



## IJM's track record seen helping it to get jobs

### **IJM Corp Bhd** **(July 13, RM1.78)**

**Maintain buy with an unchanged target price of RM2.23:** The finance ministry (MoF) has announced that the final cost of the light rail transit 3 (LRT3) will be RM16.63 billion.

Among the steps taken for cost rationalisation include cancellation of an unnecessary 2km tunnel for the LRT3, together with an underground station in Persiaran Hishamuddin, Shah Alam, and extending the timeline to complete the LRT3 project from 2020 to 2024.

To recap, IJM Corp Bhd announced earlier that its wholly-owned subsidiary IJM Construction Sdn Bhd had accepted the letter of acceptance from Prasarana Malaysia Bhd to undertake the design, construction and completion of the

underground tunnel, stations, ancillary buildings and other associated works for the underground package of the LRT3 on March 13, 2018. The contract sum is RM1.12 billion and the completion period of the project is 31 months, ending in April 2021.

After verifying with the group, we learnt that the mentioned underground package in the MoF announcement is referring to the underground package awarded to IJM earlier.

We understand that the package is under review in order to bring down the cost.

According to management, should the work package be either remained underground or above-ground, the group will be compensated accordingly. As such, IJM will still be doing the job but with a different scope.

If the mentioned stretch is revised to above-ground, we believe the order book could be reduced by RM743.8 million (in general, the elevated portion costs roughly one-third of the underground portion) to RM8.63 billion from RM9.4 billion.

In addition, the completion period could be extended by 36 months to 70 to 80 months in view of the extending timeline of completion for the LRT3 project to 2024.

Besides that, we believe the margin for above-ground will be lower compared to the initial plan for it to be underground. Assuming a net margin of 4%, we expect the project to contribute RM15.4 million to the group, or equivalent to earnings per share of 0.43 sen spanning across FY19 to FY24.

We maintain our earnings forecasts, pending further details of the revised work scope.

Our fair value for IJM also implies 16 times FY19 price-earnings ratio.

We still favour the group for its well-diversified business model, which cushions the downside risk of the cyclical nature of the individual segmental business.

The construction industry is now facing headwinds in view of fewer megaprojects. Therefore, contractors are competing among themselves with limited jobs, which could lead to margin compression.

However, we believe IJM has the know-how and experience in tendering jobs based on its proven track record. — *JF Apex Securities, July 13*