

24 February 2023

IJM Corp (IJM MK)

Steady Quarter But Lacking Catalysts

- **Maintain NEUTRAL and MYR1.59 TP, 1% upside with 3% FY24F (Mar) yield.** IJM's 9MFY23 (Mar) core earnings of MYR220.6m (+125% YoY) met our expectation but missed the Street estimate – accounting for 76% and 72% of full-year projections. The Mass Rapid Transit 3 (MRT3) project seems to be its sole catalyst in sight – with contract rollouts only expected in 2H23. As such, we believe that the stock is fairly valued. Our NEUTRAL stance is also premised on IJM's MYR4.6bn current orderbook – which is a far cry from the MYR9.4bn level recorded at the end of FY18.
- **Performance review.** IJM generated MYR1.1bn (-13% YoY) and MYR76.4m (-18% YoY) in revenue and core profit during 3QFY23. On a segmental basis, the PBT for the construction arm plunged by 75.4% YoY due to lower construction activities as some major projects were completed in the previous financial year, whilst new projects secured are presently in the initial stages of progress. Meanwhile, the property segment recorded a PBT growth of 28.2% YoY in 3QFY23 to reach MYR78.6 (3QFY22: 61.3m), due to a wider profit margin derived from its current portfolio of development projects. Also, the industrial segment's PBT jumped by more than 50% YoY, due to higher deliveries of piles and ready-mixed concrete coupled higher selling prices. In contrast, its infrastructure division saw a 53.4% YoY decline in PBT for 3QFY23 as the growth in Malaysia's tollway traffic was negated by lower cargo throughput at Kuantan Port and maintenance costs at overseas highways, in India.
- **Outlook.** The group's latest outstanding construction orderbook stood at MYR4.6bn (around three years' visibility) after including the four job wins in FY23 worth MYR1.1bn vs its internal job replenishment target of MYR3bn. Moving forward, IJM targets to replenish the remainder of its new job target via the three bids it has put in for the MRT3 civil packages and a few highway projects in India. Nevertheless, current orderbook levels are way below the MYR9.4bn level at end-FY18. Aside from that, the property development project will be supported by its unbilled sales of c. MYR3.4bn as at end-3QFY23 (end-3QFY22: MYR2.3bn).
- **Earnings and valuation.** We make no changes to our estimates as results met expectations. As such, our SOP-derived TP remains at MYR1.59, after ascribing a 0% ESG premium based on our in-house ESG methodology. With the restructuring of toll rates for the Kajang-Seremban Highway (LEKAS) and Sungai Besi Highway (BESRAYA) being completed in late CY22, IJM is in advanced talks with the Government to restructure the New Pantai Expressway (likely to be finalised in 2QCY23) – with the impact to be NPV-neutral.
- **Key downside risks** include failure to secure contracts and a prolonged period of elevated material costs. The opposite constitutes upside risks.

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover (MYRm)	4,687	4,409	5,722	5,792	5,884
Recurring net profit (MYRm)	267	162	290	317	340
Recurring net profit growth (%)	42.2	(39.3)	78.9	9.2	7.4
Recurring P/E (x)	21.51	35.46	19.82	18.14	16.89
P/B (x)	0.6	0.6	0.6	0.6	0.6
P/CF (x)	3.62	4.74	na	6.92	9.10
Dividend Yield (%)	2.8	0.8	3.0	3.3	3.6
EV/EBITDA (x)	8.06	9.17	9.13	8.38	8.06
Return on average equity (%)	3.3	1.0	2.9	3.1	3.3
Net debt to equity (%)	35.9	22.8	28.0	23.8	21.5

Source: Company data, RHB

Construction & Engineering | Construction

Neutral (Maintained)

Target Price (Return):	MYR1.59 (+1%)
Price (Market Cap):	MYR1.58 (USD1,249m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	2.23m/0.49m

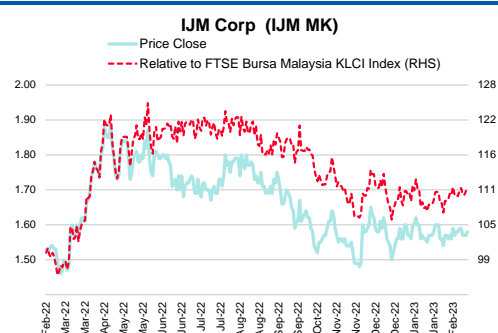
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.3)	0.6	6.0	(8.7)	3.3
Relative	0.8	3.0	4.6	(7.4)	11.0
52-wk Price low/high (MYR)				1.46 – 1.89	



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

In the group's latest annual report, IJM achieved a 13% increase in total carbon reduction compared to the previous year. The biggest reduction was seen in Scope 1 and Scope 3, at 39% and 56%. 40% of the energy consumed by the group was generated by renewable sources, eg biomass and solar energy.

S: GOOD

IJM is rated as good in this category. In 2020, its project sites conducted 384 on-job-training sessions for 1,429 participants – this involved employees and subcontractors. Among the topics covered were scheduled waste management, chemical arrangement, as well as the use of plant and machinery.

G: GOOD

70% of IJM's board members are independent, with disclosures on directors' remunerations – these include salaries and bonuses. IJM has an in-house investor relations team and holds regular investor meetings, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Malaysia	Recurring EPS	0.07	0.04	0.08	0.09	0.09
Construction & Engineering	DPS	0.04	0.01	0.05	0.05	0.06
IJM Corp	BVPS	2.74	2.73	2.76	2.80	2.83
IJM MK	Return on average equity (%)	3.3	1.0	2.9	3.1	3.3
Neutral						
Valuation basis	Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
As IJM is a conglomerate, we value the group based on its sum of parts, derived from a combination of P/E, DCF and RNAV valuation methodologies.	Recurring P/E (x)	21.51	35.46	19.82	18.14	16.89
	P/B (x)	0.6	0.6	0.6	0.6	0.6
	FCF Yield (%)	16.6	18.1	(7.6)	11.5	8.0
	Dividend Yield (%)	2.8	0.8	3.0	3.3	3.6
	EV/EBITDA (x)	8.06	9.17	9.13	8.38	8.06
	EV/EBIT (x)	12.56	14.56	16.46	15.07	14.66
Key drivers	Income statement (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
IJM's earnings are underpinned by construction orders, property sales, throughput volume at Kuantan Port, and income from its toll road concessions	Total turnover	4,687	4,409	5,722	5,792	5,884
	Gross profit	1,175	1,060	1,101	1,200	1,219
	EBITDA	1,222	854	935	974	990
	Depreciation and amortisation	(438)	(316)	(417)	(432)	(445)
	Operating profit	784	538	518	542	545
	Net interest	(146)	(248)	(44)	(45)	(32)
	Pre-tax profit	512	318	523	561	539
	Taxation	(79)	(183)	(138)	(124)	(128)
	Reported net profit	320	102	290	317	340
	Recurring net profit	267	162	290	317	340
Key risks	Cash flow (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Key downside risks include failure to secure contracts and a prolonged period of elevated material costs. The opposite constitutes upside risks.	Change in working capital	168	476	(1,062)	(19)	(230)
	Cash flow from operations	1,588	1,213	(264)	831	632
	Capex	(631)	(170)	(170)	(170)	(171)
	Cash flow from investing activities	(572)	137	(31)	(28)	(26)
	Dividends paid	(159)	(46)	(174)	(190)	(204)
	Cash flow from financing activities	(460)	(1,486)	(658)	(678)	(680)
	Cash at beginning of period	2,223	2,406	2,909	1,956	2,081
	Net change in cash	555	(136)	(953)	125	(74)
	Ending balance cash	2,655	2,270	1,956	2,081	2,007
Company Profile	Balance sheet (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
IJM Corp is a conglomerate with interests in construction, property, plantation, building materials and concessions.	Total cash and equivalents	2,406	2,909	1,956	2,081	2,007
	Tangible fixed assets	2,529	1,045	2,312	2,237	2,157
	Total investments	2,496	2,051	2,100	2,164	2,190
	Total assets	23,486	21,012	20,729	20,660	20,604
	Short-term debt	1,840	1,620	1,520	1,420	1,320
	Total long-term debt	4,942	3,899	3,699	3,499	3,299
	Total liabilities	11,298	9,551	9,058	8,741	8,480
	Total equity	12,188	11,461	11,672	11,919	12,125
	Total liabilities & equity	23,486	21,012	20,729	20,660	20,604
	Key metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Revenue growth (%)	(29.0)	(5.9)	29.8	1.2	1.6
	Recurrent EPS growth (%)	42.2	(39.3)	78.9	9.2	7.4
	Gross margin (%)	25.1	24.0	19.2	20.7	20.7
	Operating EBITDA margin (%)	26.1	19.4	16.3	16.8	16.8
	Net profit margin (%)	6.8	2.3	5.1	5.5	5.8
	Dividend payout ratio (%)	49.8	44.9	60.0	60.0	60.0
	Capex/sales (%)	13.5	3.9	3.0	2.9	2.9
	Interest cover (x)	3.95	2.16	2.83	2.89	3.09

Source: Company data, RHB

Results At a Glance

Figure 1: IJM's results review

FYE Mar (MYRm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY%	Comments
Revenue	1,268.0	1,071.9	1,101.1	2.7	(13.2)	3,176.5	3,245.7	2.2	Higher revenue seen in property development, manufacturing and quarrying.
EBITDA	261.2	235.9	308.4	30.7	18.1	625.8	774.3	23.7	
<i>EBITDA margin (%)</i>	<i>20.6</i>	<i>22.0</i>	<i>28.0</i>			<i>19.7</i>	<i>23.9</i>		
Interest expense	(44.4)	(58.6)	(62.0)	5.8	39.6	(138.3)	(171.8)	24.3	
Interest income	0.0	0.0	0.0			0.0	0.0		
Associates	19.2	(9.0)	(15.3)	70.0	(179.8)	(8.4)	(30.1)	260.1	
El/others	5.1	(44.6)	(1.6)	(96.4)	(131.2)	2.9	(85.3)	nm	
Pre-tax profit	158.6	88.8	147.8	66.4	(6.9)	249.1	327.8	31.6	
<i>Pre-tax margin (%)</i>	<i>12.5</i>	<i>8.3</i>	<i>13.4</i>			<i>7.8</i>	<i>10.1</i>		
Tax	(45.1)	(45.7)	(58.8)	28.6	30.4	(104.0)	(146.8)	41.2	
<i>Effective tax rate (%)</i>	<i>(32.3)</i>	<i>(46.7)</i>	<i>(36.0)</i>			<i>(40.4)</i>	<i>(41.0)</i>		
Minority interest	(15.1)	(16.1)	(14.2)	(11.8)	(6.1)	(44.0)	(45.8)	4.0	
Net profit	98.4	27.0	74.8	176.7	(24.0)	101.1	135.2	33.8	
Core profit	93.3	71.7	76.4	6.6	(18.1)	98.2	220.6	124.7	Within our expectations.
<i>Core net margin (%)</i>	<i>7.4</i>	<i>6.7</i>	<i>6.9</i>			<i>3.1</i>	<i>6.8</i>		

Source: Company data, RHB

Figure 2: IJM's segmental results

FYE Mar (MYRm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY%	Comments
Revenue:									
Construction	427.0	268.6	266.8	(0.7)	(37.5)	1,151.7	803.7	(30.2)	Lower construction activities as projects are still at the initial stage
Property	384.0	326.6	374.9	14.8	(2.4)	876.9	1,046.4	19.3	Higher work progress at its ongoing projects.
Industry	253.6	259.3	240.1	(7.4)	(5.3)	627.2	748.7	19.4	
Infrastructure	203.4	217.2	219.2	1.0	7.8	520.1	646.5	24.3	
Investment & others	0.1	0.3	0.1	(74.3)	(2.9)	0.5	0.4	(23.0)	
PBT:									
Construction	33.6	24.4	8.3	(66.1)	(75.4)	73.1	52.2	(28.6)	
Property	61.3	29.3	78.6	167.8	28.2	79.2	141.8	79.1	
Industry	17.2	50.6	33.2	(34.4)	93.3	43.3	115.1	165.9	
Infrastructure	46.1	(16.6)	21.5	(229.6)	(53.4)	49.6	7.7	(84.5)	
Investment & others	0.4	1.1	6.2	448.7	1,332.9	3.9	11.0	183.8	

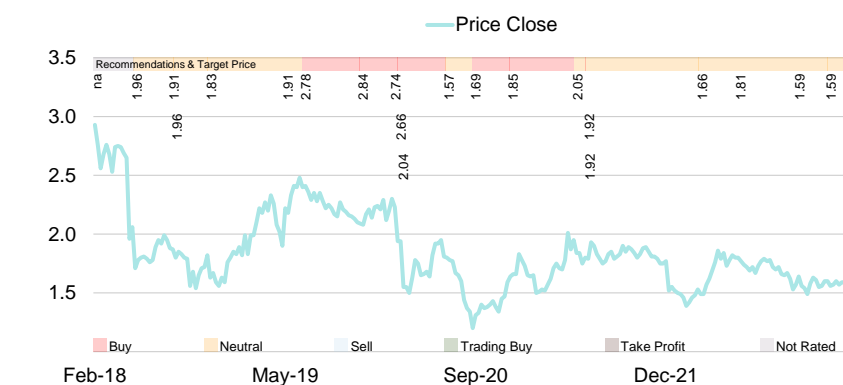
Source: Company data, RHB

Figure 3: SOP valuation

SOP component	Justification	Stake	Value to IJM (MYRm)	Value per share (MYR)
Construction	11.5x P/E FY24F	100%	1,191	0.33
Manufacturing/industry	8x P/E FY24F	100%	858	0.24
Toll concessions	DCF (WACC: 8.5%)	Various	2,397	0.66
Kuantan Port	DCF (WACC: 8.5%)	60%	833	0.23
Property	65% discount to RNAV	100%	2,788	0.77
Investment in WCE Holdings	Market value	27%	91	0.03
Total SOP			7,983	2.25
Holding company's discount	30%		(2,395)	-0.66
Intrinsic value per share			5,588	1.59
0% ESG premium			0	0.00
Target Price			5,588	1.59

Source: Company data, RHB

Recommendation Chart

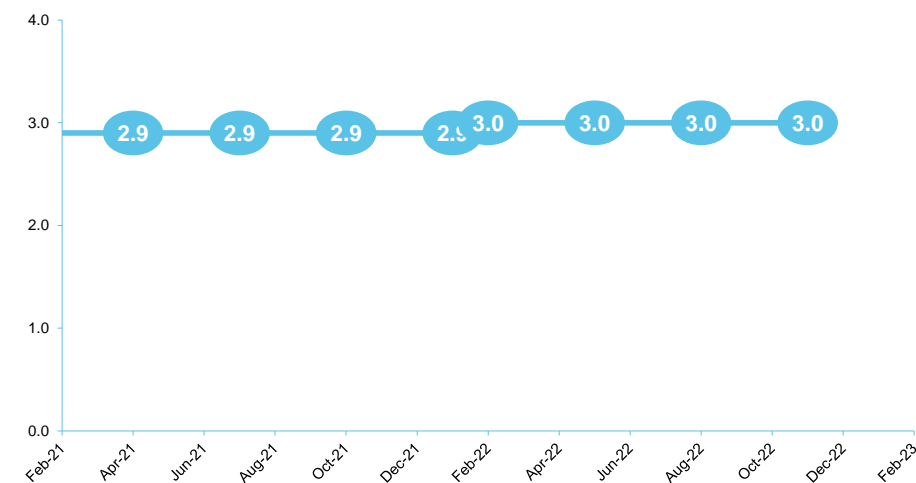


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-01-02	Neutral	1.59	1.60
2022-11-28	Neutral	1.59	1.58
2022-10-18	Neutral	1.59	1.55
2022-08-24	Neutral	1.81	1.74
2022-05-29	Neutral	1.81	1.80
2022-02-25	Neutral	1.66	1.53
2021-05-31	Neutral	1.92	1.77
2021-05-28	Buy	1.92	1.80
2021-04-30	Neutral	2.05	1.95
2020-11-26	Buy	1.85	1.65
2020-08-27	Buy	1.69	1.23
2020-06-29	Neutral	1.57	1.83
2020-06-22	Neutral	1.57	1.76
2020-03-03	Buy	2.04	1.90
2020-02-26	Buy	2.66	2.04

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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