

Outthink. Outperform.

Negative surprise in 3Q18

Jaks Resources (JAKS) reported a very weak set of numbers, 9MFY18 core-PATAMI of RM22m (+25.4% yoy) came in below consensus and our expectation, delivering only 30% and 31% of respective forecast. The significant drop in progress billings for the Vietnam EPC construction work in the 3Q18 came as a negative surprise to us. Nevertheless, we are still optimistic that the project will complete on time, but have revised lower our TP to RM0.90 (fully diluted), while maintaining our BUY call.

Vietnam project still on track

Despite the Vietnam power plant project having achieved 41% completion, Jaks was only able to recognize less than 30% for their works, as revenue recognition is based on completion of works rather than milestone basis. Management has assured us that they will be able to meet the COD dateline by mid-2020, as such we are assuming a higher progress billing in 2019/2020 to make up for the differences. Contractors are focusing on the main boiler units as machineries are brought on site, and hence there are fewer workers to work on Jaks EPC contract portion.

Continue to work on Pacific Star project

Losses from the property segment continued to widen, as LBT for the segment rose to RM17.7m in 3Q18 from RM15.9m (excluding land sales gain) in 2Q18. The increase in losses is due to LAD losses arising from the Pacific Start project, which management is now targeting for completion by 1H19. We are expecting the losses to continue until the project is completed. Losses from the mall have narrowed to RM6.4m from RM7.5m in 2Q18. Although the amount is relatively small, we believe it is in the right direction to achieve operational break-even by end 2019.

Maintain BUY with lower TP of RM0.90

We have cut our EPS for FY18 by 54% factoring in lower progress work, but have increase our EPS for FY19/20E by 22% as we assume works that were not completed in FY18 will be rolled over to FY19 and FY20. However, we have cut our TP to RM0.90 factoring in the warrants issued, and also lowered the valuation for its construction segment. However, we are keeping our BUY call.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	632.2	676.9	771.6	1,181.7	785.0
EBITDA (RMm)	57.9	63.0	13.2	123.3	85.6
Pretax profit (RMm)	(6.9)	112.2	(11.3)	98.7	133.0
PATAMI (RMm)	0.8	126.7	32.8	98.9	116.6
EPS (sen)	0.2	26.7	6.4	18.1	21.4
PER (x)	319.5	2.2	9.0	3.2	2.7
Core net profit (RMm)	27.0	37.1	32.8	98.9	116.6
Core EPS (sen)	6.2	7.8	6.4	18.1	21.4
Core EPS growth (%)	>100	26.8	(17.6)	181.7	17.8
Core PER (x)	9.4	7.4	9.0	3.2	2.7
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)	12.9	9.7	48.6	4.9	5.9
Chg in EPS (%)			(54.2)	22.4	22.0
Affin/Consensus (x)			0.4	1.2	1.2

Source: Company, Affin Hwang forecasts, Bloomberg

Result Note

Jaks Resources

JAK MK

Sector: Utilities

RM 0.58 @ 28 November 2018

BUY (maintain)

Upside: 57%

Price Target: RM 0.90
(post-dilution)

Previous Target: RM1.90



Price Performance

	1M	3M	12M
Absolute	-36.5%	-43.1%	-59.2%
Rel to KLCI	-36.9%	-38.9%	-58.6%

Stock Data

Issued shares (m)	545.9
Mkt cap (RMm)/(US\$m)	313.9/75
Avg daily vol - 6mth (m)	4.8
52-wk range (RM)	0.57-1.84
Est free float	62.1%
BV per share (RM)	1.47
P/BV (x)	0.39
Net cash/ (debt) (RMm)	(408.06)
ROE (2018E)	4.3%
Derivatives	No
Shariah Compliant	No

Key Shareholders

Yew Yin Koon	10.9%
Lam Poah Ang	9.1%
Kit Pheng Tan	6.2%
Original Invention Sdn Bhd	5.4%

Source: Affin Hwang, Bloomberg

Ng Chi Hoong
(603) 2146 7470
chihoong.ng@affinhwang.com

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Downside risks to our call are 1) wider losses from its property segment; and 2) slower recognition from its Vietnam EPC contract.

Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q17	2Q18	3Q18	QoQ % chg	YoY % chg	9M17	9M18	Yoy % chg	Comment
Revenue	140.4	178.3	125.2	(29.8)	(10.9)	466.1	513.7	10.2	Decline in revenue qoq was due to lower revenue recognition for the construction segment
Op costs	(136.4)	(169.9)	(129.1)	(24.0)	(5.4)	(436.3)	(488.4)	11.9	
EBITDA	4.0	8.4	(3.9)	<i>n.m</i>	<i>n.m</i>	29.8	25.3	(15.1)	Decline in EBITDA, is due to the smaller contribution from the profitable construction operation
<i>EBITDA margin (%)</i>	<i>2.8</i>	<i>4.7</i>	<i>(3.1)</i>	<i>-7.9</i> <i>ppts</i>	<i>-6.0</i> <i>ppts</i>	<i>6.4</i>	<i>4.9</i>	<i>-1.5</i> <i>ppts</i>	
Depreciation	(4.0)	(3.0)	(3.4)	10.3	(15.9)	(10.5)	(10.2)	(3.4)	
EBIT	(0.0)	5.4	(7.3)	<i>n.m</i>	<i>n.m</i>	19.2	15.1	(21.5)	
<i>EBIT margin (%)</i>	<i>(0.0)</i>	<i>3.0</i>	<i>(5.8)</i>	<i>-8.8</i> <i>ppts</i>	<i>-5.8</i> <i>ppts</i>	<i>4.1</i>	<i>2.9</i>	<i>-1.2</i> <i>ppts</i>	
EI	18.1	5.8	0.0			10.5	5.8		
Int expense	(6.9)	(5.2)	(4.6)	(10.5)	(32.9)	(20.1)	(16.0)	(20.5)	Jaks has pared down its debt with the disposal of land and also funds raised from previous placements
Pretax profit	11.2	6.0	(11.9)	<i>n.m</i>	<i>n.m</i>	9.6	4.9	(48.9)	
Tax	(1.3)	(1.0)	(0.1)	(89.2)	(91.4)	(1.9)	(1.6)	(15.8)	
<i>Tax rate (%)</i>	<i>11.6</i>	<i>17.2</i>	<i>(0.9)</i>	<i>-18.1</i> <i>ppts</i>	<i>-12.5</i> <i>ppts</i>	<i>19.6</i>	<i>32.3</i>	<i>+12.7</i> <i>ppts</i>	
Minority interests	(0.3)	7.7	9.2	19.3	>100	11.4	24.5	>100	
Net profit	9.7	12.7	(2.8)	<i>n.m</i>	<i>n.m</i>	19.2	27.8	45.0	
EPS	2.1	2.4	(0.5)	<i>n.m</i>	<i>n.m</i>	4.2	5.5	31.4	
Core net profit	0.4	6.9	(2.8)	<i>n.m</i>	<i>n.m</i>	17.5	22.0	25.4	Below ours and consensus

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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 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com