

▶ IJM CORP BHD				
FYE MARCH	FY17	FY18	FY19	FY20
REVENUE (RM mil)	6,065	6,146	6,250	6,400
NORM PATAMI (RM mil)	653.7	494	510	550
EPS (sen)	18	34	29	31
PER (x)	16.82	8.85	10.38	9.71

IJM's working capital surplus of RM5.3b sets the stage for profitability

► Recommendation: Buy

TARGET Price: RM4
by MIDF Research (Feb 5)

Investment Highlights

- **WORKING** capital still in surplus.
- Ebitda growth emanated from strong working capital.
- Ebitda set to rebound.
- Positive orderbook replenishment.

Working capital surplus. Since 2013, IJM Corp Bhd's has recorded an average working capital of RM5.3b, the working capital surplus is an anchor and a leading indicator to the company's profitability.

For example, in 2QFY14 to 3QFY14, working capital recorded an increase from RM3.4b to RM4.8b (+41.1% QoQ). This is followed by another bump-up in the working capital surplus in 3QFY14 to 4QFY14 from RM4.8b to RM5.9b (+22.9% QoQ).

Evolved into Ebitda growth. The steady rise of working

capital evolved into the Ebitda growth in 4Q14-2Q15.

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. The spread indicates the importance of working capital in determining the direction of IJM's profitability.

The constructive surge in ROIC from 2QFY14 to 2QFY15 in an impact of earnings crystallisation through surplus working capital of the corresponding period.

Ebitda set to rebound. Furthermore, weighing that construction segment has contributed to 30% of revenue for the past four years, working capital is an important ingredient to for IJM to clinch projects and maintaining its profitability and maintaining construction's segmental revenue.

Moving forward, working capital levels may seem to be stagnating for the past three

quarters but we see this as an inherent strategy by the management to beef up the working capital by building quality receivables.

IJM's current outstanding orderbook is RM9.3b, which will set the stage for a rebound in its Ebitda level should the current working capital of RM6.9b increases by +20% to RM8.28b.

The working capital growth signals the increase in Ebitda thus we believe that the crystallisation of IJM's orderbook to its working capital potentially will be reflected in 2QFYE19's earnings.

Positive orderbook replenishment. We are positive that IJM will continue to replenish its orderbook by another RM1b for FYE18.

Evaluating its key position in Malaysia-China Kuantan Industrial Park and the Kuantan Port, we reckon that IJM would potentially bag civil works related to East Coast Rail Link in Gambang vicinity in 4QFY18.