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IJM back on profit growth track

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IJM Corp Bhd, a diversified conglomerate whose businesses include the construction, property, plantations and infrastructure sectors, seems to be getting back to its steady profit-growing ways.

After consecutively registering lower profits for the first three quarters of its financial year ended March 31, 2015, the company has been enjoying growth ever since.

Analysts are optimistic about the company's prospects going forward, with Affin Hwang Capital maintaining its earnings forecasts with core net profit growth of 6% year-on-year for its current financial year ending March next year.

The research house says it expects the company to register exceptional gains that can lift net profit to a record high.

"IJM completed the sale of its 70% stake in Swarna Tollway for RM441mil and realised a one-off gain of RM133mil on Oct 28, which will lift third quarter 2016 earnings.

"We believe IJM will pay a special dividend at the end of 2016 following gains realised from the sale of its Indian assets
(higher net yield of 3.8%)."

IJM's net profit for its second quarter ended Sept 30 rose 40% to RM156.38mil from RM111.49mil in the previous corresponding period, while revenue during the quarter increased to RM1.34bil from RM1.29bil a year earlier.

Public Invest Research says in its report that IJM's second quarter earnings came in above consensus expectations.

"Overall, contributions from all sectors were lower with the exception of its infrastructure division which was lifted by one-off gain from the 74% equity interest in Jaipur Mahua Tollway totalling RM168.7mil in the first quarter.

"The group's results were also lifted by unrealised foreign exchange (forex) gain of RM113mil, which helped to mitigate the forex losses in infrastructure division."

The research house adds that minus the forex gain, IJM's first half 2016 net profit was 57% and 53% of its and consensus estimates.

For the six-months ended Sept 30, the company's net profit increased to RM493.25mil from RM244.87mil in the previous corresponding period, while revenue however dipped to RM2.52bil from RM2.67bil a year earlier.

The company, in its notes accompanying its second quarter and second half earnings result for the current financial year, attributed the lower revenue during the six-month period to lower revenue from its property and plantation divisions.

Prospects for the company look stellar, given its outstanding order book of around RM7bil, says Public Invest Research.

"With the recent building job (Equatorial Hotel) secured, the group's outstanding order book is estimated to be in excess of RM7bil.

The second quarter and year-to-date pre-tax profit decreased by 11.8% and 12.6% respectively as most of the jobs are still in the early stages."

The research house notes that pre-tax profit margin decreased 7.9 percentage points to 9.6% as last year's margins were higher due to closing of accounts of the completed projects.

"Jobs eyed going forward include MRT2, LRT3, Pan Borneo and highways such as the Sungai Besi-Ulu Klang Elevated Expressway or SUKE and the Damansara-Shah Alam Elevated Expressway or DASH."

Hong Leong Investment Bank in its report noted that IJM's construction division was gaining traction, with revenue in the first half increasing 13% year-on-year, reflecting the execution of its all-time high order book of RM7bil.

"This implies a superior cover ratio of 7.8-times on its financial year 2015 construction revenue. Recognition is set to accelerate further in 2016 once major jobs such as the WCE and Deepwater Terminal cross the 10% completion mark. Despite its record orderbook, IJM is still eyeing new jobs such as the MRT Line 2, SUKE, DUKE, LRT3 and other private sector development jobs."

Lower on property

In its notes accompanying its second quarter earnings, IJM said prospects for its property division is expected to remain challenging due to the weak consumer sentiment from the effect of the implementation of the goods and services tax, lower oil price and weaker ringgit, coupled with the continued stringent domestic mortgage approval.

Public Invest Research said property revenue and pre-tax profit both dropped by 43.2% and 24.6% respectively during the second quarter due to the difficult trading environment plaguing the sector currently.

"New sales, however was higher at RM350mil in the second quarter as compared to the first quarter (RM300mil). That said, we believe that it will be challenging for the group to match the RM1.7bil sold in 2015.

"Unbilled sales stood at RM1.7bil. Projects in the pipeline include new phases in The Light, Bandar Rimbayu and Pantai Sentral Park."

Meanwhile, IJM Corp's subsidiary, IJM Plantations Bhd, reported a net loss of RM4.94mil in its second quarter ended Sept 30, compared with a net profit of RM27.10mil in the previous corresponding period, while revenue in the second quarter dropped to RM145.14mil compared with RM173.73mil a year earlier.

The company attributed weaker performance to lower commodity prices and lower sales volume.

Public Invest Research said IJM Corp's infrastructure division was the sole performer for the group with improved performance of its local tollways and ports.

"However, performance was dragged by forex losses year-to-date for its US dollar-denominated borrowings which are used to finance investments in India. IJM plans to dispose the remaining Indian tollways with total cash proceeds of US$232mil (RM1bil) expected.

"The Swarna Tollway disposal was completed recently and expected to yield a RM140mil one-off gain in the third quarter, hence our 2016 earnings are adjusted by an increase in 19% to account for this and forex changes."