

Jaks Resources Bhd

On weaker footing

Summary

- Jaks Resources Bhd's (JAKS) 3QFY22 core net profit fell 36.1% YoY to RM20.3m, dragged by larger losses from both the construction and property investment sectors and a RM14.0m expenses in relation to the issuance of Long-Term Incentive Plan (LTIP) that offset the slightly higher contribution from Vietnam's Hai Doung venture. Revenue for the quarter declined 46.4% YoY to RM16.4m.
- For 9MFY22, cumulative net profit decreased 29.4% YoY to RM56.7m, making up to 59.6% of our forecasted core net profit of RM95.1m. The variance is mainly due to the weaker-than-expected contribution from Vietnam JV and larger-than-expected losses from both the construction and property investment segments.
- Meanwhile, we note that JAKS maintained a lean balance sheet in 3QFY22 with net gearing at 0.3x.
- We reckon that the construction segment may continue to bleed, given that 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.
- On the property investment segment, we expect the usual year-end kitchen sinking exercise to impact 4QFY22 results. Efforts to ramp up occupancy rates in both Pacific Towers and Evolve Concept Mall is expected to remain challenging, premised to the commercial property overhang situation, while retailers are now adopting the omnichannel to boost sales following the change consumer shopping behaviour and the acceleration in digital transformation.
- The LSS4 project is well on track for commercial operation in 1Q23. Upon commencement, the aforementioned project is expected to generate approximately RM10.0m per annum to bottom line over 25-year period. Elsewhere, there were no progress over the MoU entered with Qhazanah Sabah Sdn Bhd, while the MoU entered with T&T Group Joint Stock Company was lapsed on 11th September 2022.

Quarterly performance

FYE Dec (RM m)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	30.6	9.7	16.4	68.5	(46.4)	89.6	43.9	(51.0)
EBITDA	(7.3)	(9.3)	(21.5)	(129.8)	(194.8)	(21.2)	(39.4)	(85.8)
PBT	27.5	10.5	15.8	50.5	(42.5)	66.7	42.7	(35.9)
PAT	27.4	10.4	15.7	49.9	(42.9)	66.2	42.2	(36.2)
Core PATMI	31.9	15.3	20.3	33.3	(36.1)	80.4	56.7	(29.4)
Reported PATMI	31.9	15.3	20.3	33.3	(36.1)	80.4	56.7	(29.4)
Core EPS (sen)	1.6	0.7	1.0	33.3	(36.1)	3.9	2.8	(29.4)
EBITDA margin (%)	(23.8)	(96.2)	(131.1)			(23.7)	(89.7)	
PBT margin (%)	89.9	107.9	96.4			74.4	97.3	
Core PATMI margin (%)	104.2	157.1	124.2			89.7	129.1	

Results Note – 3QFY22

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BUY

Share price	RM0.275
Target price	RM0.39
Previous TP	RM0.47
Capital upside	41.8%
Dividend return	1.8%
Total return	43.6%

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)	2,087.3
Market Cap (m)	561.6
52W High/Low	0.45 / 0.24
Est. Free float	75.4
Beta	0.8
3-mth avg vol ('000)	6,692.8
Shariah compliant	Yes

Major shareholders

	%
Ang Lam Poah	14.0
Etiga Life Insurance	2.0
Tee Tiam Lee	1.5

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	10.0	-3.5	-32.1
Relative	7.1	-2.6	-30.9

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	102.1	82.0	96.1
EPS (sen)	4.9	3.9	4.6
P/E (x)	6.5	7.0	6.0

Relative performance chart



Valuation & Recommendation

- Following the weaker-than-expected earnings, we trimmed our earnings forecast for FY22f and FY23f by 13.8% and 16.6% to RM82.0m and RM96.1m 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) larger losses from the property investment segment. Still, we maintained our **BUY** recommendation on JAKS with a lower target price of RM0.39.
- 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	75.1	108.8	Cash	151.5	174.6	143.9	138.4	96.9
EBITDA	86.6	(70.2)	(74.0)	(87.1)	(85.9)	Receivables	295.8	251.4	225.5	226.2	223.5
EBIT	71.2	(89.7)	(89.8)	(108.5)	(106.8)	Inventories	76.6	0.5	0.5	0.6	0.6
Net finance income/ (cost)	(18.5)	(24.4)	(20.6)	(21.1)	(20.1)	PPE	691.0	726.0	710.4	696.5	686.5
Associates & JV	(0.0)	3.8	140.7	142.0	155.8	Others	1,034.0	976.1	1,105.0	1,159.7	1,194.0
Profit before tax	52.6	(110.3)	30.3	12.5	28.9	Assets	2,248.8	2,128.5	2,185.2	2,221.6	2,201.6
Tax	(6.7)	(18.2)	(0.5)	(0.2)	(0.6)	Debits	423.0	387.4	372.6	353.9	336.2
Net profit	45.9	(128.5)	29.7	12.2	28.3	Payables	906.0	358.3	238.1	259.6	252.1
Minority interest	(62.2)	(43.9)	(22.0)	(19.8)	(17.8)	Others	-	255.3	273.1	304.6	296.9
Core earnings	124.8	56.5	102.1	82.0	96.1	Liabilities	1,329.0	1,001.0	883.8	918.1	885.2
Diluted core earnings	-	-	-	29.6	45.1	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	32.0	46.1	Equity	919.9	1,127.5	1,301.4	1,303.4	1,316.4
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	12.5	28.9	Core EPS (sen)	6.1	2.8	5.0	4.0	4.7
Depreciation & amortisation	15.5	19.4	15.8	21.3	20.9	Diluted Core EPS (sen)	-	-	-	1.3	2.0
Changes in working capital	28.5	22.3	(13.9)	22.3	(10.2)	P/E (x)	4.5	9.9	5.5	6.8	5.8
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	20.6	13.5
Taxation	(4.0)	(3.3)	(3.8)	(0.2)	(0.6)	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%	1.8%	2.7%
Operating cash flow	211.7	20.9	(31.4)	136.7	129.0	BVPS (RM)	0.45	0.55	0.64	0.64	0.64
Net capex	(70.5)	(55.0)	(3.3)	(13.8)	(10.0)	P/B (x)	0.6	0.5	0.4	0.4	0.4
Others	(139.2)	(117.7)	(102.9)	(50.0)	(120.0)	EBITDA margin	8.2%	-28.0%	-68.4%	-116.1%	-79.0%
Investing cash flow	(209.7)	(172.7)	(106.2)	(63.8)	(130.0)	EBIT margin	6.8%	-35.7%	-83.1%	-144.5%	-98.2%
Changes in borrowings	(19.2)	(30.5)	(19.1)	(18.6)	(17.7)	PBT margin	5.0%	-44.0%	28.0%	16.6%	26.5%
Issuance of shares	40.9	245.3	-	-	-	PAT margin	4.4%	-51.2%	27.5%	16.3%	26.0%
Dividends paid	-	-	-	(10.2)	(15.3)	Core PAT margin	11.9%	22.5%	94.4%	109.3%	88.4%
Others	(22.7)	(27.5)	119.4	(40.0)	-	ROE	13.6%	5.0%	7.8%	6.3%	7.3%
Financing cash flow	(1.0)	187.3	100.3	(68.8)	(33.0)	ROA	5.5%	2.7%	4.7%	3.7%	4.4%
Net cash flow	1.0	35.5	(37.4)	4.1	(34.1)	Net gearing	29.5%	18.9%	17.6%	16.5%	18.2%
Forex	2.8	(5.0)	(0.6)	(0.5)	(0.5)						
Others	-	-	-	-	-						
Beginning cash	82.2	86.0	116.5	78.6	82.2						
Ending cash	86.0	116.5	78.6	82.2	47.6						

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