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Page 1 of 1

IJM to bid for 3 projects in Klang Valley worth RM1b

▶ IJM CORP BHD				
FYE MARCH 31	2018	2019E	2020E	2021E
REVENUE (RM mil)	6,027	6,476	6,759	6,575
NET PROFIT (RM mil)	350	488	534	546
EPS (sen)	9.6	13.5	14.7	15.1
PER (x)	18.2	13.1	12.0	11.7

▶ Recommendation: Buy

TARGET Price: RM2.48

by Affin Hwang Investment Bank Bhd (July 9)

Highlights

IJM Corp Bhd is scheduled to start operating the Kuantan Port New Deep Water Terminal (NDWT) Phase 1A in September 2018 and Phase 1B in June 2019. Phase 1 will increase the port's capacity by 50% to 39m tonnes pa and drive long-term growth.

However, higher interest expense and depreciation will likely lead to port earnings declining 35% YoY in FY19E.

We cut FY19-FY21E EPS by 6%-8% to reflect lower port and plantation earnings.

Maintain 'Buy' with a reduced target price (TP) of RM2.48, based on 10% discount to RNAV.

Expanding port operation. Alliance Steel (M) Sdn Bhd has started commissioning its RM5.6b new plant in Malaysia-China Kuantan Industrial Park (MCKIP) to produce up

to 3.5m tonnes pa of long steel products.

The starting up of a dedicated berth at NDWT Phase 1A to provide port facilities to the plant will ease the import of raw material and export of steel products.

The development of MCKIP will support the increase in capacity for NDWT with Phase 1B and eventually Phase 2, which will double the cargo handling capacity of Kuantan Port.

Ongoing review of projects creates uncertainty. The ongoing review of infrastructure projects by the government has led to some uncertainties in the orderbook replenishment prospects of IJM.

However, IJM is in a good position to weather the cyclical domestic construction downturn given its diversified construction expertise, competitiveness and geographical diversification.

It is bidding for three building projects in the Klang Val-

ley and is targeting to secure at least RM1b worth of new contracts in FY19E.

Remaining orderbook of RM9.4b, equivalent to 4x FY18 construction revenue, will sustain its construction earning growth.

Cut in earnings. We cut our EPS by 6%-8% in FY19-21E to reflect lower plantation and port earnings. We reduced IJM Plantation Bhd's earnings forecasts recently to reflect lower production growth, slower decline in production costs, as well as higher effective tax rate assumption.

Reiterate 'Buy'. We reduce our RNAV/share estimate to RM2.75 from RM2.82 previously to reflect lower valuation for its plantation division. This is partly offset by higher valuation for its port given stronger long-term free cash-flow after factoring higher cargo throughput growth.

Based on the same 10% discount to RNAV, we cut our TP to RM2.48 from RM2.54.