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IJM's 2QFY18 results elicit mixed response from analysts, key difference stems from plantation and property

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KUCHING: Analysts across the board are mixed over IJM Corporation Bhd's (IJM) second quarter of financial year 2018 (2QFY18) results, with some declaring that expectations were missed while others said they were within expectations.

AmInvestment Bank Bhd (AmInvestment Bank) shared that IJM's core net profit of RM250.5 million in its first half of FY18 (1HFY18) has sorely missed expectations, meeting only 41 and 38 per cent of theirs and consensus full-year forecasts respectively.

"We believe the key variance against our forecast came from the weaker-than-expected plantation and building material profits," said the bank.

Similarly, MIDF Amanah Investment Bank Bhd (MIDF Research) reported in a separate report that IJM's net profit for the first six months of FY18 (6MFY18) has accounted for only 36.2 and 36.6 per cent of theirs and consensus' full-year forecasts respectively.

However, the research arm instead attributed the negative deviation to the unexpected decline in IJM's planation and infrastructure segments on the back of a higher tax rate which saw a +4.5 point increase to 32.0 per cent.

Based off MIDF Research's report, IJM's profit before tax (PBT) in its plantation segment saw a drop of -26.0 per cent year over year (y-o-y) to RM18.2 million, while its infrastructure segment saw a drop of -19.0 per cent y-o-y to RM35.7 million.

The negative impact was however partially offset through the positive performance of IJM's property segment whose PBT saw a +40 per cent increase y-o-y to RM34.2 million and industry segment which saw a 22.0 per cent increase y-o-y to RM27.4 million.

The two analysts agreed that the underperformance of IJM's plantation segment was primarily due to higher-than-expected productions cost, while AmInvestment Bank pointed out that that IJM's building materials segment was hurt by increases in input costs and a product mix for piles that was skewed towards low-margin small-diameter ones.

In light of the weaker-than-expected performances of some of IJM's segments, AmInvestment Bank has decided to cut its FY18, FY19 and FY20 earnings forecasts for the group by 18, 9 and 5 per cent respectively.

On the other hand, MIDF Research is maintaining their earnings forecasts for now as they reckon that the deviation in key segments such as infrastructure and plantation is due to their cyclical nature stemming from bauxite demand and weather patterns.

"Hence, we are not overly concerned unless the trend is repetitive for the next two quarters," said the research arm.

Looking forward, IJM's construction and property segments are looking promising as AmInvestment Bank guides that year-to-date (Ytd), the group has already secured new construction jobs worth a total of RM2.9 billion, which is in line with their assumption of RM3.0 billion in job wins for FY18.

"It currently sits on a record construction order book of RM9.4 billion, and IJM has said that it is looking forward to participating in the East Coast Rail Link (ECRL) project.

"Also, the Light City integrated project which is currently developed by a joint-venture between IJM and a Singapore-based developer will generate some RM1.5 to RM2.0 billion in internal construction works for IJM," said the bank.

And having already recorded RM770 million in property sales in 1HFY18, the group's FY18 property sales are on track to surpass the RM1.4 billion threshold it achieved in FY17.

MIDF Research guides that they are confident that the group's property projects, Riana South, Bandar Rimbayu and Seremban 2 will continue to do well in sales due its affordable price range between RM350,000 to RM750,000.

"Apart from that, we reckon that the property market will soften in FY18 due to the recent doldrums on luxury property sale price of over RM1.0 million.

"Hence, property offered by IJM with a reasonable price range will still be on the safe side," said the research arm.

All in, both analysts are still very optimistic on IJM's performance moving forward despite the weaknesses in certain key segments.