



IJM's current orderbook exceeds its peak in 2007 with solid jobs

▶ IJM CORP BHD				
FORECAST AND VALUATIONS	2018A	2019F	2020F	2021F
REVENUE (RM mil)	6,027	6,210	6,895	7,302
NET PROFIT (RM mil)	350	408	463	512
EPS (sen)	9.62	11.2	12.7	14.1
PE (x)	18.9	16.2	14.3	12.9

▶ Recommendation: Buy

TARGET Price: RM2.28
by AllianceDBS Research
Sdn Bhd (Nov 27)

IJM Corp Bhd's construction division is still solid in spite of some setbacks for its Light Rail Transit Line 3 and Mass Rapid Transit Line 2 projects.

Its current orderbook of c.RM8.8b has surpassed its peak of RM6.7b in 2007. More importantly, the quality of its orderbook is now solid, with predominantly local jobs.

Due to its diversified nature and peak orderbook, it will be less impacted by deferment/cancellation of large-scale infrastructure projects.

Where we differ. Given the changing landscape for construction where projects have been cancelled and cost revised lower, IJM's diversified and defensive nature, as well as strong execution track record make it a more attractive proposition. Moreover, while

its orderbook is at its peak, its internal job pipeline, focus on more rail and hospital jobs locally and its legacy in India provide another avenue to grow its orderbook.

Going forward, we expect incremental project wins to be sizeable at a minimum of RM500m per contract and such wins are likely to be margin enhancing. We estimate every RM1b increase in new contract wins (versus our base case) would raise FY19F EPS by 2%.

Key catalysts. We believe IJM's strong management and execution track record is a big plus in this changing construction market. Its strong balance sheet enables it to fund and participate in larger-scale projects without having to raise equity.

Moreover, its diversified nature and record orderbook are key advantages now. Surprisingly, its property division is also doing better than expected and managed to bring down inventory levels. Kuantan Port's throughput

may receive a lift with the lifting of the moratorium on bauxite exports and also higher volume from Alliance Steel (M) Sdn Bhd.

Valuation: Our valuation for IJM is based on sum-of-parts valuation given its diversified business portfolio. We value the construction business based on a combination of DCF and PE valuation methodologies, while its property and concession businesses are valued using DCF.

Key Risks

Better earnings delivery. We think any upside risk for the stock should stem from better earnings delivery.

Weaker than expected wins. We believe IJM will still be more selective when bidding for projects, given its peak orderbook. But IJM remains a reputable contractor with a strong execution track record and balance sheet, and may still be present in large-scale infrastructure projects when they are eventually implemented.



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Page 2 of 2

SUMMARIES

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