

Outthink. Outperform.

Maiden contributions from Vietnam

JAKS's 1Q16 results were broadly within expectations. JAKS recognised its maiden earnings contribution from Vietnam, and should see stronger quarters ahead. Management expects to proceed with piling and other major infrastructure works upon getting the go ahead for the plant's detailed design in 3Q16. Reaffirm BUY.

1Q16 results broadly within expectations

JAKS's 1Q16 net profit of RM1.1m accounted for 2% and 1% of our and consensus expectations respectively. We deem the results broadly within expectations, as we expect earnings contribution from its US\$455m (RM1.82bn) EPC (engineering, procurement and construction) work related to the Vietnam power plant to be more material in 2H16.

Maiden contributions from Vietnam

While the group's 1Q16 revenue registered a decent yoy growth of 9.8% to RM122.8m, 1Q16 net profit fell by 65.1% yoy mainly due to maiden depreciation charges and finance costs no longer capitalised in Evolve Concept Mall which fully began operations in 1Q16. The group's topline growth was supported by maiden contributions from the Vietnam EPC contract and progress billings in its property segment. JAKS's property unbilled sales now stands at RM300m in 1Q16 (4Q15: RM333m).

Contributions from Vietnam to gather pace from 2Q16 onwards

We expect earnings contributions from the Vietnam EPC contract to gather pace from 2Q16 onwards, given that the ground-breaking ceremony for the power plant only took place around end-Mar16. We understand from management that upon getting the go ahead for the plant's detailed design in 3Q16, JAKS would be able to progress with piling and other major infrastructure works. Currently, we gather from management that JAKS is carrying out certain infrastructure related work such as building the jetty and the workers' living quarters.

Reaffirm BUY rating and TP of RM1.60

We reaffirm our BUY call and make no change to our 12-month target price of RM1.60, based on a 20% discount to our RNAV (realisable net asset value) valuation of RM2.00. We believe JAKS is still on track to unlock value in its Vietnam project. Positive earnings surprises from the construction of non-technical work on the Vietnam project would be the key re-rating catalyst for JAKS, in our view.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	491.1	449.4	924.7	939.7	969.0
EBITDA (RMm)	73.8	81.7	189.0	191.8	197.5
Pretax profit (RMm)	53.9	55.4	169.3	172.3	178.1
Net profit (RMm)	14.0	41.6	67.7	68.9	71.3
EPS (sen)	3.2	9.5	15.4	15.7	16.3
PER (x)	26.0	8.8	5.4	5.3	5.1
Core net profit (RMm)	14.0	12.4	67.7	68.9	71.3
Core EPS (sen)	3.2	2.8	15.4	15.7	16.3
Core EPS growth (%)	86.1	(11.2)	>100	1.8	3.4
Core PER (x)	26.0	29.3	5.4	5.3	5.1
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	16.4	14.9	6.4	6.3	6.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.8	0.7	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

JAKS Resources

JAK MK
Sector: Utilities

RM0.83 @ 30 May 2016

BUY (maintain)

Upside 94%

Price Target: RM1.60

Previous Target: RM1.60



Price Performance

	1M	3M	12M
Absolute	-22.2%	-28.9%	+14.6%
Rel to KLCI	-20.1%	-27.8%	+22.9%

Stock Data

Issued shares (m)	438.4
Mkt cap (RMm)/(US\$m)	361.6/87.8
Avg daily vol - 6mth (m)	1.0
52-wk range (RM)	0.65-1.28
Est free float	70%
BV per share (RM)	1.14
P/BV (x)	0.72
Net cash/(debt) (RMm) (1Q16)	(434.1)
ROE (2016E)	12.3%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Ang Lam Poah	7.5%
Original Invention	5.7%
EPF	5.0%

Source: Affin Hwang, Bloomberg

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Risks

The key risk to our view lies in slower-than-expected recognition of earnings from the Vietnam EPC (engineering, procurement and construction) work, as it is a significant component of our valuation for JAKS. Other risks include delays in monetising the shopping mall and slower-than-expected property sales.

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q16	QoQ % chg	YoY % chg	Comments
Revenue	122.8	(9.2)	9.8	Higher yoy mainly due to higher construction revenue and maiden contributions from Vietnam EPC contract.
Op costs	(113.2)	19.3	14.3	
EBITDA	9.6	(76.1)	(24.7)	
<i>EBITDA margin (%)</i>	<i>7.8</i>	<i>-22.0ppt</i>	<i>-3.6ppt</i>	
Depn and amort	(3.3)	(18.1)	>100	Higher yoy mainly due to maiden depreciation of Evolve mall which fully began operations in 1Q16.
EBIT	6.3	(82.6)	(46.6)	
Int expense	(6.1)	(21.5)	69.9	Higher yoy as finance costs related to Evolve mall are no longer capitalised.
Pretax profit	0.2	(99.2)	(97.1)	
Tax	(1.4)	>100	(46.2)	
<i>Tax rate (%)</i>	<i>Nm</i>	<i>Nm</i>	<i>Nm</i>	
MI	2.2	>100	Nm	
Net profit	1.1	(96.3)	(65.1)	Broadly within Affin Hwang and street expectations.
EPS (sen)	0.2	(96.4)	(65.7)	
Core net profit	1.1	(96.3)	(65.1)	

Source: Affin Hwang, Company data

Fig 2: JAKS RNAV Valuation

JAKS RNAV Segmental	Equity Value (RMm)	Comments
Property		
- Pacific Star	33.3	51% stake in RM1.2bn GDV due for completion by 2016; c.RM400m of unbilled sales plus c.RM100m of unsold units.
- USJ 1	107.1	100% stake in GDV of RM2.0bn (5-year development) assuming 2016 launch.
Construction	490.0	PER at 10x based on 2016E net profit of RM49m, which includes non-technical work from Vietnam project.
Mall	234.6	51% stake of 460k sq ft NLA @ RM1,000 psf.
Gross debt	(601.6)	
Cash balance	41.6	
Total RNAV (without Vietnam project)	305.0	
RNAV/per share (RM)	0.70	
Vietnam IPP	571.7	With financial closure @ 30% stake (WACC: 10.2%, IRR: 14%).
Total RNAV (with Vietnam project)	876.7	
RNAV/per share (RM)	2.00	
Discount to total RNAV (with Vietnam project)	20.0%	
Target price (RM)	1.60	
No of shares (mil)	438.4	

Source: Affin Hwang estimates

Disclaimer**Equity Rating Structure and Definitions**

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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