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The Malaysian Reserve, Malaysia

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▶ IJM CORP BHD				
FYE MARCH	FY18A	FY19E	FY20E	FY21E
REVENUE (RM mil)	6,027	7,068	7,524	7,578
CORE NET PROFIT (RM mil)	379	464	495	502
CORE EPS (sen)	10.4	12.8	13.6	13.8
CORE PE (x)	25.7	13.4	12.5	12.4

IJM's plantation remains in the red but positive on new orderbook in FY19

▶ Recommendation: Hold

TARGET Price: **RM1.80**
by Maybank Investment Bank Bhd (Jan 10)

IJM Corp Bhd's plantation division is expected to continue to drag earnings in its 2HFY19.

Our core earnings forecasts are revised downwards by 1%-3% for FY19E-FY21E to take into account higher costs and lower crude palm oil (CPO) ASP assumptions for plantation.

With RM505m construction orderbook replenishment YTD FY19, our RM1b job win target is unchanged. We derive a lower SOP-TP of RM1.80; after i) pegging plantation to 1x P/BV; and ii) increasing our discount on infrastructure due to overhang on the tolled highways.

FY20 a better year for orderbook replenishment? Having only secured RM505m of job wins YTD FY19, we believe IJM is unlikely to achieve its internal RM2b job win target for FY19. Within our forecast, we have only assumed RM1b of job wins for FY19.

Remaining contract wins could come from hospital or building jobs. Positively, new orderbook in FY20 could come from the Central Spine Road, Penang Light City (Phase 2) and Klang Valley Double Track (Phase 2) projects.

As for the Klang Valley Light Rail Transit Line 3, we are still awaiting an official announcement on the details and quantum of cost down.

Plantation continues to drag. Checks with IJM suggest that its lower Malaysian fresh fruit bunches (FFB) production for 1HFY19 was largely caused by lower production from its Sugut estate in Sabah as a result of the delayed effect of El Nino. This, coupled with the lower CPO average selling price (ASP) of RM2,326/tonne (-14% YoY) and higher cost from replanting activities in 1HFY19 resulted in a 26% YoY drop in PBT for the Malaysian ops.

On the Indonesian front, production cost is likely to remain high in 2HFY19 from higher depreciation and overheads from its increasing young mature areas in Indonesia.

Revising earnings downwards. Our core earnings forecasts are lowered by 3%/3%/1% for FY19E/FY20E/FY21E respectively, largely after adjusting for higher production cost at plantations and lower CPO ASPs. With plantations to be in the red in FY19E, we now switch our valuation basis for plantations, pegging it to 1x P/BV (15x PE previously).

We also increase our discount factor to 50% (from 20%) for the infra segment due to lingering overhang on the highway concessions. Consequently, our SOP-TP is lowered to RM1.80 (from RM2).

With more than three decades of success, IJM holds leading positions across our diversified business divisions in construction, property, industry, plantation and infrastructure.