growth	-	39.5%	1.2%	42.9%	-8.5%	-9.7%	66.7%	3.9%
EBITDA Growth	-	48.9%	63.9%	6.9%	15.4%	-26.4%	85.4%	11.4%
Operating Profit Growth	-	54.7%	66.3%	4.4%	12.4%	-42.5%	137.2%	14.8%
PBT Growth	-	51.4%	67.4%	-0.7%	13.6%	-53.8%	188.9%	17.3%
Net Profit Growth	-	59.2%	60.7%	0.5%	16.7%	-55.2%	189.1%	7.6%
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%	16.4%	17.6%
Operating Margin	8.6%	9.5%	15.6%	11.4%	14.0%	8.9%	12.7%	14.0%
Pretax Margin	7.9%	8.5%	14.1%	9.8%	12.2%	6.2%	10.8%	12.2%
PAT Margin	5.8%	6.6%	10.5%	7.3%	9.0%	4.2%	8.0%	9.0%
Net Margin (to shareholders)	5.8%	6.6%	10.4%	7.3%	9.4%	5.3%	7.8%	8.4%

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:

Lim Teck Seng
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)
Zairul Azman (ext 746)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Tan Heng Cheong (Ext 111)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Low Zy Jing (ext 754)
Nazhatul Shaza Binti Shukor (ext755)
Nursuhaiza Binti Hashim (ext 752)

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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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