

Outthink. Outperform.

Property development takes its toll on JAKS

We are maintaining our HOLD call on Jaks Resources (JAKS) despite lowering our TP to RM1.50, due to disappointment over its property development project (Pacific Star) following the continuation of losses from LAD claims. Core PATAMI of RM17m for 1H17 was up 50% yoy, but is tracking below our previous forecast of RM63m for FY17E due to higher-than-expected losses in the property segment.

Vietnam construction is tracking slightly below expectation

JAKS has recorded a lower revenue for its Vietnam project for the quarter at RM43m (-30% QoQ), but it is tracking slightly behind our expectation. As such, we have lowered our completion target assumption for this year to 24% from 28% previously. Nonetheless, management has indicated that the project is still currently on track for completion by 2020.

Still gunning for project wins by end-2017

Although JAKS has yet to secure any new domestic work for the year, management is still confident that it can achieve at least RM300m of new contract wins before the end of the year. The downside risk to short-term earnings growth is minimal, as the current order book outstanding of RM913m is sufficient to keep the company busy for another 2-3 years.

Property losses dragging down group profitability

We have lowered our valuation projection for the property development segment (Pacific Star), as we believe that the project is now unlikely to turn profitable due to the LAD claims related to late delivery of the units to its buyers. Management is currently working towards completing the project by end of 2018, and losses should be minimized thereafter.

There is still growth albeit lower than expectation

Although we have cut our core EPS by 50% for FY17E, we are still expecting it to grow by 35% yoy, due to improving earnings contribution from its Vietnam EPC. Headline profit for FY17E will also be stronger yoy mainly due to the low base effect in FY16 and the RM94m land sale gain which is expected to be recognised by year-end.

Reduce to HOLD with lower TP at RM1.50

We maintain our HOLD call on JAKS, as we expect limited upside to the lower RNAV-based 12-month TP of RM1.50. The key risks will likely arise from: 1) the progress of its Vietnam project, 2) construction order book wins, and 3) the timing and value of the disposal of its non-core assets.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	449.4	640.4	1,041.2	1,376.3	952.5
EBITDA (RMm)	81.7	52.4	120.1	99.9	134.1
Pretax profit (RMm)	55.4	(7.3)	84.5	64.9	99.7
Net profit (RMm)	41.6	0.7	115.6	83.0	90.6
EPS (sen)	9.5	4.9	24.0	17.2	18.8
PER (x)	14.9	29.0	5.9	8.2	7.5
Core net profit (RMm)	12.4	21.3	31.8	83.0	90.6
Core EPS (sen)	2.8	4.9	6.6	17.2	18.8
Core EPS growth (%)	(11.6)	72.1	35.4	161.2	9.1
Core PER (x)	49.8	29.0	21.4	8.2	7.5
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	18.0	46.6	12.8	15.4	11.5
Chg in EPS (%)			(49.7)	(6.1)	(1.1)
Affin/Consensus (x)			0.5	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Jaks Resources

JAK MK
Sector: Utilities

RM1.41 @ 17 Aug 2017

HOLD (maintain)

Upside: 6%

Price Target: RM1.50

Previous Target: RM1.70



Price Performance

	1M	3M	12M
Absolute	-2.8%	-9.0%	35.6%
Rel to KLCI	-3.9%	-9.1%	29.3%

Stock Data

Issued shares (m)	482
Mkt cap (RMm)/(US\$m)	4.3
Avg daily vol - 6mth (m)	4.4
52-wk range (RM)	0.98-1.79
Est free float	55.8%
BV per share (RM)	1.15
P/BV (x)	1.23
Net cash/ (debt) (RMm)	(457)
ROE (2017E)	4.8%
Derivatives	No
Shariah Compliant	No

Key Shareholders

YIN KOON YEW	20.5%
LAM POAH ANG	8.8%
PHENG TAN KIT	8.3%
ORIGINAL INVENTION S	5.4%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q17	QoQ % chg	YoY % chg	1H17	YoY % chg	Comment
Revenue	170.9	10.4	7.4	325.7	15.5	Mainly driven by construction revenue
Op costs	(158.2)	11.3	11.7	(300.4)	17.9	
EBITDA	12.7	0.9	(27.1)	25.3	(6.4)	Lower margin due to losses from property development and investment segment
<i>EBITDA margin (%)</i>	<i>7.4</i>	<i>-0.7ppt</i>	<i>-3.5ppt</i>	<i>7.8</i>	<i>-1.8ppt</i>	
Depreciation	(3.0)	(15.6)	(7.8)	(6.5)	(0.2)	Due to Evolve Concept Mall
EBIT	9.7	7.3	(31.5)	18.7	(8.4)	
<i>EBIT margin (%)</i>	<i>5.7</i>	<i>-0.2ppt</i>	<i>-3.2ppt</i>	<i>5.8</i>	<i>-1.5ppt</i>	
EI	(7.1)			(7.1)		One-off LTIP at RM7.1mn
Int expense	(7.2)	17.7	9.2	(13.2)	4.9	Debt from Evolve Concept Mall
Pretax profit	(4.6)	(254.1)	(159.9)	(1.6)	(120.4)	
Tax	(0.3)	(25.6)	(81.5)	(0.6)	(78.9)	
<i>Tax rate (%)</i>	<i>(5.5)</i>	<i>-16.8ppt</i>	<i>-23.3ppt</i>	<i>(36.6)</i>	<i>-71.9ppt</i>	
Minority interests	6.8	37.9	89.8	11.7	101.0	Mainly due to the 51%-owned loss-making property segment
Net profit	2.0	(73.8)	(79.9)	9.5	(12.7)	Flow through from revenue
EPS	0.4	(74.4)	(80.4)	2.1	(14.9)	
Core net profit	9.1	20.3	(7.7)	16.6	52.5	Still a reasonably strong growth

Source: Affin Hwang, Company data

Fig 2: RNAV valuation for JAKS

	Equity Value (RM m)	Per share	Comments
Construction (domestic)	37	0.08	PER at 8x
Disposable assets (non-core)			
Evolve City Mall	202	0.42	51% stake at book value
Pacific Star Retail Podium	51	0.11	51% stake at book value
Other lands for disposal	177	0.37	Book Value
Total domestic asset value	467	0.97	
-) Gross Debt	-341	-0.71	Excluding minority interest share
+) Cash	40	0.08	
RNAV (without Vietnam)	166	0.34	
Vietnam IPP	412	0.85	DCF (Only JAKS's 30% stake)
Vietnam EPC contract	326	0.68	PER at 8x
RNAV (Vietnam only)	739	1.53	
Group RNAV	905	1.88	
Discount to RNAV	20%	20%	
Target Price (RM)	724	1.50	
# of shares	482.2		

Source: Affin Hwang estimates and forecasts

Jaks Resources – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Revenue	449.4	640.4	1,041.2	1,376.3	952.5
Operating expenses	(367.8)	(588.0)	(921.2)	(1,276.4)	(818.4)
EBITDA	81.7	52.4	120.1	99.9	134.1
Depreciation	(6.7)	(14.9)	(11.9)	(11.7)	(11.6)
EBIT	74.9	37.5	108.2	88.2	122.5
Net int inc/(exp)	(19.5)	(24.2)	(23.7)	(23.2)	(22.8)
Exceptional items	-	(20.6)	83.9	-	-
Pretax profit	55.4	(7.3)	168.4	64.9	99.7
Tax	(8.1)	(8.7)	(0.2)	(16.2)	(24.9)
Minority interest	(5.7)	16.7	31.3	34.3	15.8
Net profit	41.6	0.7	115.6	83.0	90.6

Balance Sheet Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Fixed assets	19.9	17.9	16.7	15.5	14.5
Other long term assets	707.7	767.0	817.0	847.0	877.0
Total non-curr assets	727.6	784.9	833.6	862.5	891.5
Cash and equivalents	46.0	39.6	72.6	175.9	118.8
Stocks	9.2	4.2	6.3	8.3	5.8
Debtors	71.2	263.6	428.6	566.5	392.1
Other current assets	631.2	465.6	465.6	465.6	465.6
Total current assets	757.6	773.0	973.2	1,216.4	982.3
Creditors	150.4	438.5	613.0	846.4	576.5
Short term borrowings	230.3	283.5	283.5	283.5	283.5
Other current liabilities	181.9	5.3	5.3	5.3	5.3
Total current liab	562.7	727.2	901.8	1,135.2	865.3
Long term borrowings	326.2	247.5	237.5	227.5	217.5
Other long term liabilities	0.2	0.2	0.2	0.2	0.2
Total long term liab	326.4	247.6	237.6	227.6	217.6
Shareholders' Funds + MI	596.0	583.0	667.4	716.1	790.9

Cash Flow Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Pretax profit	55.4	(7.3)	168.4	64.9	99.7
Depreciation & amortisation	6.7	14.9	11.9	11.7	11.6
Working capital changes	69.4	91.4	7.4	93.4	(92.9)
Cash tax paid	(8.1)	(8.7)	(0.2)	(16.2)	(24.9)
Others	(29.7)	28.6	(93.9)	(10.0)	(10.0)
Cashflow from operations	93.6	118.9	93.6	143.8	(16.5)
Capex	(2.2)	(0.6)	(0.6)	(0.6)	(0.6)
Others	(119.9)	(69.2)	(50.0)	(30.0)	(30.0)
Cash flow from investing	(122.1)	(69.8)	(50.6)	(30.6)	(30.6)
Debt raised/(repaid)	(97.7)	(27.4)	(10.0)	(10.0)	(10.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Net int inc/(exp)	(8.0)	(12.1)	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Others	61.1	(20.8)	0.0	0.0	0.0
Cash flow from financing	(44.5)	(60.3)	(10.0)	(10.0)	(10.0)
Free Cash Flow	91.4	118.3	93.1	143.2	(17.1)

Source: Company, Affin Hwang forecasts

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	(8.5)	42.5	62.6	32.2	(30.8)
EBITDA (%)	10.7	(35.8)	129.0	(16.8)	34.3
Net profit (%)	196.3	(98.2)	15,612.6	(28.2)	9.1
Profitability					
EBITDA margin (%)	18.2	8.2	11.5	7.3	14.1
PBT margin (%)	12.3	1.1	16.2	4.7	10.5
Net profit margin (%)	9.2	0.1	11.1	6.0	9.5
Effective tax rate (%)	14.7	119.5	0.1	25.0	25.0
ROA (%)	2.8	1.4	1.8	4.0	4.8
Core ROE (%)	7.0	3.7	4.8	11.6	11.5
ROCE (%)	4.5	2.6	3.5	8.8	9.0
Dividend payout ratio (%)	-	-	-	-	-
Liquidity					
Current ratio (x)	1.3	1.1	1.1	1.1	1.1
Op. cash flow (RMm)	81.7	52.4	120.1	99.9	134.1
Free cashflow (RMm)	91.4	118.3	93.1	143.2	(17.1)
FCF/share (sen)	20.9	27.0	19.3	29.7	(3.5)
Asset management					
Debtors turnover (days)	56.4	150.2	150.2	150.2	150.2
Stock turnover (days)	9.1	2.8	2.8	2.8	2.8
Creditors turnover (days)	149.1	291.1	291.1	291.1	291.1
Capital structure					
Net gearing (%)	101.9	97.3	72.2	47.6	48.1
Interest cover (x)	4.2	2.2	5.1	4.3	5.9

Quarterly Profit & Loss

FYE 31 Dec (RMm)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Revenue	122.8	159.1	209.1	149.3	154.8
Operating expenses	(113.2)	(141.7)	(186.1)	(141.4)	(142.2)
EBITDA	9.6	17.4	23.0	8.0	12.6
Depreciation	(3.3)	(3.3)	(3.9)	(4.5)	(3.5)
EBIT	6.3	14.2	19.2	3.4	9.0
Int expense	(6.1)	(6.6)	(7.0)	(4.6)	(6.1)
Exceptional items	-	-	-	(26.2)	-
Pretax profit	0.2	7.6	12.2	(27.3)	3.0
Tax	(1.4)	(1.4)	(1.7)	(4.2)	(0.3)
Minority interest	2.2	3.6	3.4	7.5	4.9
Net profit	1.1	9.8	13.9	(24.0)	7.5
Margins (%)					
EBITDA	7.8	10.9	11.0	5.3	8.1
PBT	0.2	4.8	5.8	(18.3)	1.9
Net profit	0.9	6.2	6.6	(16.1)	4.9

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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