

Jaks Resources Bhd

A softer quarter

Summary

- Jaks Resources Bhd's (JAKS) 2QFY22 core net profit fell 47.0% YoY to RM15.3m, in absence of construction revenue from Vietnam that was already at tail end, while the higher finance costs and lower production rate also attributed to the weaker contribution from Vietnam joint venture. Revenue for the quarter slipped 76.6% YoY to RM9.7m.
- For 1HFY22, cumulative net profit fell 25.0% YoY to RM36.4m. The reported earnings came in at 30.7% of our forecasted core net profit of RM118.6m and 32.2% of consensus forecasted net profit at RM113.0m. The variance is mainly due to the weaker-than-expected contribution from Vietnam JV and delayed in recognition in certain construction projects. Still, we expect JAKS to declared dividends towards end-2022 as contribution from Vietnam JV stabilised.
- With the absence of orderbook replenishment in recent times, we expect a softer performance in the construction segment, while the balance EPC works at Vietnam is expected to be recognised only in 2HFY23. Moving forward, outstanding orderbook of more than RM200.0m will provide revenue visibility over the next 2 years. Meanwhile, JAKS tenderbook remain relatively unchanged at RM4.00bn, mainly in water infrastructure and building-related works.
- On the property investment segment, Pacific Towers Business Hub occupancy rate was unchanged from prior quarter at 31.0% will generate some mild contribution. JAKS remains committed over the re-purposing of Evolve Concept Mall (occupancy rate fallen to 52.0%, from 67.0% in 1QFY22). Nevertheless, occupancy rate in the latter is expected to improve after securing a number of car showrooms and food & beverage outlets, while an indoor basketball court will open in October 2022.
- Elsewhere, we gather that the progress of LSS4 project progress remains well on track with majority of earthworks were completed and is slated for commercial operation in 1Q23. The aforementioned project that may reduce the reliance of contribution from Vietnam and will be able to generate approximately RM10.0m per annum to bottom line over 25-year period.

Quarterly performance								
FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	41.6	17.8	9.7	(45.5)	(76.6)	59.0	27.6	(53.3)
EBITDA	(3.5)	(8.6)	(9.3)	(8.6)	(169.8)	(8.3)	(18.0)	(115.1)
PBT	23.9	16.5	10.5	36.3	(56.2)	39.2	27.0	(31.3)
PAT	23.9	16.1	10.4	35.3	(56.4)	38.8	26.6	(31.5)
Core PATMI	28.8	21.1	15.3	27.8	(47.0)	48.6	36.4	(25.0)
Reported PATMI	28.8	21.1	15.3	27.8	(47.0)	48.6	36.4	(25.0)
Core EPS (sen)	1.4	1.0	0.7	27.8	(47.0)	2.4	1.8	(25.0)
EBITDA margin (%)	(8.3)	(48.2)	(96.2)			(14.1)	(65.1)	
PBT margin (%)	57.6	92.2	107.9			66.4	97.8	
Core PATMI margin (%)	69.3	118.4	157.1			82.2	132.1	

Results Note – 2QFY22

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BUY

Share price	RM0.325
Target price	RM0.47
Previous TP	RM0.55
Capital upside	47.7%
Dividend return	1.5%
Total return	49.2%

Company profile

Engaged in construction, specialising on water-related infrastructure projects, property investment and power generation

Stock information

Bursa Code	4723
Bloomberg ticker	JAK MK
Listing market	MAIN
Share issued (m)	2,042.3
Market Cap (m)	663.8
52W High/Low	0.54 / 0.25
Est. Free float	76.3
Beta	1.1
3-mth avg vol ('000)	5,179.9
Shariah compliant	Yes

Major shareholders

	%
Ang Lam Poah	13.0
Etika Life Insurance	2.1
Tee Tiam Lee	1.5

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	27.5	14.0	-35.6
Relative	24.7	17.5	-31.8

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	102.1	95.1	115.2
EPS (sen)	5.0	4.7	5.6
P/E (x)	6.5	7.0	5.8

Relative performance chart



Valuation & Recommendation

- Given the weaker-than-expected reported earnings, we trimmed our earnings forecast for FY22f and FY23f by 19.8% and 15.9% to RM95.1m and RM115.2m respectively. The downward revision is to reflect the (i) weaker-than-expected contribution from Vietnam JV, (ii) delay in construction billings in certain projects and (iii) higher finance costs. Still, we maintained our **BUY** recommendation on JAKS with a lower target price of RM0.47.
- Our target price is derived by sum-of-parts (SOP) approach as we ascribed a target PER of 7.0x to both its construction and property investment segments as we expect the pace of recovery to be measured. Meanwhile, we valued both its concession businesses (coal fired thermal power plant and LSS4) on a discounted cash flow approach.
- Risks to our recommendation and target price include lower-than-expected utilisation rate or unexpected increase in overhead cost in Vietnam IPP project. Delay in commercial operation date of LSS4. The Vietnam operations are denominated in USD whereby a firmer USD/MYR movement will be favourable and vice versa.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	1,051.7	251.0	108.1	141.4	141.0	Cash	151.5	174.6	143.9	152.8	170.6
EBITDA	86.6	(70.2)	(74.0)	(73.8)	(66.5)	Receivables	295.8	251.4	225.5	232.5	251.2
EBIT	71.2	(89.7)	(89.8)	(95.1)	(87.6)	Inventories	76.6	0.5	0.5	0.6	0.6
Net finance income/ (cost)	(18.5)	(24.4)	(20.6)	(21.1)	(19.9)	PPE	691.0	726.0	710.4	703.2	696.2
Associates & JV	-	-	-	-	-	Others	1,034.0	976.1	1,105.0	1,124.4	1,124.7
Profit before tax	52.6	(110.3)	30.3	25.8	48.3	Assets	2,248.8	2,128.5	2,185.2	2,213.5	2,243.3
Tax	(6.7)	(18.2)	(0.5)	(0.5)	(1.0)	Debts	423.0	387.4	372.6	353.9	336.2
Net profit	45.9	(128.5)	29.7	25.3	47.3	Payables	906.0	358.3	238.1	251.7	252.1
Minority interest	(62.2)	(43.9)	(22.0)	(19.8)	(17.8)	Others	-	255.3	273.1	291.3	306.4
Core earnings	124.8	56.5	102.1	95.1	115.2	Liabilities	1,329.0	1,001.0	883.8	896.9	894.7
Diluted core earnings	-	-	-	42.7	64.2	Shareholder's equity	659.6	925.0	1,061.6	1,061.6	1,061.6
Exceptional items	16.8	141.1	(50.4)	(50.0)	(50.0)	Minority interest	(58.1)	(16.4)	(39.3)	(39.3)	(39.3)
Reported earnings	108.1	(84.6)	51.8	45.1	65.2	Equity	919.9	1,127.5	1,301.4	1,316.5	1,348.6
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	52.6	(110.3)	30.3	25.8	48.3	Core EPS (sen)	6.1	2.8	5.0	4.7	5.6
Depreciation & amortisation	15.5	19.4	15.8	21.3	21.1	Diluted Core EPS (sen)	-	-	-	1.9	2.9
Changes in working capital	28.5	22.3	(13.9)	20.7	19.0	P/E (x)	5.3	11.7	6.5	7.0	5.8
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	16.9	11.2
Taxation	(4.0)	(3.3)	(3.8)	(0.5)	(1.0)	DPS (sen)	-	-	-	0.5	0.8
Others	119.1	96.6	80.9	80.9	90.0	Dividend yield	0.0%	0.0%	0.0%	1.5%	2.3%
Operating cash flow	211.7	20.9	(31.4)	148.2	177.4	BVPS (RM)	0.45	0.55	0.64	0.64	0.66
Net capex	(70.5)	(55.0)	(3.3)	(7.2)	(7.0)	P/B (x)	0.7	0.6	0.5	0.5	0.5
Others	(139.2)	(117.7)	(102.9)	(50.0)	(120.0)	EBITDA margin	8.2%	-28.0%	-68.4%	-52.2%	-47.2%
Investing cash flow	(209.7)	(172.7)	(106.2)	(57.2)	(127.0)	EBIT margin	6.8%	-35.7%	-83.1%	-67.2%	-62.1%
Changes in borrowings	(19.2)	(30.5)	(19.1)	(18.6)	(17.7)	PBT margin	5.0%	-44.0%	28.0%	18.3%	34.2%
Issuance of shares	40.9	245.3	-	-	-	PAT margin	4.4%	-51.2%	27.5%	17.9%	33.6%
Dividends paid	-	-	-	(10.2)	(15.3)	Core PAT margin	11.9%	22.5%	94.4%	67.3%	81.7%
Others	(22.7)	(27.5)	119.4	(50.0)	-	ROE	13.6%	5.0%	7.8%	7.2%	8.5%
Financing cash flow	(1.0)	187.3	100.3	(78.8)	(33.0)	ROA	5.5%	2.7%	4.7%	4.3%	5.1%
Net cash flow	1.0	35.5	(37.4)	12.2	17.4	Net gearing	29.5%	18.9%	17.6%	15.3%	12.3%
Forex	2.8	(5.0)	(0.6)	(0.5)	(0.5)						
Others	-	-	-	-	-						
Beginning cash	82.2	86.0	116.5	78.6	90.3						
Ending cash	86.0	116.5	78.6	90.3	107.3						

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