

JAKS Resources Bhd

Powering Ahead

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INVESTMENT MERIT

- Diversified business.** One might identify JAKS as a water supply infrastructure contractor. However, JAKS is a little more than that as it is also well-diversified in several business segments, i.e. property development, construction, manufacturing and trading of steel pipes, and local property investment. That said, the group is on the lookout out for more diversification opportunities on the international front, which led them to participate in a power generation business in Vietnam whereby construction works is expected to take off earliest by next year. Currently, earnings are still driven by property development and construction divisions, which make up 98% of its total operating profit of RM23.2m in 1H15.
- Construction, the earnings catalyst.** To date, JAKS has managed to build up a massive orderbook of RM2.5b of which RM632m are local jobs while the remaining RM1.9b are from non-technical works for its Vietnam power plant project that will provide 3-4 years earnings visibility for the group. On top of that, the group is currently tendering for more projects, such as the Pan Borneo Highway, sewerage treatment plants, and more building jobs bringing its tender book up to RM3.5b, with a replenishment target of c.RM600m per annum. Moving into FY16, we expect its property earnings contribution to taper off to only 13% vs. 49% in FY15E as we are expecting an exponential contribution from its construction division as they begin construction works for its Vietnam project, which is front-end loaded.
- Vietnam IPP.** Management's venture into the IPP in Vietnam suffered a few false starts previously. However, this time around, management is able to secure a strong joint venture partner, namely CPECC group under China Energy Engineering Group Co. Ltd. (CEEC) which has a strong track record in power projects in China and internationally, to execute the 25-years BOT 2x600mw coal fired thermal power plant project in Hai Duong Province Vietnam. We are long-term positive on the project as the JV has secured a 25-year Coal Supply Agreement (CSA) with National Coal-Mineral Industries Group and 25-year Power Purchase Agreement (PPA) with Vietnam Electricity. Furthermore, we reckon that the project will yield an attractive IRR of 14.8% over the period of its concession. Based on JAKS' 30% stake in the JV, it would easily translate to RM0.72/share to its valuation.
- Monetisation of Evolve Concept Mall?** In addressing its high net gearing of 1.26x as of 2Q15, management indicated that they are exploring the option in disposing its 51%-owned mall in Ara Damansara with a total NLA of 460,000sf. It would be positive if they managed to monetise the mall as it would easily bring down its net gearing of 1.26x to 0.40x.
- Inspiring earning growth.** Assuming that it's Vietnam non-technical works kick off in 1Q16 coupled with an annual orderbook replenishment assumption of RM600m locally, we are projecting FY15E/FY16E/17E net profits of RM19.3m/RM94.2m/RM120.7m with earnings growth rates of 387%/28%/2%.
- Trading Buy.** Given its diversified interests, we are valuing JAKS at RM1.53 based on a 25% discount to its Sum-of-Parts value of RM2.04 (refer overleaf for more details). We deem that our applied discount of 25% is fair as it is in-line with the SOP discount range of 20%-30% applied to developer-cum-contractors under our coverage. We are calling a Trading Buy on JAKS as our Fair Value implies potential 34% upside to the stock, and we like the stock for its impressive earnings growth in the next 2-3 years underpinned by its strong outstanding orderbook of RM2.5b coupled with its diversification into the power industry which will provide a strong recurring income to the group in the future. At our Fair Value of RM1.53, it implies FY16-17E PER of 7.1x-5.5x

	Rating	Fair Value
Last Price	-	RM1.14
Kenanga	Trading Buy	RM1.53
Consensus	N.A.	N.A.

Stock Information

Stock Name	JAKS RESOURCES BHD
CAT Code	4723
Industry	Engineering&Construction
Industry Sub-sector	Building-Heavy Construct
YTD stock price chg	159.09%
Market Cap (RM m)	499.73
Issued shares (m)	438.36
52-week range (Hi)	1.18
52-week range (Low)	0.375
3-mth avg daily vol:	7818175
Free Float	75%
Beta	2.04
Altman's Z-score	0.85

Major Shareholders

LAM POAH ANG	7.44%
ORIGINAL INVENTION S	5.70%
DIMENSIONAL FUND ADV	4.10%

Financials

FYE Dec (RM'm)	2015E	2016E	2017E
Revenue	411.8	894.9	905.2
EBIT	45.0	125.9	153.8
Net Profit	19.3	94.2	120.7
EPS (sen)	4.4	21.5	27.5
BV/Share	1.09	1.31	1.58
PER	25.8	5.3	4.1
PBV	1.0	0.9	0.7
Net Gearing (x)	1.2	1.0	0.6
DPS	0.0	0.0	0.0
Div Yield (%)	0.0%	0.0%	0.0%

Quarterly Financial Data (RM'm)

	4Q14	1Q15	2Q15
Revenue	189.4	111.8	88.6
Revenue Growth(%)	101.9%	-40.9%	-20.8%
Profit Before Tax	22.8	8.2	8.4
PBT Margin	12.0%	7.4%	9.5%
Net Profit	6.9	3.1	3.3
Basic EPS (sen)	1.58	0.70	0.74
EPS growth (QoQ)	150.8%	-55.7%	5.7%

Peers Comparisons

	PER (CY16)	Div. Yld (%)	Mkt Cap (RM m)
NAIM	7.0	1.8	514.2
PTARAS	8.9	4.2	577.8
GABUNGAN	6.0	4.1	330.0
Average	7.3	3.4	474.0
JAKS	5.3	0.0	499.7
FBMKLCI	14.7	3.6	958.2B



06 October 2015

Sum-of-Parts

Sum-of-Parts	RM	Remarks
Local Construction	0.31	Based on 9x FY16E PER inline with our mid-cap construction players
Vietnam Construction Job	0.64	DCF @ 6% of Vietnam EPC contract net profits
Property Development	0.14	Based on 5x FY16E inline with our mid-cap property players
Vietnam IPP	0.72	30% stake, (kE: 15.0%, IRR: 14.8%)
Mall	0.24	51% stake of 400k sq ft NLA @ RM983 psf net debt
	2.04	
SoP Discount	25%	
Fair Value	1.53	

Source: Bloomberg, Kenanga Research

Daily Charting – JAKS Resources Bhd



Comment: JAKS has been trading range bound between RM1.07 to RM1.14 over the past two weeks, since it staged a strong rally on 17-Sep. The primary trend looks positive from here as the share is currently trading above all its major SMAs. Nevertheless, we are expecting the share price to continue on its consolidation phase within RM1.07 to RM1.14 in the near-term given its thin trading volume, bearish divergence in the MACD and deep overbought situation shown on the key momentum indicators (RSI and Stochastic)

About the stock:

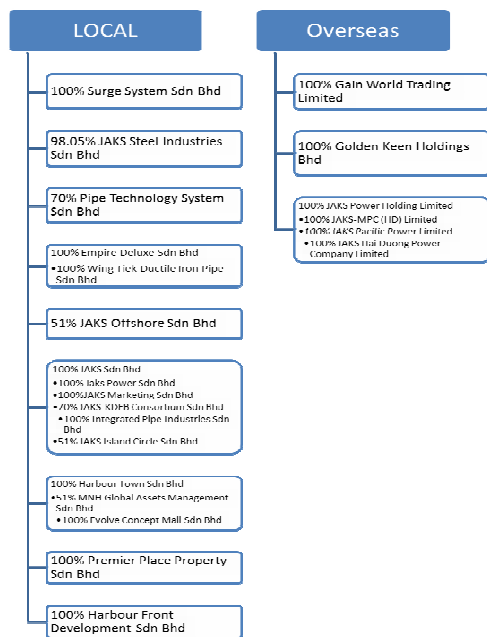
Name : JAKS Resources Bhd
Bursa Code : JAKS
CAT Code : 4723

Key Support & Resistance level

Resistance : RM1.24 (R1) RM1.34 (R2) RM1.40 (R3)
Support : RM1.07 (S1) RM1.00 (S2) RM0.92 (S3)
Outlook : Neutral

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- JAKS group of companies is primarily engaged in water supply and infrastructure construction projects, manufacturing, supply and trading of mild steel pipes, steel pipes and other steel related products.
- The Group expanded its construction activities to cover property construction in recent years. With the experience and skills gained in the construction business, the Group has moved into property development of mixed residential and commercial development projects with strategically located projects at Ara Damansara and Section 13 in Petaling Jaya.
- Internationally, the Group is diversifying into power and other large scale infrastructure projects. The strategy to invest overseas is to provide a safeguard against any adverse effects of cyclical local business activities especially in the manufacturing and construction sectors.

BUSINESS SEGMENTS

The Group has 5 operating segments, namely:

- Manufacturing:** Mainly manufacturing of pipes.
- Trading:** Mainly trading in sheet piles, steel bars, mild steel and special pipes, other steel related products, building materials and supply of products for the water supply industry.
- Construction:** Provision of sub-contracting activities, general contractor, supplier of building materials and also construction.
- Investment:** Investment holding.
- Property development:** Development of residential and commercial activities.

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