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IJM's diverse interests should counter sector-specific cycles

IJM Corp Bhd
(Nov 29, RM3.06)

Maintain buy call with a lower target price of RM3.51 per share: IJM Corp Bhd's first half of financial year 2018 (1HFY18) core net profit (CNP) of RM250.5 million missed expectations at only 41% and 38% of our full-year forecast and the full-year consensus estimates respectively. We believe the key variance against our forecast came from the weaker-than-expected plantation and building material profits.

1HFY18 CNP eased 3% year-on-year. Higher profits from construction (backed by a record order backlog), infrastructure (driven by a 41% increase in cargo throughput at the ports) and property (due to a low base previously on foreign exchange [forex] losses), were offset by weaker performance from plantation (due to higher-than-expected replanting and harvesting costs and a high base previously on forex gains) and manufacturing (hurt by increases in input costs and a product mix for piles that was skewed towards low-margin small-diameter ones).

Year to date, IJM has already secured new construction jobs worth a total of RM2.9 billion, which is fairly consistent with our assumption of RM3 billion job wins annually in FY18-FY20F (forecast). It currently sits on a record construction order book of RM9.4 billion. IJM said that it is looking forward to participating in the East Coast Rail Link (ECRL) project. Also, The Light City integrated project (part of Phase 2 of The Light Waterfront Penang) currently developed by a joint venture between IJM and Singapore-based developer Perennial Real Estate, will generate

some RM1.5 to RM2 billion internal construction works for IJM.

IJM said that its FY18 property sales are on track to surpass the RM1.4 billion it achieved in FY17, having already recorded RM770 million sales in 1HFY18. It will continue to focus on small, linked homes in Rimbayu (from RM622,000 per unit), and affordably priced high-rise residential projects in Segambut (RM500 a sq ft) and Penang (RM800 a sqft). Its unbilled property sales now stand at RM2 billion.

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We like IJM as it is a good proxy to the booming local construction sector given its involvement in key infrastructure projects such as the West Coast Expressway, mass rapid transit Line 2 (MRT2) and the Kuantan Port Deepwater Terminal. Also, IJM is poised to garner a slice of action in the light rail transit Line 3, Gemas to Johor Baru double tracking and the ECRL, based on its forte and track record in rail projects (Seremban to Gemas double tracking, Delhi Metro, MRT1).

IJM's diverse business interests, spanning a wide range of sectors that also include property, plantation, building materials, toll roads and ports, should help counter sector-specific cyclical downturns, resulting in better earnings stability over the long term. — *AmInvestment Bank, Nov 29*