

Malaysia Flash Note

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DBS Group Research . Equity

27 Aug 2020

IJM Corp (IJM MK) : BUY

Mkt. Cap: US\$1,071m | **3m Avg. Daily Val:** US\$1.9m

Last Traded Price (26 Aug 2020): RM1.23

Price Target 12-mth: RM2.20 (79% upside) (Prev RM2.50)

Analyst

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Bargain valuations

- 1QFY21 earnings below expectations
- Orderbook on stronger ground, Phase 2 award of Light City by year end
- Valuations at 0.5x BV too cheap to ignore – even below recent March lows
- BUY with lower SOP-based TP of RM2.20

Forecasts and Valuation

FY Mar (RMm)	2019A	2020A	2021F	2022F
Revenue	5,656	6,605	5,119	5,683
EBITDA	946	1,131	863	999
Pre-tax Profit	648	518	386	512
Net Profit	419	251	204	295
Net Pft (Pre Ex.)	419	251	204	295
Net Pft Gth (Pre-ex) (%)	19.8	(40.2)	(18.6)	44.9
EPS (sen)	11.5	6.89	5.61	8.12
EPS Pre Ex. (sen)	11.5	6.89	5.61	8.12
EPS Gth Pre Ex (%)	20	(40)	(19)	45
Diluted EPS (sen)	11.5	6.89	5.61	8.12
Net DPS (sen)	2.96	2.22	2.22	2.22
BV Per Share (sen)	263	265	268	274
PE (X)	10.7	17.9	21.9	15.1
PE Pre Ex. (X)	10.7	17.9	21.9	15.1
P/Cash Flow (X)	45.0	2.7	5.3	4.7
EV/EBITDA (X)	12.0	9.9	13.1	11.3
Net Div Yield (%)	2.4	1.8	1.8	1.8
P/Book Value (X)	0.5	0.5	0.5	0.4
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	4.4	2.6	2.1	3.0

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

1QFY21 earnings below expectations. IJM's 1QFY21 headline net profit came in at RM1.3m (-98% y-o-y). Stripping out some one-offs (largely unrealised forex gain and loss on disposal of property), 1QFY21 core net loss stood at c.RM87m. Three of its divisions were in the red – property, manufacturing and infrastructure. We deem this to be below our forecast and consensus estimate, as the severity of the movement control order (MCO) impact appears to be deeper than expected.

Property. Its property division registered a 1QFY21 pretax loss of RM10m vs. pretax profit of RM46m in 1QFY20. This was on the back of a 69% decline in 1QFY21 revenue to RM146m, due to the MCO period. 1QFY21 property presales came in at RM320m while its target is RM800m-1bn for FY21F on new launches of RM1.4bn. It is also looking to monetise some RM400m worth of low yielding land bank.

Construction. For 1QFY21, construction revenue and pretax profit plunged by 45% and 60% y-o-y to RM321m and RM16m respectively. 1QFY21 construction pretax margins stood at 5% vs. 1QFY20's 7%, in line below its broad guidance of margins of between 6% and 9% due to the MCO period. It has an outstanding orderbook of RM5.5bn as at 30 June 2020, with the earnings visibility for construction at about two years.



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Infrastructure. 1QFY21 pretax loss was RM11m (vs. RM44m pretax profit in 1QFY20) largely due to lower local and overseas tolled traffic volume as a result of the movement restriction measures implemented. Kuantan Port did register a pretax profit of RM21m (-32% y-o-y) while its Malaysian tollways pretax loss was RM11m vs. RM44m pretax profit in 1QFY20. For FY20, Kuantan Port's throughput was 26m FWT (vs. 20.5m FWT in FY19) and is anticipated to show some growth in FY21F.

Plantations. IJM Plantations' 1QFY21 registered a pretax profit of RM115m due to RM92m in unrealised forex gains. For 1QFY21, FFB production rose 19% y-o-y while CPO prices achieved was RM2,318/tonne (vs. RM1,921/tonne in 1QFY20).

Manufacturing. This division still showed challenging numbers with a 1QFY21 pretax loss of RM15m (vs. pretax profit of RM15m in 1QFY20) due to lower delivery of products during the MCO period.

Outlook

Cutting FY21-22F earnings by 30%/11%. This is to factor in the poorer-than-expected 1QFY21 results and our downward revisions for property sales, industry and infrastructure divisions profits.

Another Light City award by year end. IJM has won the first portion of Light City project. This is for the proposed construction and development of an 11-storey retail mall and convention centre in George Town, Penang for a contract sum of RM864.7m. The project is part of the development of the integrated waterfront mixed development project in Penang known as The Light City which will consist of a convention centre, retail malls, hotels, residential condominiums and offices. The second portion of hotels, residential condominiums and offices is worth RM500-550m that will bring the total construction value of the project to c.RM1.4bn. This portion is expected to be awarded by year end.

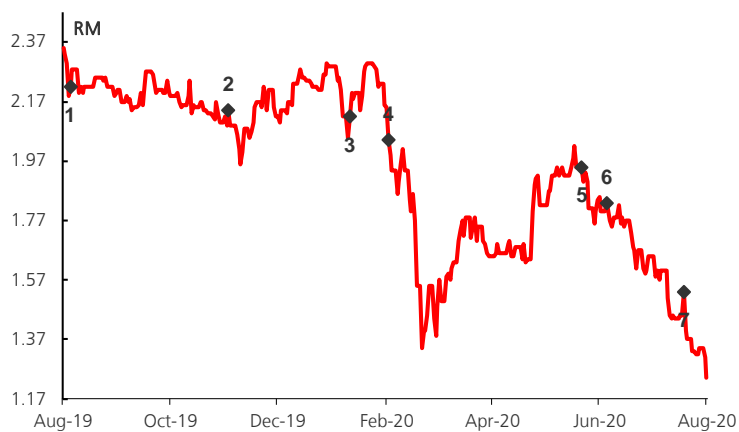
Valuation and Recommendation

BUY rating maintained. We are maintaining our BUY rating with a lower SOP-derived TP of RM2.20, as we scale back some margins assumptions for construction and property. Its valuation of 0.5x FY21F BV looks extremely cheap and is even trading at below its recent March 2020 lows. Its recent underperformance was partly due to its removal from the MSCI Global Standard Indexes. We expect the stock to be a key beneficiary of a revival in government spending that could be announced at the upcoming Budget 2021 in November. The sale of Scomi also removes a key overhang on the stock.

Flash Note
Quarterly Income Statement (RMm)

FY Mar	1Q2020	4Q2020	1Q2021	% chg yoy	% chg qoq
Revenue	1,544	2,047	880	(43.0)	(57.0)
Cost of Goods Sold	(1,300)	(1,679)	(736)	(43.4)	(56.2)
Gross Profit	244	368	144	(41.0)	(61.0)
Other Oper. (Exp)/Inc	(59.6)	(145)	40.8	(168.5)	(128.2)
Operating Profit	184	223	185	0.3	(17.4)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	14.0	(5.5)	(29.0)	nm	428.8
Net Interest (Exp)/Inc	(54.6)	(121)	(62.4)	(14.3)	48.6
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	143	96.6	93.2	(35.0)	(3.5)
Tax	(62.9)	(18.7)	(43.4)	(31.0)	132.1
Minority Interest	(21.1)	(6.6)	(48.5)	(130.4)	638.3
Net Profit	59.4	71.3	1.27	(97.9)	(98.2)
Net profit bef Except.	59.4	71.3	1.27	(97.9)	(98.2)
EBITDA	198	218	156	(21.4)	(28.6)
Margins (%)					
Gross Margins	15.8	18.0	16.3		
Opg Profit Margins	11.9	10.9	21.0		
Net Profit Margins	3.8	3.5	0.1		

Source of all data: Company, AllianceDBS

Target Price & Ratings History


S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Aug 19	2.22	2.65	BUY
2:	27 Nov 19	2.14	2.65	BUY
3:	04 Feb 20	2.12	2.65	BUY
4:	26 Feb 20	2.04	2.55	BUY
5:	15 Jun 20	1.95	2.50	BUY
6:	29 Jun 20	1.83	2.50	BUY
7:	12 Aug 20	1.53	2.50	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Malaysian Research Team

Flash Note

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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