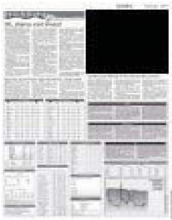

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IJM to thrive under new regime despite review of infra projects

KOTA KINABALU: IJM Corporation Bhd (IJM) has been projected by analysts to thrive under the new regime, despite the ongoing review of infrastructure projects by the government.

According to Affin Hwang Investment Bank Bhd (AffinHwang Capital), IJM is facing challenges for its construction, concrete product manufacturing, property and plantation operations.

"The ongoing review of infrastructure projects by the government will slow down the roll out of new public-sector construction contracts," Affin Hwang said.

"However, we believe IJM will thrive under the new regime as the new Works Minister says future government contracts will be awarded on an open tender basis, levelling the playing field for IJM since it has won nearly all its ongoing projects via open tender."

The research firm highlighted that this division is expected to remain the largest earnings contributor to IJM in financial year 2019 estimates (FY19E), supported by its high order book of RM9.4 billion.

"It is bidding for three building projects in Klang Valley and is targeting to secure at lease RM1 billion worth of new contracts in FY19E.

"Remaining order book of RM9.4 billion, equivalent to four-fold FY18 construction revenue, will sustain its construction earning growth."

As such, AffinHwang Capital opined that IJM is in a good position to weather the cyclical domestic construction downturn given the group's diversified construction expertise, competitiveness and geographical diversification.

Meanwhile, it noted that IJM's concrete product manufacturing business faces stiff price competition for its small diameter piles while there is cost pressure from high long steel product prices.

The research firm further noted that the group's property division is seeing pressure on profit margin due to weak demand in the prolonged market downturn.

"But it has the advantage of low land cost and able to sustain its operation via staggered launches of mostly landed homes.

"Its plantation operation will see higher crude palm oil (CPO) production as its Indonesian plantations start to mature."

That said, the research firm pointed out that lower average selling prices and higher tax rate will hold back earnings growth.