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## IJM Corp to face various headwinds

**KUCHING:** In a recent company report, analyst AmInvestment Bank Bhd (AmInvestment Bank) detailed that they are expecting IJM Corp Bhd (IJM) to be facing various headwinds, from both expected and unexpected sources.

These headwinds are mainly precarious performances from the group's key businesses such as building materials, property, toll roads and plantations.

According to the research arm, the plantation business no longer serves as a cushion against the cyclical earnings of other divisions such as construction and property.

"In fact, it has now become a source of volatility itself," said the research arm.

The current increased volatility in the plantations sector has been due to depressed CPO prices and the rupiah's steep depreciation against the USD.

While the research arm stated that they did not feel the eagerness on IJM's part to dispose of its 55 per cent stake in IJM plantations, management did convey that it is the duty of the board of directors to evaluate proposals being put on the table.

In IJM's construction and building material businesses, the surprise outcome of the GE14

and the more prudent running of the new government has cast a long shadow in these industries as mega-infrastructure projects continue to get downsized or scrapped.

That being said, its construction unit's earnings visibility still remains good over the short term due to order backlog of RM9.3 million. However, the value of the group's contracts of the MRT2 and LRT3 are still currently under review by the new government and may see losses if the project is downsized or scrapped.

"We remain cautious on the outlook for the local construction sector. As the government scales back on public projects, local contractors will be competing for a shrinking pool of new jobs in the market. Severe undercutting among the players will result in razor-thin margins for the successful bidders.

"On the other hand, the introduction of a more transparent public procurement system under the new administration should weed out rent-seekers, paving the way toward healthier competition within the local construction sector. We believe IJM is mitigated by its substantial order backlog that should keep it busy over the next two to three years, coupled with its proven

ability to compete under an open bidding system.

"However, we believe IJM Corp will only be able to fully capitalise on this strength during the next construction cycle, of which no one knows when that will be yet," said the bank.

Moreover, the bank detailed that there has been a knee-jerk slowdown in the foreign direct investment (FDI) in flow into Kuantan Port's hinterland as foreign investors acclimatise to the altered political landscape, temporarily restraining the new deepwater terminal (NDWT) of Kuantan Port from realising its full potential.

"We understand that the NDWT currently only caters to one customer - Alliance Steel - in the Malaysia-China Kuantan Industrial Park (MCKIP). Our forecast assumes Phase 1 to break even at the EBIT level in financial year 2019 to 2021, turnover could only absorb operating cost and depreciation, but not interest expense," said the bank.

The West Coast Expressway (WCE) which is currently over 50 per cent completed is expected to break even at the EBIT level in FY20-21, turnover could only absorb operating cost and depreciation, but not interest expense.