

Outthink. Outperform.

Company Update

Vietnam story has only just started

We are reiterating our BUY call on Jaks Resources (Jaks) with a higher TP of RM2.25 (previously RM1.75), on the back of a higher valuation on Jaks' 2x600MW Vietnam power plant project, post our recent visit to the site. We believe that management will complete the project on time, as it will play a significant role in bolstering Jaks' chances of securing new power-related projects in Vietnam. Hence, we believe the risk of delay is minimal, providing better visibility and lower risk in the earnings delivery from the Vietnam EPC contract.

Power plant is just the beginning

Although management's current focus in Vietnam is to get the power plant operational by 2020, it is also interested in getting involved in other power-related projects (including renewable energy) in Vietnam. However, we believe that any new projects will only materialise in 2019/20, when the current power plant is near completion, as it will provide Jaks with better bargaining strength when bidding for new power projects. We believe that for management to take up any new projects, the return of them would have to be similar to the current one. Although management did not provide details on the potential partners for new projects, we believe that they will need to have the ability to secure financing for those projects, and Jaks will likely maintain an associate stake in any new ventures so as to minimise the need to raise new equity.

Property development will have some closure in 2018

While the potential of new power projects in Vietnam remains attractive, we believe that the near-term re-rating catalyst for Jaks lies with the completion of the [Pacific Star](#) project, which has been a drag on earnings since early 2017. The project is now expected to be completed by end-2018. We estimate that Jaks' earnings for FY17-18E would be 5-12% higher if the losses from Pacific Star were excluded.

Reaffirm BUY with a higher TP at RM2.25

We are maintaining our BUY call on the stock, with a higher RNAV-based 12-month TP of RM2.25, as we raise our valuation of Jaks' Vietnam power plant project, as we believe the risk for late delivery is now lower as we progress into 2018-19. Downside risks could arise from: 1) lower revenue recognition of its Vietnam EPC contract; and 2) higher-than-expected losses from its Evolve Concept City Mall.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	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 (RMm)	55.3	(6.9)	103.0	68.1	103.1
Net profit (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)	19.3	1,008.0	6.7	10.3	9.5
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	41.7	29.5	10.3	9.5
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	46.8	42.5	16.0	11.8

Chg in EPS (%)	-	-	-
Affin/Consensus (x)	0.5	1.1	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Jaks Resources

JAK MK
Sector: Utilities

RM1.83 @ 2 February 2018

BUY (maintain)

Upside: 23.0%

Price Target: RM2.25

Previous Target: RM1.75



Price Performance

	1M	3M	12M
Absolute	19.6%	24.5%	40.8%
Rel to KLCI	14.9%	16.3%	25.8%

Stock Data

Issued shares (m)	493.0
Mkt cap (RMm)/(US\$m)	902.1/232
Avg daily vol - 6mth (m)	2.1
52-wk range (RM)	1.01-1.84
Est free float	51.8%
BV per share (RM)	1.22
P/BV (x)	1.50
Net cash/ (debt) (RMm)	(465.69)
ROE (2018E)	11.6%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Yew Yin Koon	21.9%
Ang Lam Poah	9.9%
Tan Kit Pheng	9.0%
Original Invention	6.0%

Source: Affin Hwang, Bloomberg

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Fig 1: The coal jetty site (March'16)



Source: Affin Hwang

Fig 2: The coal jetty site - 1 (Jan'18)



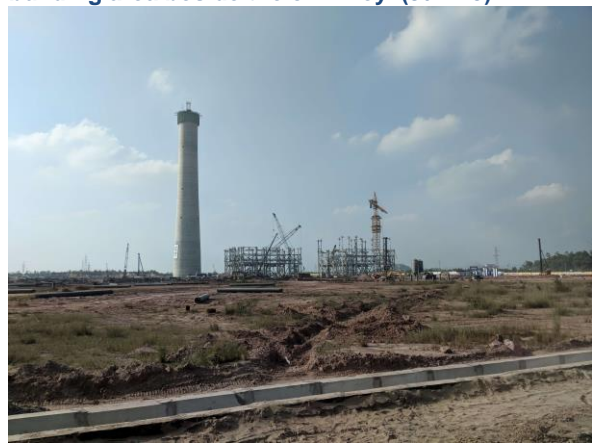
Source: Affin Hwang

Fig 3: The coal jetty site - 2 (Jan'18)



Source: Affin Hwang

Fig 4: The construction of the turbine and main building area beside the chimney (Jan'18)



Source: Affin Hwang

Fig 5: The chimney is now 91.8% completed (Jan'18)



Source: Affin Hwang

Fig 6: The living quarters are expected to be completed by the end of the month (Jan'18)



Source: Affin Hwang

Fig 7: The artist impression of the site shows there is room for expansion if needed



Source: Company

Fig 8: RNAV valuation for JAKS

	Equity Value (RM m)	Per share	Comments
Construction (domestic)	116	0.24	PER at 8x
Disposable assets (non-core)			
Evolve City Mall	202	0.42	51% stake at book value
Pacific Star Business Hub	51	0.11	51% stake at book value
Other lands for disposal	193	0.40	Book Value
Total domestic asset value	563	1.17	
-) Gross Debt	-439	-0.91	Excluding minority interest share
+) Cash	40	0.08	
RNAV (without Vietnam)	164	0.34	
Vietnam IPP	407	0.84	DCF (Only JAKS's 30% stake)
Vietnam EPC contract	790	1.64	PER at 10x
RNAV (Vietnam only)	1,197	2.48	
Group RNAV	1,361	2.82	
Discount to RNAV	20%	20%	
Target Price (RM)	1,089	2.25	
# of shares	482.2		

Source: AffinHwang 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	10.8
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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