

# IJM Corporation (IJM MK)

## IBS plant visit

### Key take-aways; maintain BUY

We visited IJM's new fully automated Industry 4.0 Industrialised Building System (IBS) plant last week which produces IBS precast products to be supplied to its in-house property projects and prospective clients. With the cost of using IBS being almost comparable with conventional construction, a clear benefit is the time saved. We make no change to our earnings forecasts. BUY with an unchanged MYR2.05 RNAV-TP.

### New 500,000 sqm capacity plant

IJM's new IBS plant, located in Bestari Jaya (in Kuala Selangor), started commercial production in Nov 2021 with the Hotayi Electronic Factory in Batu Kawan, Penang as its first project. IJM's investment is just above MYR100m over 3 years from 2018 with the plant construction having completed in Nov 2021. The adoption of the IBS system will enable IJM to deliver end products that are of higher quality and precision.

### Benefits of the IBS system

The IBS system reduces reliance on foreign workers and help to improve on safety issues as the construction components are manufactured off-site and site work is just installation. For IJM's IBS plant, steel waste which is not reused or recycled is less than 1%, thus the IBS system helps to reduce the burden on the environment. With the cost of using IBS being almost comparable with conventional construction, a clear benefit is the time saved, thus quicker project delivery to its clients.

### Maintaining earnings estimates

Over time, IJM's new IBS plant will help to contribute to earnings of its Industry division which had, in turn, contributed 11% to group pre-tax profit in 3QFY22. With the cost of investment - at just above MYR100m - being small on a relative basis, group earnings should be able to absorb the fixed cost. We make no change to our earnings for now.

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,605	5,623	4,678	5,652	5,660
EBITDA	1,305	1,239	1,125	1,150	1,193
Core net profit	484	335	258	311	322
Core EPS (sen)	13.3	9.2	7.1	8.5	8.8
Core EPS growth (%)	27.5	(30.7)	(23.3)	20.3	3.5
Net DPS (sen)	3.0	6.0	19.0	4.3	4.4
Core P/E (x)	11.9	18.3	25.1	20.9	20.2
P/BV (x)	0.6	0.6	0.6	0.6	0.6
Net dividend yield (%)	1.9	3.6	10.7	2.4	2.5
ROAE (%)	2.6	4.4	8.9	3.0	3.1
ROAA (%)	2.1	1.4	1.2	1.5	1.5
EV/EBITDA (x)	8.9	9.6	8.1	8.7	8.1
Net gearing (%) (incl perps)	40.0	35.9	14.8	22.3	17.9
Consensus net profit	-	-	211	314	351
MKE vs. Consensus (%)	-	-	325.3	(0.9)	(8.3)

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# BUY

Share Price	MYR 1.78
12m Price Target	MYR 2.05 (+18%)
Previous Price Target	MYR 2.05

### Company Description

IJM Corp. is a conglomerate with operations in construction, property development, manufacturing and quarrying, plantation, and infrastructure.

### Statistics

52w high/low (MYR)	1.95/1.39
3m avg turnover (USDm)	1.5
Free float (%)	61.0
Issued shares (m)	3,645
Market capitalisation	MYR6.5B USD1.5B

### Major shareholders:

Employees Provident Fund	16.5%
Kuala Lumpur Kepong Bhd.	8.0%
Kumpulan Wang Persaraan	7.9%

### Price Performance



— IJM Corp - (LHS, MYR) — IJM Corp / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(4)	21	(3)
Relative to index (%)	(2)	26	(1)

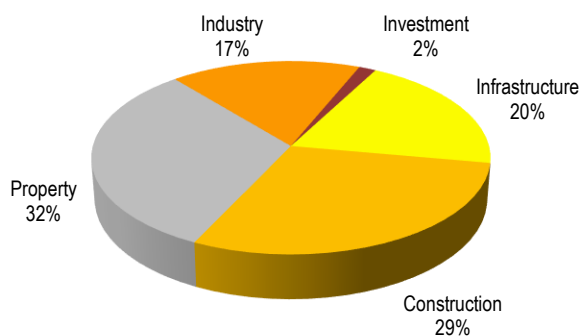
Source: FactSet

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Tear Sheet Insert

## Value Proposition

- Leads in construction & civil engineering having built >2,300km of roads, >160km of railways, >MYR10b of commercial & cultural buildings, >MYR1.8b of hospitals & medic centres, >MYR3.2b high-rise residential, amongst others.
- Sizeable property development landbank (3,457 acres net attributable, undeveloped; MYR40b GDV at end-FY21).
- Industry ops is a key supplier of spun piles (largest in SEA), quarry, ready-mixed concrete, scaffolding products.
- Infrastructure holds strategic concessions - Kuantan Port, BESRAYA, NPE. Other assets: LEKAS and WCE in Malaysia; 3 toll roads + 1 powerplant in India; 1 toll road in Argentina.

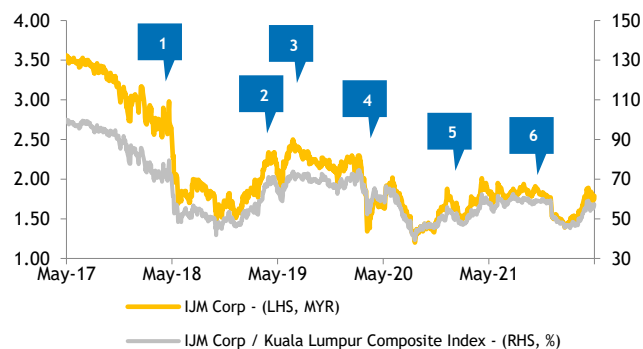
### Pretax profit breakdown in 9MFY22 (% of total)



Source: Company

## Price Drivers

### Historical share price trend



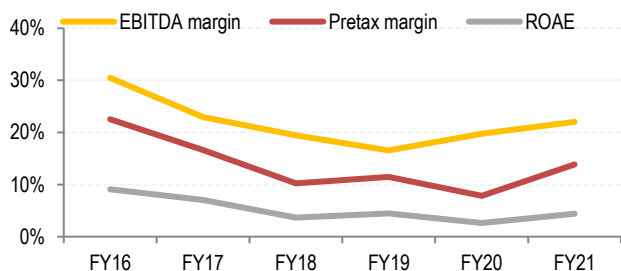
Source: Company, Maybank IBG Research

- Post GE14 (5 May 2018) overhang stemming from (i) review and cancellation of major infrastructure projects and (ii) potential abolition of toll highways.
- Revival of the ECRL project (Apr 2019) lifted sentiment as IJM is a contender to construct one of the packages.
- MRCB George Kent terminates IJM's KVLRT3 underground work package worth MYR1.12b (8 Jul 2019).
- Start of Movement Control Order (MCO) (18 Mar 2020).
- Announcement (on 12 Aug 2020) of IJM's exclusion from MSCI Global Standard Indexes.
- KL Kepong offers to acquire IJM's entire 56.2% stake in IJM Plantation for MYR1.53b cash (9 Jun 2021); deal completed on 6 Sep 2021.

## Financial Metrics

- Medium-term earnings to be supported by its outstanding construction orderbook of MYR4.21b and unbilled property sales of e.MYR2.3b as of end-Dec 2021.
- Targets MYR2b construction job replenishment in FY22 (FY21: MYR1.5b); at least MYR1.7b property sales in FY22 (FY21: MYR1.7b).
- Traffic at its tolled highways, which had been impacted by various phases of movement control orders, have bounced back as most of the economic sectors have reopen.
- Kuantan Port's throughput growth rides on new industries and expansion of existing industries operating in MCKIP.
- Net gearing stood at 0.28x as of end-Dec 2021.

### Margins & ROAE



Source: Company

## Swing Factors

### Upside

- Sizeable job wins from the ECRL, and upcoming major infrastructure project roll-outs, such as the KVMRT3.
- Value unlocking asset monetisation, and/or M&As.

### Downside

- Delay in implementation of key infrastructure projects.
- Prolonged movement restriction/lockdown affecting the work pace of construction and property projects, and traffic at its tolled highways.

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Risk Rating & Score <sup>1</sup>	35.7 (High)
Score Momentum <sup>2</sup>	+0.2
Last Updated	3 Nov 2021
Controversy Score <sup>3</sup> (Updated: 4 Dec 2021)	0 - No reported incidents

## Business Model & Industry Issues

- Due to the diversity of its business operations, IJM's ESG responsibility (on a combined basis) is heavier, and its ESG risks inevitably higher than that of its construction peers.
- Key mitigating factors are IJM's conviction to the highest levels of governance and ethical business conduct throughout all its operations, while its sustainability framework, established in 2017 and comprising 4 pillars - marketplace, environment, community, workplace [\[link\]](#) - provides the guide towards its environmental and social targets.
- In our view, IJM's ESG risks are manageable. Building on these efforts will strengthen its investment case.

## Material E issues

- Group-wide: 1) IJM is building internal capacity to address the recommendations of the Task Force on Climate-related Financial Disclosures; 2) Energy: 46% of FY21 consumption (FY20: 40%) was generated by renewable sources ie. biomass, solar; 3) Carbon footprint: Scope 1 GHG down 18% YoY in FY21, Scope 2 -11%, Scope 3 -10%; 4) Waste: 13% of FY21 waste footprint (FY20: 19%) was reused or recycled.
- Construction: Completed green buildings todate comprise 14 GBI, 1 GreenRE and 1 LEED project. In FY21, 51% of waste (mainly concrete) was recycled and reused.
- Property: All on-going and new projects (of >50 ha each) undergo the Environmental Impact Assessment (EIA).
- Plantation (prior to its sale): Committed to 'No Deforestation, No Peat and No Exploitation' (extended to its supply chain), >6,000ha of High Conservation Value areas are set aside for conservation, biodiversity protection and rehabilitation. Also, the business adheres to a strict zero burning policy. In FY21, 99% of its oil palm biomass was recycled as fuel source.
- Industry: Air, water and noise quality are monitored and mitigating measures implemented. Concrete waste like sand and aggregates are recycled and reused.
- In FY21, IJM's Property division received notifications of non-compliance with environmental laws relating to storage of scheduled wastes above the allotted time limit of 180 days. IJM has enhanced its SOPs to ensure compliance.

## Material S issues

- IJM's staff force is diversified in ethnicity (Malaysia workforce in FY21: Bumiputra [65%], Chinese [26%], Indian [7%]), and gender (women made up about one-third). In FY21, over 4,200 employees and workers clocked >24,800 training hours.
- Besides diversity and inclusion, IJM's Human Rights Policy provides guiding principles in areas of workplace security, no child labour nor exploitation in any forms, health & safety, and community rights. Its labour unions represent 2% of its work-force (all in the Port division).
- In FY21, IJM contributed MYR2.9m to the community in the form of charitable gifts (91%) and strategic initiatives (9%). This included MYR1m to *The Edge COVID-19 Epidemic Fund* to support healthcare workers and frontliners. IJM Scholarship Award Programme (since 1994) has benefitted >340 students, including 10 in FY21.

## Key G metrics and issues

- IJM's Board comprises 10 Directors of which 8 are Non-Executive (incl. Chairman) and 2 are Executive. Of its Non-Exec Directors, 6 (60% of total) are Independent. Independent Directors have not served a cumulative term of >9 years each, per recommendation of the Malaysian Code on Corporate Governance.
- There are presently 2 women on IJM's Board (20% representation), short of the 30% requirement.
- IJM provides detailed disclosure on remuneration of directors but not its top senior management. In FY21, remuneration to directors was 0.7% of pretax profit. Disclosures of its top 5 senior management's remuneration are in bands of MYR50k.
- IJM has been audited by PricewaterhouseCoopers since FY2000, at least.
- An Anti-Bribery and Corruption (ABC) System manages and consolidates policies and processes in compliance with the ABC laws, with IJM's ABC Policy forming part of the ABC System, setting out the parameters. IJM has also adopted the (i) Code of Conduct and Ethics for Employees, (ii) Code of Business Conduct for Third Parties (where ABC principles are extended to associates, business partners and supply chain), and (iii) Whistleblowing Policy, amongst others.
- Transactions with related parties that arose within the Group have been fair and reasonable, and there were no material contracts involving Directors and major shareholders during our period of review (FY16-FY21).

### Policies in-place

Board Policy	Corporate Codes & Policies	Sustainability Policies
Board Diversity Policy	Anti-Bribery and Corruption Policy	Community Investment Policy
	Code of Conduct and Ethics for Employees	Diversity and Inclusion Policy
	Code of Business Conduct for Third Parties	Environment Policy
	Corporate Disclosure Policy	Human Rights Policy
	External Auditors Policy	Responsible Supply Chain Policy
	Privacy Policy	Occupational Safety and Health Policy
	Remuneration Policy	Quality Policy
	Whistleblowing Policy	

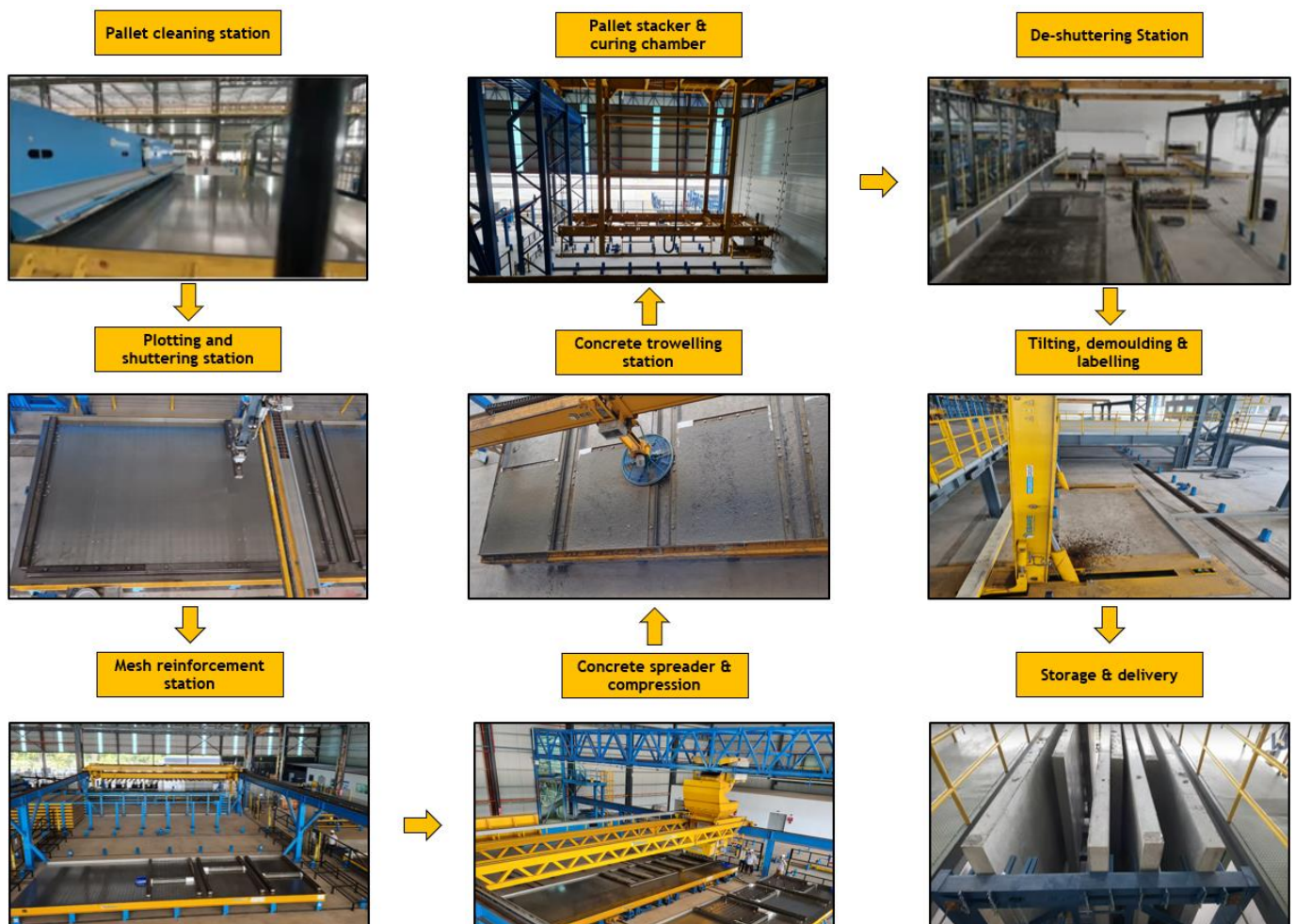
Source: FY21 Annual Report

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

## IJM's new IBS plant

- **500,000 sqm capacity plant in Bestari Jaya.** IJM's industrialised building system (IBS) operation is undertaken by its 100%-subsidiary, IJM IBS Sdn Bhd. The IBS plant, located in Bestari Jaya (in Kuala Selangor), is fully automated with an annual output capacity of 500,000 sq metres (sqm). The plant started commercial production in Nov 2021 with the Hotayi Electronic Factory in Batu Kawan, Penang as its first project.
- **Over MYR100m in plant capex.** IJM's investment is just above MYR100m over a 3-year period from 2018. Plant construction completed in Nov 2021. The adoption of the IBS system will enable IJM to deliver end products that are of higher quality and precision to be used in affordable housing, low- and high-rise residential & commercial buildings (IJM's IBS system can build up to 40+ stories tall), and public infrastructure such as schools and hospitals.
- **Benefits of the IBS system.** (i) The IBS system reduces reliance on foreign workers and help to improve on safety issues as the construction components are manufactured off-site and site work is just installation. (ii) For IJM's IBS plant, steel waste which is not reused or recycled is less than 1%, thus the IBS system helps to reduce the burden on the environment. (iii) With the cost of using IBS being almost comparable with conventional construction, a clear benefit is the time saved, thus quicker project delivery to its clients.

Fig 1: Smart IBS processes



Source: Company (on the processes), Maybank IBG Research (for the photos which were taken during a plant visit on 12 May 2022)

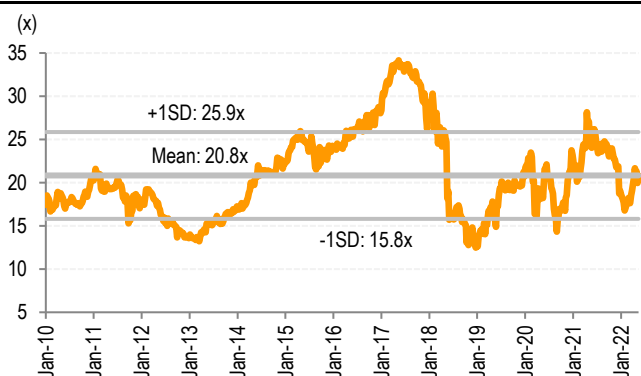
# Valuation

Fig 2: RNAV

	Value (MYR)	Stake (%)	Attr. Value (MYR m)	Per shr (MYR)	% of total	Comments
Construction	1,482	100%	1,482	0.41	18%	13x PER on sustainable MYR2b order book
Property development	4,317	100%	4,317	1.18	54%	RNAV
Industries	366	100%	366	0.10	5%	8x PER on FY22E earnings
<b>Infrastructure</b>						
Besraya	423	100%	423	0.12	5%	DCF
NPE	788	100%	788	0.22	10%	DCF
WCE	758	41%	312	0.09	4%	0.7x FY21 BV
Kuantan Port	723	60%	434	0.12	5%	DCF
			<b>1,957</b>	<b>0.54</b>	<b>24%</b>	
Less: Holding coy net debt @ end-FY21			(1,634)	(0.45)	(20%)	
Add: Cash proceed from IJMP sale (net of special dividend paid on 30 Dec 2021)			983	0.27	12%	
<b>RNAV / Target price</b>			<b>7,471</b>	<b>2.05</b>	<b>100%</b>	

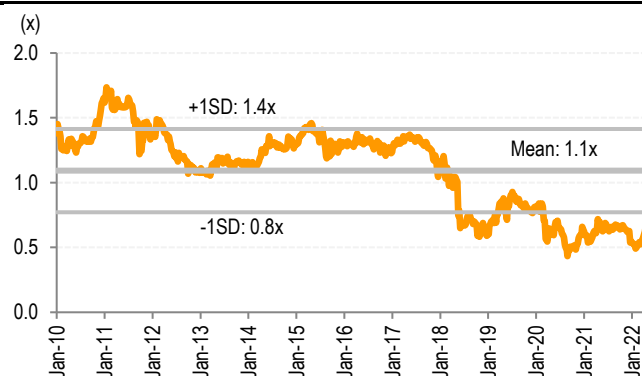
Source: Maybank IBG Research

Fig 3: 12M forward PER (on core EPS)



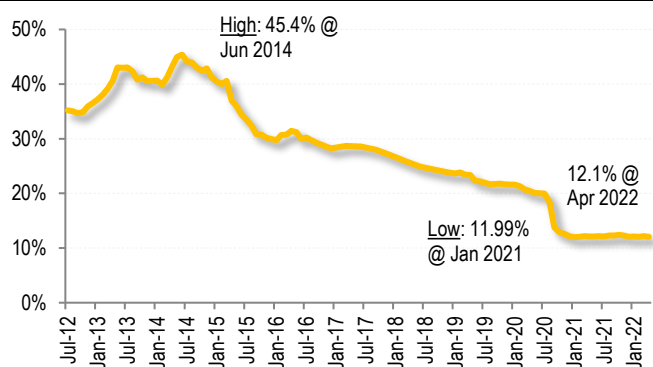
Source: Bloomberg, Maybank IBG Research

Fig 4: 12M forward P/B



Source: Bloomberg, Maybank IBG Research

Fig 5: Foreign shareholding



Source: Company

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	31.4	13.5	7.2	20.9	20.2
Core P/E (x)	11.9	18.3	25.1	20.9	20.2
P/BV (x)	0.6	0.6	0.6	0.6	0.6
P/NTA (x)	0.6	0.6	0.6	0.6	0.6
Net dividend yield (%)	1.9	3.6	10.7	2.4	2.5
FCF yield (%)	32.0	17.4	22.3	nm	11.2
EV/EBITDA (x)	8.9	9.6	8.1	8.7	8.1
EV/EBIT (x)	12.8	14.4	12.9	14.0	12.9

**INCOME STATEMENT (MYR m)**

Revenue	6,605.1	5,622.9	4,677.5	5,652.2	5,660.4
EBITDA	1,304.7	1,238.6	1,125.3	1,150.4	1,192.9
Depreciation	(206.5)	(212.9)	(223.6)	(234.8)	(246.5)
Amortisation	(188.4)	(199.8)	(199.8)	(199.8)	(199.8)
EBIT	909.8	825.9	701.9	715.9	746.6
Net interest income / (exp)	(96.9)	(72.0)	(61.4)	(56.0)	(64.9)
Associates & JV	(62.1)	(71.0)	(36.9)	(36.9)	(36.8)
Exceptionals	(233.0)	96.7	639.5	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	517.8	779.6	1,243.1	622.9	644.8
Income tax	(189.6)	(134.5)	(211.3)	(218.0)	(225.7)
Minorities	(34.2)	(166.9)	(87.4)	(47.4)	(50.7)
Perpetual securities	(43.4)	(46.5)	(46.5)	(46.5)	(46.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	250.6	431.7	897.9	311.0	321.8
Core net profit	483.6	335.0	258.4	311.0	321.8

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,222.6	2,406.2	3,907.7	2,560.8	2,634.9
Accounts receivable	1,865.7	1,707.8	1,511.8	1,826.8	1,829.5
Inventory	7,687.0	7,346.3	5,952.1	7,543.1	7,485.7
Property, Plant & Equip (net)	2,578.3	2,635.7	1,079.2	1,094.4	1,097.9
Intangible assets	3,887.5	4,170.0	3,970.2	3,770.4	3,570.6
Investment in Associates & JVs	1,774.3	1,751.3	1,700.3	1,663.4	1,626.5
Other assets	3,437.8	3,476.9	3,070.7	3,047.6	3,047.6
<b>Total assets</b>	<b>23,453.3</b>	<b>23,494.2</b>	<b>21,192.1</b>	<b>21,506.5</b>	<b>21,292.8</b>
ST interest bearing debt	2,330.5	1,839.8	1,444.0	1,244.0	1,044.0
Accounts payable	3,131.0	2,932.6	2,221.3	2,746.1	2,738.0
LT interest bearing debt	4,549.9	4,942.2	4,221.8	4,002.8	3,783.8
Other liabilities	1,798.0	1,583.0	1,449.0	1,456.0	1,457.0
<b>Total Liabilities</b>	<b>11,809.7</b>	<b>11,298.0</b>	<b>9,336.0</b>	<b>9,448.8</b>	<b>9,022.9</b>
Shareholders Equity	9,602.4	9,978.5	10,183.8	10,338.0	10,499.5
Minority Interest	1,192.8	1,369.3	824.0	871.4	922.1
<b>Total shareholder equity</b>	<b>10,795.1</b>	<b>11,347.8</b>	<b>11,007.8</b>	<b>11,209.4</b>	<b>11,421.6</b>
Perpetual securities	848.5	848.3	848.3	848.3	848.3
<b>Total liabilities and equity</b>	<b>23,453.3</b>	<b>23,494.2</b>	<b>21,192.1</b>	<b>21,506.5</b>	<b>21,292.8</b>

**CASH FLOW (MYR m)**

Pretax profit	517.8	779.6	1,243.1	622.9	644.8
Depreciation & amortisation	394.9	412.7	423.4	434.6	446.3
Adj net interest (income)/exp	96.9	72.0	61.4	56.0	64.9
Change in working capital	761.4	(48.6)	895.9	(1,358.0)	46.6
Cash taxes paid	(190.4)	(220.8)	(211.3)	(218.0)	(225.7)
Other operating cash flow	100.9	343.7	(714.7)	7.0	1.2
Cash flow from operations	1,681.4	1,338.5	1,697.9	(455.5)	978.2
Capex	162.0	(270.4)	(250.0)	(250.0)	(250.0)
Free cash flow	1,843.5	1,068.2	1,447.9	(705.5)	728.2
Dividends paid	(145.2)	(108.7)	(692.6)	(156.8)	(160.4)
Equity raised / (purchased)	0.4	0.0	0.0	0.0	0.0
Perpetual securities	199.8	0.0	0.0	0.0	0.0
Change in Debt	251.7	(98.4)	(1,116.3)	(419.0)	(419.0)
Perpetual securities distribution	(41.8)	(46.7)	(46.5)	(46.5)	(46.5)
Other invest/financing cash flow	(1,485.9)	(508.0)	1,909.2	(19.1)	(28.1)
Net cash flow	622.5	306.3	1,501.5	(1,346.9)	74.1

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	16.8	(14.9)	(16.8)	20.8	0.1
EBITDA growth	39.3	(5.1)	(9.1)	2.2	3.7
EBIT growth	22.1	(9.2)	(15.0)	2.0	4.3
Pretax growth	(20.1)	50.6	59.5	(49.9)	3.5
Reported net profit growth	(40.2)	72.3	108.0	(65.4)	3.5
Core net profit growth	27.6	(30.7)	(22.9)	20.3	3.5
<b>Profitability ratios (%)</b>					
EBITDA margin	19.8	22.0	24.1	20.4	21.1
EBIT margin	13.8	14.7	15.0	12.7	13.2
Pretax profit margin	7.8	13.9	26.6	11.0	11.4
Payout ratio	43.4	50.4	77.1	50.4	49.8
<b>DuPont analysis</b>					
Net profit margin (%)	3.8	7.7	19.2	5.5	5.7
Revenue/Assets (x)	0.3	0.2	0.2	0.3	0.3
Assets/Equity (x)	2.4	2.4	2.1	2.1	2.0
ROAE (%)	2.6	4.4	8.9	3.0	3.1
ROAA (%)	2.1	1.4	1.2	1.5	1.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	463.4	520.9	592.4	483.7	543.5
Days receivable outstanding	107.8	114.4	123.9	106.3	116.3
Days inventory outstanding	584.3	681.3	765.0	597.3	672.7
Days payables outstanding	228.7	274.8	296.5	219.8	245.5
Dividend cover (x)	2.3	2.0	1.3	2.0	2.0
Current ratio (x)	2.1	2.4	3.1	3.0	3.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.1	2.3	2.3	2.4
Net gearing (%) (incl perps)	40.0	35.9	14.8	22.3	17.9
Net gearing (%) (excl. perps)	43.1	38.6	16.0	24.0	19.2
Net interest cover (x)	9.4	11.5	11.4	12.8	11.5
Debt/EBITDA (x)	5.3	5.5	5.0	4.6	4.0
Capex/revenue (%)	nm	4.8	5.3	4.4	4.4
Net debt/ (net cash)	4,657.8	4,375.9	1,758.0	2,685.9	2,192.8

Source: Company; Maybank IBG Research

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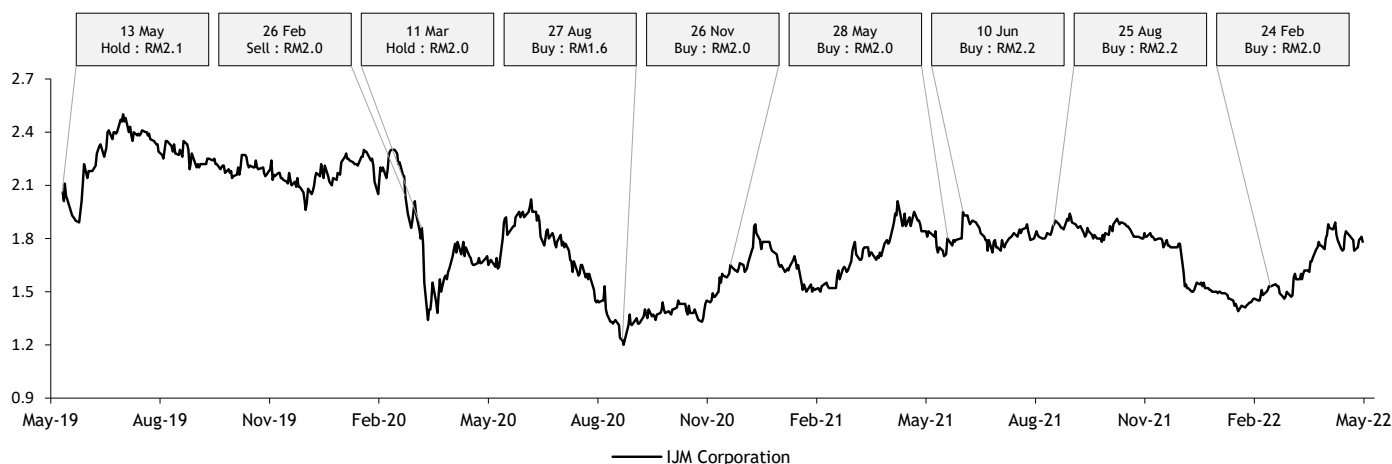
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