

Jaks Resources Bhd

Below expectations

Summary

- Jaks Resources Bhd's (JAKS) 1QFY23 core net profit fell 33.4% YoY to RM14.1m, dragged down by lower contribution from Vietnam due to higher interest expenses arising from the rising interest rates. Revenue for the quarter contracted 20.7% YoY to RM14.2m.
- The weaker-than-expected core net profit, accounts to 14.6% of our forecasted core net profit of RM96.2m. The variance was mainly due to the weaker-than-expected contribution from Vietnam. Still, we reckon that earnings sustainability from Vietnam may continue to cushion the weakness in the local operations.
- Moving forward, the construction segment will focus onto the completion of outstanding orderbook of c.RM200.0m. We gather that the tenderbook remains healthy at RM2.00bn, mainly for hospital-related and water-related infrastructure jobs in relation to flood mitigation projects. We have imputed an orderbook replenishment assumption of RM50.0m for FY23f.
- On the property investment segment, efforts to ramp up occupancy rates in both Pacific Towers and Evolve Concept Mall remain in place. The building management of Evolve Concept Mall was replaced in April 2023 in bid to rejuvenate the current dire situation. Still, we reckon that turnaround efforts may be challenging, owing to the oversupply of commercial floor space.
- Elsewhere, the LSS4 project was completed (6 months ahead of scheduled commercial operation date) and aims to commence the commercial operations sometime in mid-June 2023. The group will continue to explore greenfield projects and acquisitions within the renewable energy sector in both Malaysia and Vietnam. With the completion of LSS4, JAKS will be eyeing a slice of 600MW of Corporate Green Power Programme (CGPP) programme from Malaysia's Energy Commission.
- JAKS is undertaking a private placement exercise and proceeds will be utilised to repay existing debts and fund working capital. We reckon that the move is essential, given that the group is operating in a negative net cash flow position over the past 8 quarters.

Quarterly performance

FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	17.8	45.9	14.2	(69.1)	(20.7)	17.8	14.2	(20.7)
EBITDA	(8.6)	(41.6)	(9.8)	76.3	(14.3)	(8.6)	(9.8)	(14.3)
PBT	16.5	(5.6)	9.0	261.3	(45.1)	16.5	9.0	(45.1)
PAT	16.1	(6.0)	9.0	249.8	(44.3)	16.1	9.0	(44.3)
Core PATMI	21.1	43.5	14.1	(67.6)	(33.4)	21.1	14.1	(33.4)
Reported PATMI	21.1	(3.2)	14.1	533.8	(33.4)	21.1	14.1	(33.4)
Core EPS (sen)	1.0	2.1	0.7	(67.6)	(33.4)	1.0	0.7	(33.4)
EBITDA margin (%)	(48.2)	(90.6)	(69.4)			(48.2)	(69.4)	
PBT margin (%)	92.2	(12.2)	63.8			92.2	63.8	
Core PATMI margin (%)	118.4	94.8	99.4			118.4	99.4	

Results Note – 1QFY23

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BUY

Share price	RM0.195
Target price	RM0.27
Previous TP	RM0.39
Capital upside	38.5%
Dividend return	0.8%
Total return	39.3%

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)	2,219.3
Market Cap (m)	432.8
52W High/Low	0.34 / 0.18
Est. Free float	76.9
Beta	1.1
3-mth avg vol ('000)	8,028.3
Shariah compliant	Yes

Major shareholders

Ang Lam Poah	13.2
Tee Tiam Lee	1.4
Dimensional Fund Advisors	1.2

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-11.4	-15.2	-29.1
Relative	-10.7	-12.2	-22.1

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	97.4	68.1	71.3
EPS (sen)	4.4	3.1	3.2
P/E (x)	4.4	6.4	6.1

Relative performance chart



Valuation & Recommendation

- Following the weaker-than-expected reported numbers, we trimmed our core net profit forecast by 29.2% and 28.6% to RM68.2m and RM71.3m for FY23f and FY24f respectively, adjusting to the weaker contribution from Vietnam. Still, we maintained our **BUY** recommendation on JAKS with a lower target price of RM0.27.
- 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)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	251.0	108.1	94.7	98.4	85.7	Cash	174.6	143.9	104.6	90.4	61.3
EBITDA	(70.2)	(74.0)	(79.9)	(83.0)	(80.0)	Receivables	251.4	225.5	177.3	161.7	164.4
EBIT	(89.7)	(89.8)	(95.8)	(99.8)	(96.9)	Inventories	0.5	0.5	0.5	0.5	0.5
Net finance income/ (cost)	(24.4)	(20.6)	(23.0)	(25.5)	(24.4)	PPE	726.0	710.4	840.2	843.0	843.3
Associates & JV	3.8	140.7	156.2	127.5	127.1	Others	976.1	1,105.0	1,256.3	1,254.1	1,217.3
Profit before tax	(110.3)	30.3	37.4	2.2	5.8	Assets	2,128.5	2,185.2	2,378.8	2,349.7	2,286.9
Tax	(18.2)	(0.5)	(0.9)	(0.0)	(0.1)	Debts	387.4	372.6	501.9	476.8	453.0
Net profit	(128.5)	29.7	36.5	2.2	5.7	Payables	358.3	238.1	271.8	271.3	258.4
Minority interest	(43.9)	(22.0)	(17.3)	(16.0)	(15.6)	Others	255.3	273.1	250.5	249.1	221.9
Core earnings	56.5	102.1	97.4	68.1	71.3	Liabilities	1,001.0	883.8	1,024.2	997.3	933.3
Diluted core earnings	-	-	51.3	17.1	21.2	Shareholder's equity	925.0	1,061.6	1,074.1	1,074.1	1,074.1
Exceptional items	141.1	(50.4)	(43.6)	(50.0)	(50.0)	Minority interest	(16.4)	(39.3)	(56.6)	(56.6)	(56.6)
Reported earnings	(84.6)	51.8	53.8	18.1	21.3	Equity	1,127.5	1,301.4	1,354.6	1,352.4	1,353.6
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	(110.3)	30.3	37.4	2.2	5.8	Core EPS (sen)	2.5	4.6	4.4	3.1	3.2
Depreciation & amortisation	19.4	15.8	15.9	16.8	16.9	Diluted Core EPS (sen)	-	-	2.1	0.7	0.9
Changes in working capital	22.3	(13.9)	(57.2)	(16.1)	(10.2)	P/E (x)	7.7	4.2	4.4	6.4	6.1
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	9.1	27.2	22.0
Taxation	(3.3)	(3.8)	(4.5)	(0.0)	(0.1)	DPS (sen)	-	-	0.2	0.2	0.2
Others	96.6	80.9	83.7	90.0	90.0	Dividend yield	0.0%	0.0%	0.8%	1.0%	1.0%
Operating cash flow	20.9	(31.4)	(80.9)	(7.1)	(47.7)	BVPS (RM)	0.51	0.59	0.61	0.61	0.61
Net capex	(55.0)	(3.3)	(140.1)	2.9	0.3	P/B (x)	0.4	0.3	0.3	0.3	0.3
Others	(117.7)	(102.9)	66.7	50.0	50.0	EBITDA margin	-28.0%	-68.4%	-84.4%	-84.4%	-93.4%
Investing cash flow	(172.7)	(106.2)	(73.4)	52.9	50.3	EBIT margin	-35.7%	-83.1%	-101.2%	-101.5%	-113.0%
Changes in borrowings	(30.5)	(19.1)	124.7	(25.1)	(23.8)	PBT margin	-44.0%	28.0%	39.5%	2.2%	6.8%
Issuance of shares	245.3	-	-	-	-	PAT margin	-51.2%	27.5%	38.6%	2.2%	6.6%
Dividends paid	-	-	-	(4.4)	(4.4)	Core PAT margin	22.5%	94.4%	102.9%	69.3%	83.2%
Others	(27.5)	119.4	(21.1)	-	-	ROE	5.0%	7.8%	7.2%	5.0%	5.3%
Financing cash flow	187.3	100.3	103.6	(29.5)	(28.3)	ROA	2.7%	4.7%	4.1%	2.9%	3.1%
Net cash flow	35.5	(37.4)	(50.8)	16.2	(25.7)	Net gearing	18.9%	17.6%	29.3%	28.6%	28.9%
Forex	(5.0)	(0.6)	1.9	1.7	1.6						
Others	-	-	-	-	-						
Beginning cash	86.0	116.5	78.6	29.7	47.7						
Ending cash	116.5	78.6	29.7	47.7	23.5						

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