

Company Results

5 September 2017

Ikhmas Jaya Group Berhad

BUY

Earnings to pick up in 2H

Maintained

Share Price	RM0.66
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)	530.35
Par Value (RM)	0.25
Market cap. (RM'm)	347.38
52-week price Range	RM0.57-0.75
Beta (against KLCI)	0.79
3-m Average Daily Volume	0.67m
3-m Average Daily Value	RM0.47m

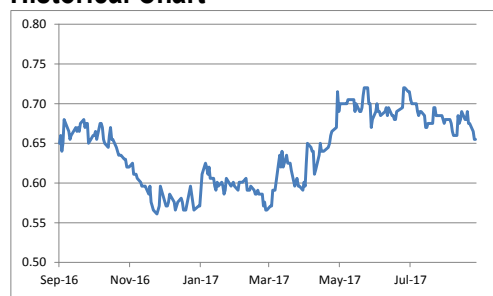
Share Performance

	1m	3m	12m
Absolute (%)	-4.4	-9.7	0.0
Relative (%-pts)	-4.3	-5.0	-5.4

Major Shareholders

	%
IJ Holdings	65.0
Lembaga Tabung Haji	4.71
Oversea Chinese Banking	6.61

Historical Chart



Source: Bloomberg

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Result

- Ikhmas Jaya's earnings back to the black, registering a net profit of RM2.8m for its 2QFY17, as compared to a net loss of RM1.8m in last quarter. However, 2QFY17's net earnings halved by 47.1% yoy.** The tepid performance was mainly attributed to lower works recognition in this quarter coupled with lower margin achieved.

- Below expectation.** The Group recorded 6MFY17 net earnings of RM1.0m against our full year net earnings forecast of RM 30m in FY17 mainly due to the reasons above.

Comment

- Performance bogged down by lower revenue and margins.** Revenue dropped 28.5% qoq and 17.0% yoy to RM52.0m in 2QFY17 as a result of completion of an infrastructure and a building project whilst contributions from new projects have yet to yield desirable results. Meanwhile, lower earnings in 2QFY17, -47.1% yoy, was mainly attributed to an additional cost incurred in one of the infrastructure projects and relatively high margin in 2QFY16. However, on a quarterly basis, a better net profit was due to higher profit margins from construction activities generated from newly secured projects.
- Cumulatively, we witnessed a positive growth in top line but plunge in bottom line.** 6MFY17's revenue up 9.6% yoy to RM125m yet net profit down 90% yoy to RM1.0m. The lacklustre performance was attributable to tepid performance in 2QFY17 coupled with a net loss in 1QFY17.
- The Group has successfully replenished its orderbook of RM369.3m year to date, which accounts for 73.8% of our RM 500m estimated target orderbook for FY17.** As such, we believe the current outstanding order book stands at RM780m, translating into 2.5x FY15's earnings given a margin of 8%. Moving forward, we believe the Group is able to secure more jobs and further strengthen its existing order book.

Earnings Outlook/ Revision

- We cut our earnings forecast for FY17 by 40% in view of the slower-than-expected pick up in construction progress, while retaining our earnings forecast for FY18.**
- 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 RM0.80. We derived our valuation, pegged at 13x FY2018F FD PE.** Our target price 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 with current booming infrastructure works.
- **We maintain our positive view on the Group as bored pilling and fundamental works remain vibrant.** We believe the Group will resume its growth trajectory in 2HFY17 given higher progress billings as well as awards of more construction works, 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

	2QFY17 (RMm)	1QFY17 (RMm)	QoQ % chg	2QFY16 (RMm)	YoY % chg	6MFY17 (RMm)	6MFY16 (RMm)	YoY % chg
Revenue	51.9	72.6	-28.5%	62.5	-17.0%	124.5	113.6	9.6%
Gross profit	8.6	4.5	91.0%	17.1	-49.4%	13.1	32.9	-60.1%
Profit before tax	4.1	-1.2	-449.4%	6.9	-40.2%	2.9	12.4	-76.4%
Net Profit	2.8	-1.8	-252.6%	5.2	-47.1%	1.0	9.5	-90.0%
PBT Margin (%) / pts	7.92	-1.62	9.54	10.98	-3.07	2.36	10.92	-8.57
Net profit margin (%) / pts	5.31	-2.49	7.80	8.34	-3.03	0.76	8.38	-7.62

Source: Company, JF Apex

Figure 2: Peer Comparison

Company	Ticker	Stock	Price @	Target	Market	PE(x)			PB(x)	ROE	Div.
			Recom. 5-Sep-17	Price (RM)	Cap. (RM'M)	2016	2017	2018		(%)	Yield (%)
IKHMAS JAYA GROUP BHD	IJGB MK	BUY	0.66	0.80	347	128.4	12.1	10.6	1.7	1.4	0.8
ECONPILE HOLDINGS BHD	ECON MK		2.95		1,578	19.5	15.9	14.4	5.2	29.3	1.5
PINTARAS JAYA BHD	PINT MK		3.99		658	18.0	14.6	12.2	2.0	11.2	5.0

Source: Bloomberg, 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	341.24	420.04
Gross Profit	27.35	37.63	53.58	57.9	67.34	56.18	69.95	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	-14.33	-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	46.62	73.75
Operating Profit	12.45	19.26	32.03	33.43	37.57	21.58	31.62	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	24.12	51.25
Taxes	-3.07	-3.85	-7.57	-7.43	-8.46	-4.91	-5.79	-13.32
Profit for the year	8.38	13.49	21.46	21.41	24.30	10.21	18.33	37.92
Net Income(to shareholders)	8.38	13.34	21.44	21.55	25.16	11.28	18.09	35.07
EPS	0.016	0.026	0.041	0.041	0.044	0.020	0.032	0.061
Growth								
Revenue Growth	-	39.5%	1.2%	42.9%	-8.5%	-9.7%	40.7%	23.1%
EBITDA Growth	-	48.9%	63.9%	6.9%	15.4%	-26.4%	30.6%	58.2%
Operating Profit Growth	-	54.7%	66.3%	4.4%	12.4%	-42.5%	46.5%	85.8%
PBT Growth	-	51.4%	67.4%	-0.7%	13.6%	-53.8%	59.5%	112.4%
Net Profit Growth	-	59.2%	60.7%	0.5%	16.7%	-55.2%	60.4%	93.9%
Margin								
Gross Margin	18.8%	18.5%	26.1%	19.7%	25.1%	23.2%	20.5%	23.9%
EBITDA Margin	11.1%	11.8%	19.1%	14.3%	18.1%	14.7%	13.7%	17.6%
Operating Margin	8.6%	9.5%	15.6%	11.4%	14.0%	8.9%	9.3%	14.0%
Pretax Margin	7.9%	8.5%	14.1%	9.8%	12.2%	6.2%	7.1%	12.2%
PAT Margin	5.8%	6.6%	10.5%	7.3%	9.0%	4.2%	5.4%	9.0%
Net Margin (to shareholders)	5.8%	6.6%	10.4%	7.3%	9.4%	5.3%	5.0%	8.4%
Net gearing	0	0	0	52.3%	21.5%	38.8%	48.0%	41.9%

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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