

Continues to perform

Jaks Resources (JAKS) reported a decent set of results, 1H19 numbers – core PATAMI of RM76m (+206% yoy), beat both market consensus and our forecasts, delivering 67% of both estimates. The increase in liquidated ascertained damage (LAD) charges was lower than our expectations, and contributed to the earnings surprise. Its Vietnam power plant project is on track to be completed by 2019/20. We are reaffirming our BUY call and 12-month target price of RM1.00, as we believe Jaks' earnings delivery is sustainable.

Vietnam power-plant progress continues to be on track

Revenue from its EPC contract has fallen by 11% qoq to RM226m in 2Q19. But management has guided that the progress for its power plant remains on track. Hence, we are maintaining our target completion rate unchanged at 83% for 2019. Although the revenue recognition is peaking based on the S-curve, there is still some variation during some quarters, as the quarters are dependent on delivery of the machinery. Based on the current progress, we still do not discount that the power plant (first unit) could be completed ahead of schedule, ie, before mid-2020. The EPC contract continues to be the key driver for Jaks' earnings growth in 2019/20.

Still waiting for the CCC

Despite the better-than-expected results, we maintain our EPS forecasts, as we believe the LAD charges are likely to increase in coming quarters. We had previously expected Jaks to start delivering the keys by June. However, management is now guiding that the handover for the Pacific Star project is more likely to occur by year-end. Management also mentioned that the Star Tower is completed and is awaiting the Certificate of Completion and Compliance (CCC) from the government authorities.

Reaffirm BUY call and TP of RM1.00

We are keeping our forecasts unchanged, despite the better-than-expected operating performance, as we are assuming higher LAD charges in the coming quarters. We are maintaining our SOTP-based 12-month TP at RM1.00 and reaffirming our BUY call on Jaks for its undemanding valuation. We believe a near-term catalyst would be the handover of The Star Tower within the next few months. Downside risks to our call are: 1) wider losses from its property segment; 2) slower earnings recognition on its Vietnam EPC contract; and 3) equity dilution from possible fund raising.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue (RMm)	676.9	740.5	1,290.8	658.0	312.7
EBITDA (RMm)	63.0	38.7	144.0	131.4	126.8
Pretax profit (RMm)	112.2	(43.4)	119.4	106.9	102.2
Net profit (RMm)	126.7	15.1	114.5	96.7	120.9
EPS (sen)	26.7	2.9	19.6	16.5	20.7
PER (x)	3.1	28.7	4.2	5.0	4.0
Core net profit (RMm)	37.1	34.8	114.5	96.7	120.9
Core EPS (sen)	7.8	6.6	19.6	16.5	20.7
Core EPS growth (%)	26.8	(15.8)	197.8	(15.5)	25.0
Core PER (x)	10.5	12.5	4.2	5.0	4.0
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)	11.5	23.3	5.3	5.8	6.4
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Jaks Resources

JAK MK

Sector: Utilities

RM0.82 @ 21 August 2019

BUY (maintain)

Upside: 22%

Price Target: RM1.00

Previous Target: RM1.00



Price Performance

	1M	3M	12M
Absolute	+3.1%	+16.3	-15.5%
Rel to KLCI	+7.3%	+17.0	-4.7%

Stock Data

Issued shares (m)	643.1
Mkt cap	527.4/126.2
Avg daily vol - 6mth (m)	7.4
52-wk range (RM)	0.41-1.08
Est free float	82.5%
BV per share (RM)	1.48
P/BV (x)	0.55
Net cash/(debt) (RMm)	(305.4)
ROE (2019E)	14%
Derivatives	No
Shariah Compliant	No

Key Shareholders

Ang Lam Poah	11.8%
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Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q18	1Q19	2Q19	QoQ % chg	YoY % chg	1H18	1H19	YoY % chg	Comment
Revenue	178.3	297.8	315.4	5.9	76.9	388.5	613.2	57.8	Mainly driven by Vietnam EPC construction work.
Op costs	(169.9)	(238.5)	(271.7)	13.9	59.9	(359.3)	(510.2)	42.0	
EBITDA	8.4	52.3	31.5	(39.8)	273.9	29.2	83.8	186.9	
<i>EBITDA margin (%)</i>	<i>4.7</i>	<i>17.6</i>	<i>10.0</i>	<i>-7.6</i> <i>ppts</i>	<i>+5.3</i> <i>ppts</i>	<i>7.5</i>	<i>13.7</i>	<i>+6.2</i> <i>ppts</i>	The improvement in margin is partly due to LAD being recognised off revenue instead of operating costs in previous quarters.
Depreciation	(3.0)	(4.9)	(1.7)	(65.5)	(44.7)	(6.8)	(6.6)	(3.8)	
EBIT	5.4	47.4	29.8	(37.1)	454.2	22.4	77.3	245.0	
<i>EBIT margin (%)</i>	<i>3.0</i>	<i>15.9</i>	<i>9.5</i>	<i>-6.5</i> <i>ppts</i>	<i>+6.4</i> <i>ppts</i>	<i>5.8</i>	<i>12.6</i>	<i>+6.8</i> <i>ppts</i>	
EI	5.8	(19.7)	0.0	n.m	n.m	5.8	(19.7)	(440.4)	The exceptional loss in 1Q19 was related to the share compensation.
Int expense	(5.2)	(4.9)	(5.4)	10.0	5.2	(11.4)	(10.4)	(9.1)	
JV	0.0	0.0	(0.1)	n.m	n.m	0.0	(0.1)	n.m	
Pretax profit	6.0	22.8	24.4	7.2	305.2	16.8	47.2	180.7	
Tax	(1.0)	(1.5)	(0.5)	(66.5)	(50.7)	(1.5)	(2.0)	38.1	
<i>Tax rate (%)</i>	<i>17.2</i>	<i>6.7</i>	<i>2.1</i>	<i>-4.6</i> <i>ppts</i>	<i>-15.1</i> <i>ppts</i>	<i>8.8</i>	<i>4.3</i>	<i>-4.5</i> <i>ppts</i>	
Minority interests	7.7	7.4	13.4	81.6	72.9	15.2	20.8	36.2	
Net profit	12.7	28.6	37.3	30.3	192.8	30.6	65.9	115.5	
EPS	2.4	5.0	5.0	26.0	160.2	6.1	11.4	88.3	
Core net profit	6.9	38.7	37.3	(3.6)	437.6	24.8	76.0	206.6	Above consensus and our expectations.

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

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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