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Page 1 of 1

## IJM's working capital surplus indicative of earnings growth

**KUCHING:** IJM Corporation Bhd's (IJM) working capital surplus is a strong indicator of an impending earnings growth says research arm MIDF Amanah Investment Bank Bhd (MIDF Research).

According to MIDF Research, IJM has recorded an average working capital of RM5.3 billion since 2013 and a working capital surplus is an anchor and leading indicator to the group's overall profitability.

"For example, in the second quarter of financial year 2014 (2QFY14) to 3QFY14, working capital recorded an increase of 41.1 per cent quarter over quarter (q-o-q) from RM3.4 billion to RM4.8 billion.

"This is followed by another bump-up of 22.9 per cent q-o-q in the working capital surplus in next quarter from RM4.8 billion to RM5.9 billion.

"The steady rise of working capital evolved into the EBITDA

growth in 4Q14 to 2Q15.

"During the same period IJM's share price advanced and its fundamentals improved developing a positive spread between return on invested capital (ROIC) and weighted average cost of capital (WACC)," said the research arm in a corporate update.

MIDF Research went on to explain that IJM's constructive surge in ROIC during 2QFY14 to 2QFY15 is an impact of earnings

crystallisation through surplus working capital of the corresponding period.

"Furthermore, weighing that construction segment has contributed to circa 30 per cent of revenue for the past 4 years, working capital is an important ingredient to for IJM to clinch projects and maintaining its profitability and maintaining construction's segmental revenue," added the research arm.