

Outthink. Outperform.

Supported by write-back

Although Jaks Resources' (JAK) 9M17 core profit of RM17m is tracking behind our expectation, achieving only 57% of our full-year forecast, we are confident that our forecast is achievable given the likely higher contribution from its Vietnam EPC project in 4Q17. During the quarter, JAK booked another write-back on its LAD of c.RM18.1m, which came as a positive surprise to us. We maintain our BUY call on JAK, with a higher TP of RM1.75, as we roll forward our valuation and given the better visibility on its Vietnam EPC contract.

Expecting a stronger pick-up from Vietnam in 4Q

While the Vietnam EPC recorded a 1.7% yoy decline in revenue, profit from the segment for 9M17 at RM35.4m was up by 18% yoy, and it is the most profitable project for JAK. Although revenue growth for the first 3 quarters appears to be on a declining trend, management has indicated that the trend should reverse as it is expecting a stronger growth momentum in 4Q (as more work is expected to be done before the Chinese New Year holiday). As such, we are expecting contribution from the segment to double in 4Q from the RM10.2m recorded in 3Q.

Property segment losses widen without write-back

The property segment recorded a small PBT gain of RM1.0m for 3Q17, which is a significant improvement over the losses from the previous quarters. We believe that this was mainly due to the reversal of an LAD (liquidated and ascertained damages) provision which totalled RM18.1m. Excluding this, the segment LBT widened qoq to RM17.1m from RM13.9m. However, we expect the losses to narrow as LAD costs would be reduced as JAK starts to deliver the units to its buyers in 1Q18. Recent sales numbers for the project is also encouraging, as it has sold close to 94% of the units (office + apartments) of the Pacific Star project.

Reaffirm BUY call with a higher TP of RM1.75

We are maintaining our BUY call on the stock, with a higher RNAV-based 12-month TP of RM1.75, as we roll forward our valuation to 2018E and given the better visibility of its Vietnam EPC contract. The key downside risks could arise from: 1) the progress of its Vietnam project, 2) domestic construction order book wins, and 3) higher-than-expected losses from its property segment.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	461.2	632.2	1,041.2	1,376.3	952.5
EBITDA (RMm)	39.7	50.2	36.2	96.3	130.7
Pretax profit	55.3	(6.9)	103.0	68.1	103.1
PATAMI (RMm)	41.5	0.8	132.3	85.4	93.1
EPS (sen)	9.5	0.2	27.4	17.7	19.3
PER (x)	14.6	760.1	5.0	7.8	7.1
Core Net Profit (RMm)	0.0	19.2	29.9	85.4	93.1
Core EPS (sen)	0.0	4.4	6.2	17.7	19.3
Core EPS growth (%)	nmf	>100	41.1	185.9	9.0
Core PER (x)	nmf	31.4	22.3	7.8	7.1
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
DPS Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	18.0	46.8	42.5	16.0	11.8
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.4	1.0	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Jaks Resources

JAK MK
Sector: Utilities

RM1.38 @ 22 November 2017

BUY (maintain)

Upside: 27%

Price Target: RM1.75

Previous Target: RM1.50



Price Performance

	1M	3M	12M
Absolute	-6.1%	3.8%	35.3%
Rel to KLCI	-5.2%	6.8%	27.9%

Stock Data

Issued shares (m)	493
Mkt cap (RMm)/(US\$m)	680/165.4
Avg daily vol - 6mth (m)	2.0
52-wk range (RM)	0.99-1.79
Est free float	52.3%
BV per share (RM)	1.22
P/BV (x)	1.13
Net cash/ (debt) (RMm)	(466)
ROE (2018E)	11.6%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Koon Yew Yin	21.9%
Ang Lam Poah	9.9%
Tan Kit Pheng	8.5%
Original Invention	6.0%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q17	QoQ % chg	YoY % chg	9M17	YoY % chg	Comment
Revenue	140.4	(17.9)	(32.9)	466.1	(5.1)	Dragged down by slower revenue recognition from its property segment
Op costs	(136.4)	(13.8)	(26.7)	(436.8)	(1.0)	
EBITDA	4.0	(68.5)	(82.6)	29.3	(41.2)	Lower margin due to losses from property development and investment segment
<i>EBITDA margin (%)</i>	<i>2.8</i>	<i>-4.6ppt</i>	<i>-8.2ppt</i>	<i>+6.3ppt</i>	<i>-3.9ppt</i>	
Depreciation	(4.0)	33.4	3.7	(10.5)	3.9	Due to Evolve Concept Mall
EBIT	(0.0)	(100.0)	(100.0)	18.7	(52.7)	
<i>EBIT margin (%)</i>	<i>(0.0)</i>	<i>-5.7ppt</i>	<i>-9.2ppt</i>	<i>4.0</i>	<i>(4.1)</i>	
El	18.1	na	na	11.0	na	Reversal of LAD impairments of RM18.1m in 3Q17, from the 51% own subsidiary
Int expense	(6.9)	(3.9)	(1.1)	(20.1)	2.8	Debt from Evolve Concept Mall
Pretax profit	11.2	(346.0)	(8.1)	9.6	(52.1)	
Tax	(1.3)	419.2	(23.5)	(1.9)	(57.8)	
<i>Tax rate (%)</i>	<i>11.6</i>	<i>+17.1ppt</i>	<i>-2.3ppt</i>	<i>19.6</i>	<i>-2.7ppt</i>	
Minority interests	(0.3)	nmf	nmf	11.4	24.7	Mainly due to the 51%-owned loss-making property segment
Net profit	9.7	387.8	(30.4)	19.2	(22.6)	Flow through from revenue
EPS	2.1	375.0	(33.9)	4.2	(25.5)	
Core net profit	0.4	(95.3)	(96.9)	17.0	(31.2)	

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	474	0.98	PER at 8x
RNAV (Vietnam only)	886	1.84	
Group RNAV	1,052	2.18	
Discount to RNAV	20%	20%	
Target Price (RM)	842	1.75	
# 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	461.2	632.2	1,041.2	1,376.3	952.5
Operating expenses	(421.5)	(582.0)	(1,005.1)	(1,280.1)	(821.8)
EBITDA	39.7	50.2	36.2	96.3	130.7
Depreciation	(6.7)	(14.6)	(11.9)	(11.7)	(11.6)
EBIT	33.0	35.6	24.3	84.5	119.0
Net int inc/(exp)	(19.2)	(24.1)	(23.7)	(16.4)	(15.9)
Exceptional items	41.5	(18.5)	102.4	-	-
Pretax profit	55.3	(6.9)	103.0	68.1	103.1
Tax	(8.1)	(9.5)	(2.1)	(17.0)	(25.8)
Minority interest	(5.7)	17.2	31.3	34.3	15.8
Net profit	41.5	0.8	132.3	85.4	93.1

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	749.2	779.2	809.2
Total non-curr assets	727.6	784.9	765.9	794.8	823.7
Cash and equivalents	46.0	39.6	229.4	118.8	62.4
Stocks	9.2	4.2	6.4	8.5	5.9
Debtors	71.2	263.6	434.1	573.9	397.1
Other current assets	631.2	465.6	465.6	465.6	465.6
Total current assets	757.6	773.0	1,135.6	1,166.7	931.0
Creditors	150.4	438.5	691.0	859.9	585.9
Short term borrowings	230.3	283.5	283.5	133.5	133.5
Other current liabilities	181.9	5.3	5.3	5.3	5.3
Total current liab	562.7	727.2	979.8	998.7	724.7
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	684.0	735.1	812.5

Cash Flow Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Pretax profit	55.3	(6.9)	103.0	68.1	103.1
Depreciation & amortisation	6.7	14.6	11.9	11.7	11.6
Working capital changes	69.4	91.4	79.8	27.1	(94.7)
Cash tax paid	(8.1)	(9.5)	(2.1)	(17.0)	(25.8)
Others	(29.6)	29.4	(10.0)	(10.0)	(10.0)
Cashflow from operations	93.6	118.9	182.6	80.0	(15.8)
Capex	(2.2)	(0.6)	(0.6)	(0.6)	(0.6)
Others	(119.9)	(69.2)	17.8	(30.0)	(30.0)
Cash flow from investing	(122.1)	(69.8)	17.2	(30.6)	(30.6)
Debt raised/(repaid)	(97.7)	(27.4)	(10.0)	(160.0)	(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)	(160.0)	(10.0)
Free Cash Flow	91.4	118.3	182.0	79.4	(16.4)

Source: Company, Affin Hwang forecasts

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	(6.1)	37.1	64.7	32.2	(30.8)
EBITDA (%)	(46.2)	26.4	(28.0)	166.2	35.7
Net profit (%)	195.7	(98.1)	16,520.8	(35.4)	9.0
Profitability					
EBITDA margin (%)	8.6	7.9	3.5	7.0	13.7
PBT margin (%)	12.0	-	1.1	9.9	5.0
Net profit margin (%)	9.0	0.1	12.7	6.2	9.8
Effective tax rate (%)	14.7	-	137.1	2.0	25.0
ROA (%)	0.0	1.2	1.6	4.4	5.3
Core ROE (%)	0.0	3.3	4.4	11.6	11.5
ROCE (%)	0.0	2.3	3.2	8.9	9.0
Dividend payout ratio (%)	-	-	-	-	-
Liquidity					
Current ratio (x)	1.3	1.1	1.2	1.2	1.3
Op. cash flow (RMm)	39.7	50.2	36.2	96.3	130.7
Free cashflow (RMm)	91.4	118.3	182.0	79.4	(16.4)
FCF/share (sen)	20.9	27.0	37.8	16.5	(3.4)
Asset management					
Debtors turnover (days)	56.4	152.2	152.2	152.2	152.2
Stock turnover (days)	9.1	2.8	2.8	2.8	2.8
Creditors turnover (days)	149.1	295.6	295.6	295.6	295.6
Capital structure					
Net gearing (%)	101.9	97.3	45.8	33.5	35.4
Interest cover (x)	2.1	2.1	1.5	5.9	8.2

Quarterly Profit & Loss

FYE 31 Dec (RMm)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Revenue	209.1	149.3	154.8	170.9	140.4
Operating expenses	(186.1)	(141.4)	(142.2)	(158.2)	(136.4)
EBITDA	23.0	8.0	12.6	12.7	4.0
Depreciation	(3.9)	(4.5)	(3.5)	(3.0)	(4.0)
EBIT	19.2	3.4	9.0	9.7	(0.0)
Int expense	(7.0)	(4.6)	(6.1)	(7.2)	(6.9)
Exceptional items	-	(26.2)	-	(7.1)	18.1
Pretax profit	12.2	(27.3)	3.0	(4.6)	11.2
Tax	(1.7)	(4.2)	(0.3)	(0.3)	(1.3)
Minority interest	3.4	7.5	4.9	6.8	(0.3)
Net profit	13.9	(24.0)	7.5	2.0	9.7
Margins (%)					
EBITDA	11.0	5.3	8.1	7.4	2.8
PBT	5.8	(18.3)	1.9	(2.7)	8.0
Net profit	6.6	(16.1)	4.9	1.2	6.9

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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