



Outthink. Outperform.

2018 – A good year to fix all the problems

We are maintaining our BUY call on Jaks Resources (JAKS) with an unchanged TP of RM2.25, as the core PATAMI for 2017 at RM37.1m (+37.5% yoy) surpassed our full year forecast. Headline net profit grew by 158x, mainly driven by two land sales and the reversal of LAD related to an earlier construction project. We believe the growth outlook for Jaks remain robust, as we believe Jaks will benefit from the higher earnings recognition from its Vietnam EPCC contract moving into 2018.

Vietnam construction more than 20% completed

Jaks has completed around 22% (RM401m out of RM1,800m) of its Vietnam EPCC contract, which started since 2016, and management is confident that they can complete the project on time by 2020. As such we are expecting a higher revenue contribution from the project, as Jaks ramps up its progress to meet the deadline. We are expecting Jaks to complete another 30% or RM540m of construction work in 2018. However, the downside risk to earnings would likely be the strengthening of MYR, as the project is based in US\$.

Working to fix the problem in its property segment

Excluding the land sale gain of RM88m for 2017, the LBT for the segment has widened to RM 22.3m from RM 19.8m, due to the LAD cost related to the Pacific Star project, and also the losses from the Evolve Concept Mall. As the Pacific Star project will be completed by 2018, we are expecting the losses from the segment to narrow. Management has also indicated that they are currently looking at different strategies to revive the loss making Evolve Concept Mall. We believe the near-term catalyst for the

Maintain BUY with and unchanged TP of RM2.25

We maintain our BUY call on JAKS, based on an unchanged RNAV-based 12-month TP of RM2.25. The stock valuation is still undemanding, trading only at 9.5x 2018E PER. 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	2016	2017	2018E	2019E	2020E
Revenue (RMm)	632.2	676.9	1,376.3	952.5	639.6
EBITDA (RMm)	57.9	63.0	92.7	127.2	71.3
Pretax profit (RMm)	(6.9)	112.2	68.1	103.1	119.7
Net profit (RMm)	0.8	126.7	85.4	93.1	106.4
EPS (sen)	0.2	26.7	17.7	19.3	22.1
PER (x)	930.9	6.3	9.5	8.8	7.7
Core net profit (RMm)	27.0	37.1	85.4	93.1	106.4
Core EPS (sen)	6.2	7.8	17.7	19.3	22.1
Core EPS growth (%)	>100	77.9	126.8	9.0	14.3
Core PER (x)	27.4	21.6	9.5	8.8	7.7
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)	46.8	10.0	16.6	12.1	21.6
Chg in EPS (%)	-	-	-	-	-
Affin/Consensus (x)	-	-	1.0	1.1	-

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Jaks Resources

JAK MK

Sector: Utilities

RM1.69 @ 28 February 2018

BUY (maintain)

Upside: 33%

Price Target: RM2.25

Previous Target: RM2.25



Price Performance

	1M	3M	12M
Absolute	-2.9%	20.7%	56.5%
Rel to KLCI	-2.2%	11.7%	42.8%

Stock Data

Issued shares (m)	495.0
Mkt cap (RMm)/(US\$m)	836.5/213.3
Avg daily vol - 6mth (m)	2.3
52-wk range (RM)	1.01-1.84
Est free float	51.7%
BV per share (RM)	1.22
P/BV (x)	1.39
Net cash/ (debt) (RMm)	(465.69)
ROE (2018E)	10.4%
Derivatives	No
Shariah Compliant	No

Key Shareholders

Yew Yin Koon	22.2%
Lam Poah Ang	9.9%
Kit Pheng Tan	8.9%
Original Invention Sdn Bhd	6.0%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	4Q17	QoQ % chg	YoY % chg	2017	YoY % chg	Comment
Revenue	210.7	50.1	41.1	676.9	5.7	Mainly driven by construction revenue
Op costs	(186.4)	36.7	31.9	(622.8)	6.9	
EBITDA	24.3	508.1	205.1	54.1	(6.8)	Higher margin due to increase contribution from Vietnam EPC
<i>EBITDA margin (%)</i>	<i>11.5</i>	<i>+8.7ppt</i>	<i>+6.2ppt</i>	<i>8.0</i>	<i>-1.1ppts</i>	
Depreciation	(3.7)	(6.8)	(17.7)	(14.3)	(4.5)	Due to Evolve Concept Mall
EBIT	20.6	>100	>100	39.8	(7.6)	
<i>EBIT margin (%)</i>	<i>9.8</i>	<i>+9.8ppt</i>	<i>+7.5ppt</i>	<i>5.9</i>	<i>-0.8ppts</i>	
EI	88.0			98.5		
Int expense	(5.9)	(13.8)	30.0	(26.1)	7.9	Debt from Evolve Concept Mall
Pretax profit	102.6	815.3	>100	112.2	>100	
Tax	(0.3)	(80.0)	(93.8)	(2.1)	(75.3)	
<i>Tax rate (%)</i>	<i>0.3</i>	<i>-11.3ppt</i>	<i>+15.7ppt</i>	<i>1.9</i>	<i>+121.4ppts</i>	
Minority interests	5.1	>100	(31.9)	16.6	(0.8)	Mainly due to the 51%-owned loss-making property segment
Net profit	107.5	1,013.5	>100	126.7	17,111.4	Flow through from revenue
EPS	22.7	983.7	>100	26.9	16,687.5	
Core net profit	19.5	4,509.7	798.6	37.1	37.5	

Source: Affin Hwang, Company data

Fig 2: 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 Retail Podium	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)	166	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: Affin Hwang estimates and forecasts

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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