Vietnam contribution continue to increase

Result Note

Jaks Resources (JAKS) PATAMI of RM17.8m (+136% yoy) came in slightly below expectation, delivering only 20% of our full year forecast, but we are expecting stronger earnings contribution from the Vietnam EPC contract ahead. Although we have lowered our TP to RM1.90, on the back of 11.5%-12.5% EPS cut, to factor in the enlarged share base and higher losses from the property segment, we still believe the stock is undervalued trading at only 8.8x 2019E PER. Maintain BUY.

Vietnam continues to deliver

The Vietnam EPCC contract remains the main earnings driver for Jaks, as it contributed around RM25.2m (+69% yoy) to the group profit. We are expecting stronger progress recognition in the coming quarters, as they will start receiving equipment that are fabricated offsite and contribution in 1Q tends to be seasonally lower too due to the festive season. Management is guiding that the project is still on track to start commercial operations by 2020. Construction earnings from the EPCC contract is expected to peak in 2019.

Future in Vietnam, but needs to fix local problem first

The property segment continues to be the drag for the group due to the LAD cost (RM7.6m in 1Q, +5.6% qoq and 24.6% yoy) associated to the late delivery of the Pacific Star project and the loss making mall. We are expecting the LAD cost to minimize in 2019 with the project completion by 2018. Management has also indicated that they are actively exploring several renewable energy (RE) projects in Vietnam, which will help to compensate for the shortfall in construction earnings in 2020.

Maintain BUY with lower TP of RM1.90

We maintain our BUY call on JAKS, despite lowering our RNAV-based 12-month TP of RM1.90. We believe that the stock valuation is still undemanding, trading only at 8.8x 2019E PER, despite lowering our EPS by 11.5%-12.5% for FY18-20E mainly to factor in the enlarged share base post the 10% placement exercise. 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	81.4	115.8	59.7
Pretax profit (RMm)	(6.9)	112.2	56.8	91.2	107.2
PATAMI (RMm)	0.8	126.7	77.0	84.2	96.9
EPS (sen)	0.2	26.7	15.5	17.0	19.5
PER (x)	826.2	5.6	9.7	8.8	7.7
Core net profit (RMm)	27.0	37.1	77.0	84.2	96.9
Core EPS (sen)	6.2	7.8	15.5	17.0	19.5
Core EPS growth (%)	>100	26.8	98.5	9.5	15.1
Core PER (x)	24.4	19.2	9.7	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)	19.8	16.6	12.0	8.9	16.1
Chg in EPS (%)			(12.5)	(12.1)	(11.5)
Affin/Consensus (x)			1.0	1.0	0.8

Source: Company, Affin Hwang forecasts, Bloomberg

Jaks Resources

JAK MK
Sector: Utilities

RM 1.50 @ 23 May 2018

BUY (maintain)

Upside: 27%

Price Target: RM 1.90

Previous Target: RM 2.05 (pre-placement RM2.25)

Price Performance

	1M	3M	12M
Absolute	6.4%	-11.2%	-5.1%
Rel to KLCI	10.9%	-8.4%	-7.0%

Stock Data

Issued shares (m)	546
Mkt cap (RMm)/(US$m)	819/206
Avg daily vol - 6mth (m)	2.7
52-wk range (RM)	1.25-1.84
Est free float	54.6%
BV per share (RM)	1.43
P/BV (x)	1.05
Net cash/ (debt) (RMm)	(399)
ROE (2018E)	9.4%
Derivatives	No
Shariah Compliant	No

Key Shareholders

Yew Yin Koon	21.1%
Lam Poah Ang	8.9%
Kit Pheng Tan	8.7%
Original Invention Sdn Bhd	5.4%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q17	4Q17	1Q18	QoQ % chg	YoY % chg	Comment
Revenue	154.8	210.7	210.2	*(0.3)*	*35.8*	Mainly driven by Vietnam construction revenue
Op costs	(142.2)	(186.4)	(189.4)	*1.6*	*33.2*	
EBITDA	**12.6**	**24.3**	**20.8**	*(14.4)*	*65.1*	Higher margin due to increase contribution from Vietnam EPC
EBITDA margin (%)	*8.1*	*11.5*	*9.9*	*-1.6ppt*	*+1.8ppt*	
Depreciation	(3.5)	(3.7)	(3.8)	*1.3*	*6.4*	Due to Evolve Concept Mall
EBIT	**9.0**	**20.6**	**17.0**	*(17.3)*	*88.1*	
EBIT margin (%)	*5.8*	*9.8*	*8.1*	*-1.7ppt*	*2.3*	
EI	0.0	88.0	0.0			
Int expense	(6.1)	(5.9)	(6.2)	*5.0*	*2.4*	
Pretax profit	**3.0**	**102.6**	**10.8**	*(89.5)*	*264.5*	
Tax	(0.3)	(0.3)	(0.4)	*68.5*	*30.4*	
Tax rate (%)	*11.4*	*0.3*	*4.1*	*+3.8ppt*	*-7.ppt)*	
Minority interests	4.9	5.1	7.5	*46.4*	*52.4*	Mainly due to the 51%-owned loss-making property segment
Net profit	**7.5**	**107.5**	**17.8**	*(83.4)*	*136.5*	
EPS	1.7	22.7	3.6	*(84.1)*	*109.9*	
Core net profit	**7.5**	**19.5**	**17.8**	*(8.5)*	*136.5*	Came in slightly below expectation, but expecting 2H18 to be stronger

Source: Affin Hwang, Company data

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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