PUBLIC INVESTMENT BANK

PublicInvest Research ***Company Initiation*** **Tuesday, January 10, 2017**

KDN PP17686/03/2013(032117)

JAKS RESOURCES BERHAD *Outperform*

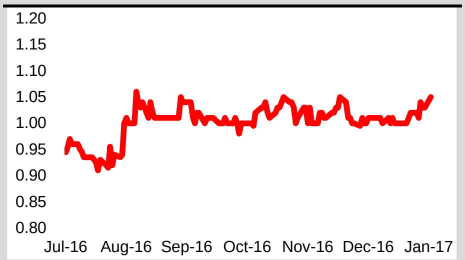
DESCRIPTION

Primarily engaged in the integrated water works industry in the early years, and now moved into infrastructural projects and land development in both domestic and international market. The new focus now is on its 30%-owned JV to build a 1200MW coal fired power plant in Vietnam.

12-Month Target Price	RM1.50
Current Price	RM1.06
Expected Return	42%

Market	Main
Sector	Construction
Bursa Code	4723
Bloomberg Ticker	JAK MK
Shariah Compliant	No

SHARE PRICE CHART



52 Week Range (RM)	RM0.81 – RM1.22
3-Month Average Vol ('000)	956.1

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	2.0	5.1	9.0
Relative Returns	3.3	5.8	8.9

KEY STOCK DATA

Market Capitalisation (RM m)	464.7
No. of Shares (m)	438.4

MAJOR SHAREHOLDERS

	%
Ang Lam Poah	8.6
Original Invention	6.0
Philip Capital	5.5

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Powering-Up Earnings

Jaks Resources (JAKS) is one of the 3 Malaysian companies that were awarded the independent power producer (IPP) contract to build a power plant in Vietnam. The other two are Toyo Ink and Teknik JanaKuasa. As for progress, Jaks is arguably the most advanced as it has secured agreements which include a land-lease deal, a power plant agreement, build-operate-transfer (BOT) contract, coal-supply agreement and a government guarantee. More importantly, it has roped in an established power plant builder, China Power Engineering Consulting Group Co Ltd (CPECC) as its equity partner to build a 1200 MW coal-fired power plant in Hai Duong province, Vietnam. The JV company has also secured US$1.4bn (c.RM5.8bn) in financing, or 75% of project costs. Works have commenced in 2QCY16, with the first phase to be completed by 2020. We expect its near term earnings to be underpinned by its Vietnam engineering, procurement and construction (EPC) contract worth RM1.9bn, and other local jobs such as SUKE highway (RM508m), while recurring income to start kicking in by 2020.

Our fair value is RM1.50, derived from c.30% discount to our SOTP estimates of RM2.20, or implied c.10x of FY17 EPS. Granted, earnings are bumped up mainly by its high margins EPC contract but we believe the power plant financing structure is essential to ensure healthy cash flow and balance sheet during the construction period. Its net gearing is at 0.8x currently, but should be pared down with the plan to dispose its non-core assets.

- **1200 MW coal fired IPP.** Jaks, together with CPECC, is constructing a BOT power plant, with an estimated cost of US$1.87bn with 25 years concession and power purchase agreement with Viet Nam Electricity (EVN). US$1.4bn already secured back in September 2015 from Industrial and Commercial Bank of China, China Construction bank Corporation and Export-Import Bank of China. The JV has US$160m capital (equity portion) and expects the remaining balance of US$307.1m to be injected in the next 3 years. Management expects strong IRR in the mid-teens with the first unit expected to be completed by mid-2020, and the second unit 6 months later.

- **c.RM3bn Outstanding Orderbook.** Construction earnings visibility is good, underpin by the high-margin EPC contract and local jobs worth c.RM1.2bn. The EPC already started contributing in 2QFY16, with PAT margin of c.20%. We expect the billings to ramp up next year, with another RM1.8bn left to be recognized over the next 4 years.

- **Property.** Currently, it has only one project i.e. Pacific Star with c.RM130m unsold units and commercial podium and car parks (valued at RM330m). Also, it owns a mall i.e. Evolve Concept Mall (420k sf NLA). We understand property business will take a back seat for now, with plans to dispose the investment assets especially Evolve Concept Mall within the next one year.

KEY FORECAST TABLE

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F	CAGR
Revenue	490.9	461.2	757.6	1,000.2	1,163.4	24.1%
Operating Profit	69.6	74.5	100.1	139.7	163.4	23.8%
Pre-tax Profit	54.3	55.3	66.8	106.7	130.8	24.6%
Net Profit	14.0	41.5	40.6	64.9	79.5	54.4%
EPS (Sen)	3.2	9.5	9.3	14.8	18.1	54.4%
P/E (x)	33.2	11.2	11.5	7.2	5.8	
DPS (Sen)	0.0	0.0	0.0	0.0	0.0	
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	

Source: Company, PublicInvest Research estimates

Company Background

JAKS Resources Bhd (JAKS) is primarily engaged in the integrated water works industry in the early years. Founded in 1987 by Datuk Ang Ken Seng, the group initially commenced operations as water supply contractors and other water related works. Beside water construction activities, JAKS ventured into manufacturing of mild steel pipes and subsequently expanded into manufacturing of other steel products in anticipation of the prospects of pipe replacement market in Malaysia. Subsequently, it moved into infrastructure projects, land development and trading of construction and steel related products in both domestic and international market. The new focus now is on its 30%-owned JV to build a 1200MW coal fired power plant in Vietnam. It has since disposed its manufacturing business and streamlining its property business to focus mainly on construction and power plant.

Power Industry in Vietnam

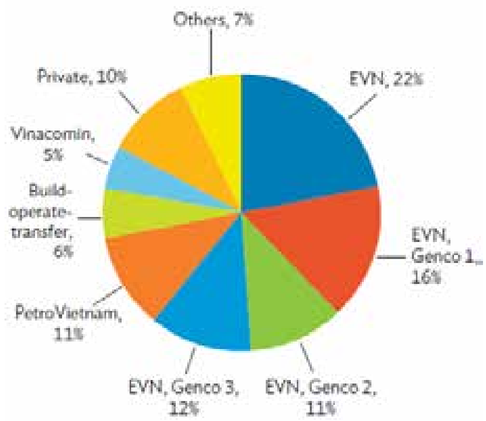
Entry of independent power producers starting in 2000 but the reforms only formally enforced when the Electricity Law came effective in 2005

The power sector reforms in Vietnam saw the entry of independent power producers starting in 2000 but the reforms only formally enforced when the Electricity Law came effective in 2005. The law's goal was to create a competitive, equitized, more efficient and equitable power market. As of 2013, the country's power company Viet Nam Electricity (EVN) retained 22% of the total installed capacity and three power Gencos(generation company) owned 39%. State-owned companies hold 16% and plants under BOT and private ownership owns 16% with the remaining 7% unknown. Foreign-owned BOT owners sell all output to a single buyer (e.g. EVN) with long term contract prices set by negotiation between the BOT owners and the Ministry of Industry and Trade (MOIT).

Figure 1:Structure of Power Sector

Source: Huu(2014), SMO=system and market operator

Figure 2:Ownership of Installed Capacity, 2013



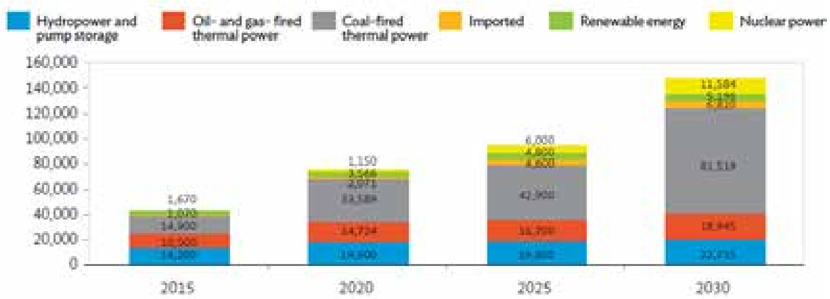
Source: Huu(2014)

The PMP VII emphasizes the development of power sources in all regions of the country (North, Central and South) to ensure electricity sufficiency. The target is to reach 75,000-MW generating capacity by 2020 and 146,800 MW by 2030

Vietnam, which is one of the emerging economies over the last 20 years with average growth over 6.8% from 1990 to 2013, saw its real GDP per capita tripled from US$301 in 1990 to US$1,029 in 2013. Power consumption also increased in tandem with the economic growth but is undergoing reforms to remedy financial and managerial difficulties faced by the government-owned EVN. The reform program operates under the general direction of the Power Master Plan VII (PMP VII) for 2011-2020, which envisages in the long run a completely competitive electricity sector.

Among the four specific targets set by PMP VII, one specifies that it aims to increase aggregate electricity output to 194-210 gigawatt-hours (GWh) by 2015, to 330-362 GWh by 2020, and to 695-834 GWh by 2030. Generally, hydro remains dominant in Vietnam, accounting for about 46% of installed capacity in 2013. Coal-fired capacity has also expanded from 10% of the total in 2000 to c.25% in 2013. The PMP VII emphasizes the development of power sources in all regions of the country (North, Central and South) to ensure electricity sufficiency. The target is to reach 75,000-MW generating capacity by 2020 and 146,800 MW by 2030. About 35% of needed investments will come from EVN, 30% from BOT arrangements and 21% from IPPs and the rest will be shared between the two state-owned enterprises i.e. Vinacomin and PetroVietnam.

Figure 3:Development Plan for Electricity Generation (MW)



Source: 7th National Power Development Master Plan, 2011-2020

Table 1:Transmission Network and Targeted Additions

	2011-2015	2016-2020	2021-2025	2026-2030	2011-2030
I - Generation	22.08/ 4.42	28.83/ 5.77	27.01/ 5.40	32.44/ 6.48	110.32/ 5.52
II - Grid	7.25/ 1.45	10.52/ 2.11	12.35/ 2.47	15.87/ 3.17	45.98/ 2.30
Total	29.32/ 5.86	39.35/ 7.87	39.35/ 7.87	48.28/ 9.66	156.30/ 7.82

Source: 7th National Power Development Master Plan, 2011-2020

Jaks, together with CPECC, is constructing a BOT power plant, with an estimated cost of US$1.87bn with 25 years concession to sell its output to EVN

Jaks, together with CPECC, is constructing a BOT power plant, with an estimated cost of US$1.87bn with 25 years concession to sell its output to EVN. The IPP will be funded by 75% debt and 25% equity, with US$1.40bn already secured back in September 2015 from Industrial and Commercial Bank of China, China Construction Bank Corporation and Export-Import Bank of China. Now, we understand that the JV co is US$114m capitalized and expects the remaining balance of US$210m by end-2016. We understand that the technical EPC works will be awarded to CPECC while Jaks would be responsible for non-technical civil works worth US$454.5m. The job is expected to enjoy margins of c.20% PAT, which we understand that most of the EPC gains expected to be redeployed into the JV company that would ease the capital requirement upfront.

In the JV agreements, which Jaks owns 30% and the remaining owned by CPECC

JV agreement with CPECC. In the JV agreements, which Jaks owns 30% and the remaining owned by CPECC, the subscription agreement determines the amount of funding required from both for the Vietnam IPP. With the lucrative EPC contract, we believe that construction gains will finance a large part of the capital spending for the project. CPECC will eventually emerge with a 70% stake in JV company i.e. JAKS Pacific Power Ltd (JPP) upon injecting a total of US$327m, while JAKS' 30% stake would cost US$140.1m via staggered capital injection in the next 3 years. Separately, Jaks has a call option under the option agreement to raise its stake in JPP to 40%. Year one capital requirement has been fulfilled by Jaks (US$30m).

Table 2: Hai Duong BOT Equity Investment

in USD million	CPECC	JAKS	Banks	Total
Mar '16	70.0	30.0	14.0	114.0
Dec '16	60.0	-	150.0	210.0
2017 - 2020	197.0	110.1	1,237.4	1,544.5
Total	327.0	140.1	1,401.4	1,868.5

Source: Company

Table 3: Hai Duong BOT completion/Delivery Programme

Equipment	Completion/ Delivery Date	Remarks
Main Plant	2020	Steel and M&E equipment to be manufactured in China
- Boiler	2018/2019	Fabrication in progress in China plants
- Turbine	2018/2019	
- Generator	2018/2019	
Living Quarters	2017	On track
Jetty	2018	Equipment like barge uploaders and conveyors to be manufactured in China
Administration Building	2018	On track

Source: Company

CPECC is the wholly-owned subsidiary of China Energy Engineering Corp. (CEEC) which was listed in 2015 in Hong Kong (3996 HK) and was ranked 309th in the Fortune Global 500 in 2016

Who is CPECC? CPECC is the wholly-owned subsidiary of China Energy Engineering Corp. (CEEC) which was listed in 2015 in Hong Kong (3996 HK). CEEC, which in turn controlled by state-owned power conglomerate China Energy Engineering Group Co. is engaged in the design and construction of power plants, with projects across China and in more than 80 countries overseas, according to its filing to the Hong Kong stock exchange and was ranked 309th in the Fortune Global 500 in 2016. It also has businesses in equipment manufacturing, explosives and cement production and investments in power projects. Notable projects, among others include the construction of the Three Gorges Project in Central China's Sichuan province and a nuclear-power project in Guangxi province. As for coal fired power plant, it actually had built a similar 2x600 MW power plant in Vinh Tan, Vietnam. Annual revenue in FY15 was c.US$33bn. Hence, we believe that Jaks has roped in a credible partner that is technically and financially sound to execute the project.

Figure 4: CEEC's Financial Highlights

Source: Company

Figure 5: Fossil Fuel Power Plant Jobs by CEEC

Source: Company

Among the 3 local Malaysian companies which were given the nod build coal-fired power plants in Vietnam, Jaks-CPECC JV's progress is arguably the most advance as it has started construction in 1Q2016

Jaks-CPECC Power Plant

Construction started. Among the 3 local Malaysian companies which were given the nod build coal-fired power plants in Vietnam, Jaks-CPECC JV's progress is arguably the most advance as it has started construction in 1Q2016. All the essential agreements were secured which include a land-lease deal, a power plant agreement, build-operate-transfer (BOT) contract, coal-supply agreement and a government guarantee.

The most recent completed coal-fired power plant was AES-VCM Mong Duong Power Company, a joint venture between AES Corporation (51%), Posco Energy (30%) and China Investment Corporation (19%), which developed the 1,240MW Mong Duong-2 in the Quang Ninh Province of Vietnam. The power is similar to Jaks-CPECC as the power plant was constructed on a build-operate-transfer (BOT) basis and comprises two generating units of 620MW gross capacity each. We understand that Mong Duong-2 is Vietnam's first and biggest coal-fired BOT project and is also the biggest private sector power project undertaken in the country. The $2.1bn project was developed with 100% foreign direct investment. Ownership will be transferred to the government of Vietnam after 25 years of operation. The project was started in September 2011 with the 620MW first unit was grid-connected in June 2014 and the second unit in May 2015.

Table 4: BOT Power Plants in Vietnam

Project Location	Capacity (MW)	Cost (US$)	Company	Country	Type	Status	Investment Certificate	COD
Phu My 2.2	715	0.5	EdF International Sumitomo Tokyo Electric Power	France Japan Japan	Gas	Operational	1999	2005
Phu My 3	720	0.4	BP SempCorp Utilities Kyushu Electric Power Sojitz Corp	UK Singapore Japan Japan	Gas	Operational	1999	2004
Mong Duong	1240	2.1	AES Corporation Posco Energy China Invetment Corp	US Korea China	Coal	Operational	2010	2015
Hai Duong	1200	1.87	Jaks Resources CPECC	Malaysia China	Coal	Construction Started	2011	NA
Vinh Tan 1	1200	1.75	Southern Power Grid China Power Int Vietnam National Coal	China China Vietnam	Coal	Construction Started	2014	NA
Vung Ang 2	1200	2.5	Mitsubishi CLP holdings	Japan HK	Coal	Planning Stage	NA	NA
Quang Tri	1200	2.3	Egati	Thailand	Coal	Planning Stage	NA	NA
Nghi Son	1200	2.3	KEPCO Murabeni	Korea Japan	Coal	Planning Stage	NA	NA
Dung Quat	1200	2	SempCorp Utilities	Singapore	Coal	Planning Stage	NA	NA
Duyen Hai	1200	2.2	Teknik Janakuasa	Malaysia	Coal	Planning Stage	NA	NA
Vung Ang 3	1200	2	Samsung	Korea	Coal	Planning Stage	NA	NA
Long Phu	1200	1.8	Tata Power	India	Coal	Planning Stage	NA	NA
Quang Trach	1300	2.4	Inter RAO	Russia	Coal	Planning Stage	NA	NA
Van Phuong	1320	2	Sumitomo	Japan	Coal	Planning Stage	NA	NA
Song Hau	2000	3.5	Toyo-Ink	Malaysia	Coal	Planning Stage	NA	NA
Nam Dinh	2400	4.5	ACWA Power Taekwang	Saudi Arabia Korea	Coal	Planning Stage	NA	NA

Source: Various sources

Potential risks and mitigating measures

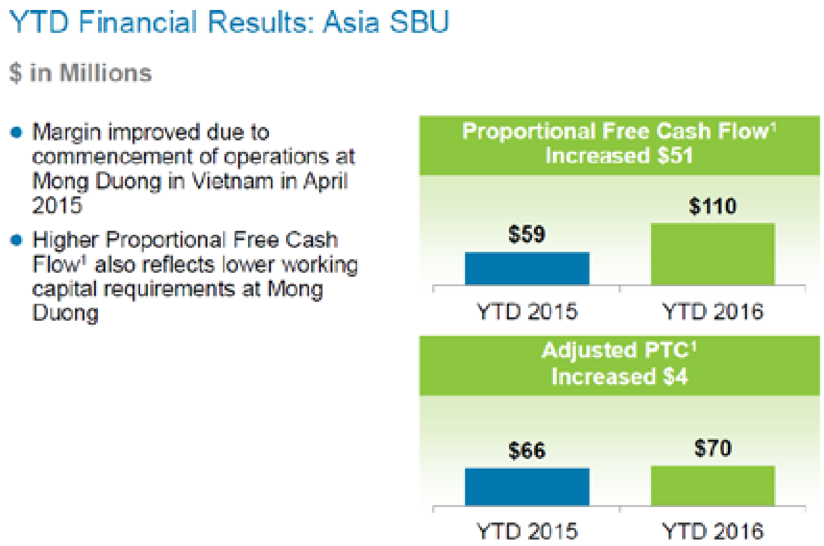
Payment Risk. Below-cost electricity tariff rates put considerable strain on EVN's finances with a state-run newspaper reported that between 2009 and 2011, the losses exceeded US$940m and the subsequent 5% price hike hardly improved things. This was despite the move to reform the power sector so that it could meet the demands of the rapidly growing economy and remedy the pricing inefficiencies that causing the inadequate funding for system maintenance, improvements and expansion. So far, we understand the power plants that achieved COD have not experienced payment issues. As for Jaks, we understand that It will bill EVN monthly and any late payments will be charged interest and in the worst case where there is no payment by Vietnam Electricity (EVN), it will rely on the Government Guarantee and Undertakings Agreement to recover the payment obligations of EVN from the Vietnamese Government. Separately, the completed coal fired power plant in Mong Duong appears to operating without any issues, which contributed to AES' margin and free cash flow improvement in Asia (Figure 6).

Coal Supply Risk. Vietnam has substantial reserves of fossil fuels, making it energy self-sufficient currently. However, with the energy demand growing by up to 14% a year, the country's easily exploitable reserves of coal and gas are slowly depleted could affect future supply. That said, Jaks has in place 25-year coal supply agreement with the government and we understand that coal supply for its power plant can be sourced from 6 mines located in neighbouring Quang Ninh province (80km away). The coal will be transported to the plant via river water ways which is typical transportation method to transport coal for power plants in Vietnam. In additional, costs will be passed through according to the PPA agreement.

Currency risk. We understand that Jaks will be paid in Vietnam Dong for its power supply. To mitigate the currency risk, Jaks will convert the proceeds generated in Vietnam Dong into US$ on monthly basis to prevent exposure to currency volatility.

Construction risk. With CPECC on board, we believe it should have enough technical support based on CPECC's track record in power plant construction. CPECC was also involved in a similar 2x600 MW power plant in Vinh Tan, Vietnam. As for site, we understand that land at the site has been cleared and works have been progressing smoothly so far with main equipment tenders already started. As for power transmission grid, we understand that the nearest grid is 500m away from the site.

Figure 6: AES' completed Power Plant performance



Source: AES

Construction costs. The estimated construction cost of US$1.87bn is within the range of the costs of new coal-fired power plants in Vietnam. Hence, the higher than normal construction margins (PAT c.20%) is not a concern as the construction in fact is lower than the average cost for the new power plants. Jaks-CPECC's cost US$1.56m per MW, with other plants' costs between US$1.50m to US$2.08m and averaging about US$1.73m per MW. Hence, we believe the high margins are probably to ease the cash flow for the power plant investors by having higher 'indirect' financing.

Tariff Assumptions. Foreign-owned BOT owners sell all output to a single buyer (i.e. EVN) at a long-term contract prices set between the investor and MOIT. Admittedly, valuing PPAs can be tricky with lack of disclosure apart from guidance from Management on its expected IRR, margins, etc. The approved tariffs are not disclosed due to sensitive nature of the information. Based on PMP VII, the tariff rates will be increased gradually to cover the long-term marginal cost of the electricity system by 2020 amounting to 8-9 US cents/kWh. Our assumptions are between 4-6 US cents/kWh. Currently, the retail tariffs are 6.81-8.70 US cents/kWh.

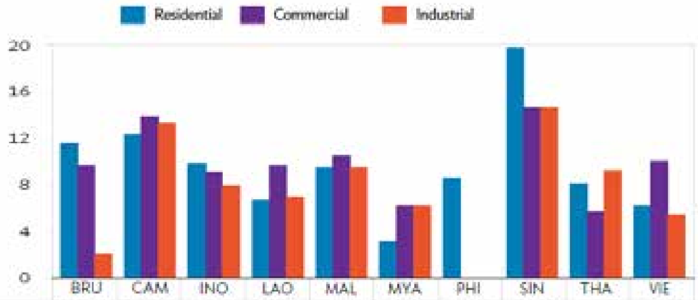
Table 5: Electricity Tariff in Vietnam

Year	Average Electricity Price without VAT (Đ/kWh)	Average Electricity Price without VAT (US cents/kWh)	Exchange Rate (Đ/$)	Growth Rate of Electricity Prices over the Last Approved Tariff (%)	Legal Papers
2005	789	4.99	15,800		Decision No. 215/2004/QĐ-TTg dated 29 December 2004 of Prime Minister: applied retail tariff from 1 January 2005
2006	795	5.03	15,800	0.76	
from 1 January 2007	842	5.33	15,800	5.91	Decision No. 276/2006/QĐ-TTg dated 4 December 2006 of Prime Minister: applied retail tariff from 1 January 2007
from 1 July 2008	890	5.37	16,583	5.70	Decision No. 276/2006/QĐ-TTg dated 4 February 2006 of Prime Minister: applied retail tariff from 1 January 2007
from 1 March 2009	949	5.23	18,123	6.57	Decision No. 21/2009/QĐ-TTg, dated 12 February 2009
from 1 March 2010	1,058	5.30	19,962	11.54	Circular No. 08/2010/TT-BCT dated 24 February 2009 of Prime Minister: applied retail tariff from 1 March 2010
from 1 March 2011	1,242	5.92	20,982	17.39	Decision No. 269/QĐ-TTg of Prime Minister dated 23 February 2011
from 20 December 2011	1,304	6.21	20,982	4.99	Circular No. 42/2011/TT-BCT dated 19 December 2011 of Minister of Industry and Trade: applied retail tariff from 1 March 2012
From 1 July 2012	1,396	5.43	21,000	7.06	Circular No. 17/2012/TT-BCT dated 29 June 2012 of Minister of Industry and Trade: applied retail tariff from 1 July 2012
From 22 December 2012	1,437	6.82	21,050	2.94	Circular No. 38/2012/TT-BCT dated 20 December 2012 of Minister of Industry and Trade: applied retail tariff from 1 August 2013
From 1 August 2013	1,509	7.15	21,100	5.00	Circular No. 19/2013/TT-BCT dated 31 July 2013 of Minister of Industry and Trade: applied retail tariff from 1 August 2013
From 11 November 2013	1,437 to 1,835	6.81 to 8.70	21,100		Decision No. 2165 /QĐ-TTg issued on 11 November 2013.

Source: EVN

Funding. The capital requirement, we understand, will mostly come from the EPC gains in a staggered basis. JAKS' 30% stake would cost US$140.1m, with US$30.0m already invested in the first year. Hence, based on gains from EPC of c.US91m, the potential capital needed is only US$19m, which can be funded by proceeds from its proposed disposal of non-core assets.

Figure 7: Average Electricity Tariff in ASEAN, 2011



	BRU	CAM	INO	LAO	MAL	MYA	PHI	SIN	THA	VIE
Residential	11.465	12.195	9.67	6.465	9.36	3.09	9.585	19.76	7.94	6.04
Commercial	9.555	13.78	9.06	9.58	10.385	6.17	N/A	14.5	5.65	9.935
Industrial	1.91	13.17	7.76	6.785	9.355	6.17	N/A	14.5	9.05	5.31

Source: Poch and Tuy

Key Revenue Driver

Construction. Jaks' earnings will be driven by construction division, especially from EPC job in Vietnam. The Group's outstanding orderbook is at historical high at c.RM3bn, with main jobs such the non-technical EPC portion of the Vietnam project worth US$454.5m (RM1.72bn) and SUKE (RM509m). Going forward, Jaks will be tendering for more jobs especially water-related and infrastructure projects. Tender book is c.RM2bn, mainly in jobs such as highways, pipe laying, sewerage pipes and general construction. As for pipe manufacturing, it has offloaded the plants to focus mainly on construction.

Table 6: Outstanding Orderbook

As at 30 September 2016 (RM m)	Contract Value	Start Date	End Period	Outstanding Order Book
Water / Sewerage Infrastructure				
Besut Dam, Terengganu	345	2010	2015	0.4
Langat II Package 5*	55	2015	2017	42.5
Puchong Pipe Laying	237	2013	2017	130.8
Jinjang, Kepong Pipe Laying	399	2014	2018	107.7
JinJang Kepong, Sewerage Plant	380	2016	2018	179.2
Road / Building Infrastructure				
Sadong Bridge, Sarawak	211	2012	2016	5.3
Bayan Lepas Road Upgrade & Flyover	208	2014	2016	46.8
Pacific 63	70	2013	2016	14.6
Hospital Sri Aman, Sarawak	166	2016	2018	79.6
SUKE (New – Announced in August 2016)	508	2016	2019	508.5
Sub Total	2,579			1,115.4
EPC Contract for Vietnam IPP	1,886**	2016	2020	1,735.8**
CURRENT TOTAL	4,465			2,851.2

Source: Company

Property. Property division has been an important revenue driver with the division emerged as the largest revenue driver in FY14. However, with current difficult trading environment, Jaks is taking a cautious stance and will only focus on selling unsold units in hand. Currently, Jaks has only one on-going project - Pacific Star in Section 13, Petaling Jaya that was launched in Sep14 (due for first completion in 2017). This mixed development project is estimated to command a GDV of RM1.1bn comprising a 9-storey office and commercial podium, 2 blocks of office towers and 3 blocks of apartment. In the pipeline, it has another land i.e.Jaks USJ 1 which has estimated RM2bn GDV. The USJ 1 project involves redeveloping the site of its existing headquarters in Lot 526, Persiaran Subang Permai into a mixed-use development which consists of Jaks Tower, 3 blocks of office suites and 6 blocks of service apartments. That said, we understand the land could also be disposed outright at the right price. Unbilled sales as at 3QFY16 are at RM233m.

Figure 8: Pacific Star, Section 13

Source: Company

Table 7: Sales YTD for Pacific Star

Phases	GDV (RM m)	% Sold	Unbilled Sales (RM m)	Expected Completion
Podium (Commercial, Car Parks)	330.3	0%	-	Q1 2017*
Office	325.0	95.0%	77.6	
Apartments	428.7	72.0%	155.8	
Total	**1,084.0**		**233.4**	

Source: Company

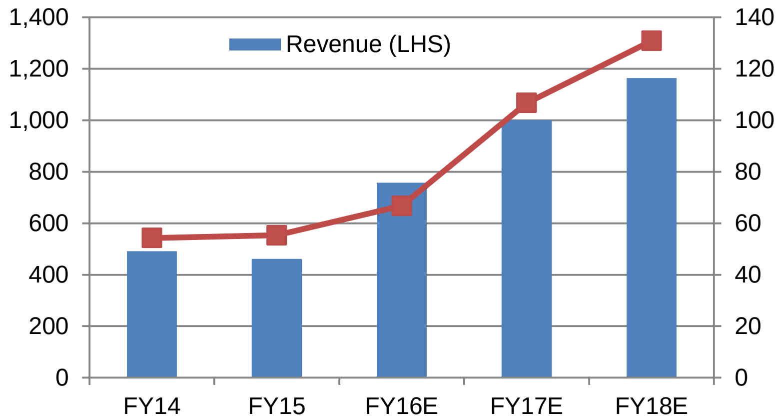
Investment Assets. Jaks' Evolve Concept Mall was opened in Q32015, with 360ksf NLA but could be expended to 420ksf NLA. Currently, only 62% of the tenants opened for business but we understand that signed up tenants are at 80%. With low occupancy currently, the mall is suffering losses but it is no secret that Jaks is looking to dispose the mall as it is now perceived as non-core. The carrying book value for the mall is RM390m, and we understand it is hopeful to fetch at least RM1000psf or RM420m for the mall. Given current oversupply of malls, we believe it will be challenging for it to monetize the mall quickly but we understand Management is targeting selling it within the next one year. Also up for sale is its podium commercial business hub in Pacific Star, Section 13 that has estimated market value in excess of RM250m.

Financials

Strong earnings growth. With the high EPC profits, Jaks' earnings are expected to move markedly higher with expected FY14-17E earnings CAGR of 54.4% and partly by property billings. In 9MFY16, revenue from Vietnam project is RM150.2m, with RM30.0m net profit (c.20% net margin). Projected jobs replenishment is c.RM400-500m p.a. mainly from pipe laying, sewerage and upgrading of highways. To be conservative, we just assume replenishment rate of c.RM300m p.a. and for property business, only contribution from Pacific Star is assumed for now as the land at USJ 1 could be sold outright. As for IPP, the contributions are only expected from 2020 onwards.

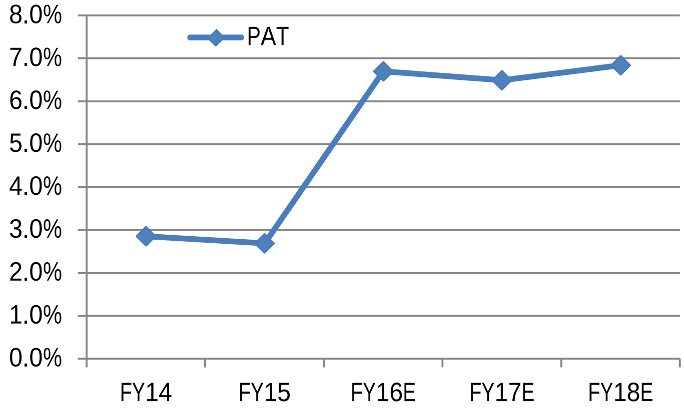
Earnings drag from investment assets. Currently, its Evolve Concept Mall is incurring losses due to finance costs, depreciation and operating expenditure and low occupancy at 62%. We understand the Management is actively seeking a buyer but in the Interim, we forecast that the mall's losses could be dragging earrings in the near term. We estimate the mall to incur c.RM16m losses (net stake) with the target to be sold by 1H2017. All told, We expect Jaks' to improve its PAT margin to c.6-7% in FY16-17E from c.3% in FY14-15A mainly due to better profit margins from the EPC job from its Vietnam project.

Figure 10: Revenue and Pretax Profit (RM '000)



Source: PublicInvest Research estimates

Figure 11: PAT Margins



Source: PublicInvest Research estimates

Valuation

Fair Value of RM1.50. We value Jaks based on its SOTP valuations, with c.31% of the value from its 30% stake in 1200-MW coal-fired power plant in Vietnam. Our target target price of RM1.50 for Jaks is based on a c.30% discount to SOTP valuations, or implied 10x PER of FY17 EPS vis-à-vis 10-14x of its peers. The higher discount ascribed is because its power plant is still at nascent stage, and hence our conservative stance. In our SOTP, we segregated construction earnings based on its normalized revenue and one-off revenue jump from its EPC contract. Property is valued at market value. As for earnings, we expect the recurring nature of its power plant will improve quality earnings that could provide the company with the financial wherewithal to expand further especially in Vietnam or probably return as dividends to shareholders.

Table 8: Jaks' SOTP Valuations

SOP Component	RM/m	Multiplier/ Stake		Value to Jaks		Per Share
Construction (RM300m, 5% PBT)	11	10		114		0.26
Hai Duong IPP - FCFE at 12% equity cost	1,096	30%		329		0.75
EPC Contract	298			298		0.68
Property RNAV						
	BV(RMm)	MV(RMm)	Stake	Net Surplus		
Evolve Concept Mall	397	397	51%	-	-	
USJ land	39	193	100%	117	0.27	
	Outstanding GDV (RM m)	NPV (12% discount rate)				
Pacific Star	562	37	51%	19	0.04	
Property NTA	323			323	0.74	
				RNAV	1.05	
50% to RNAV						0.52
SOP Value						**2.2**
Target price				-		**1.5**

Source: Bloomberg, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F
Revenue	490.9	461.2	757.6	1,000.2	1,163.4
Gross Profit	111.7	93.0	128.0	179.7	211.5
Operating expenses	-42.1	-18.5	-27.9	-40.0	-48.2
Operating Profit	69.6	74.5	100.1	139.7	163.4
Other Gains / (Losses)	3.5	4.1	3.0	3.6	4.3
Finance Costs	-18.9	-22.1	-36.4	-36.6	-36.8
Pre-tax Profit	54.3	55.3	66.8	106.7	130.8
Income Tax	-20.0	-8.1	-16.0	-25.6	-31.4
Effective Tax Rate (%)	-36.7	-14.7	-24.0	-24.0	-24.0
Minorities	-20.3	-5.7	-10.1	-16.2	-19.9
Net Profit	14.0	41.5	40.6	64.9	79.5
Growth					
Revenue (%)	-7.2	-6.1	64.3	32.0	16.3
Gross Profit (%)	-33.5	-16.7	37.6	40.4	17.7
Net Profit (%)	-36.2	196.2	-2.1	59.9	22.6

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2014A	2015A	2016F	2017F	2018F
Property, Plant & Equipment	28.0	19.9	20.8	21.9	23.0
Cash and Cash Equivalents	172.4	87.4	99.5	118.3	137.0
Receivables	110.1	71.2	124.5	164.4	191.2
Other Assets	1,132.6	1,306.7	1,296.4	1,293.5	1,311.5
Total Assets	**1,443.1**	**1,485.2**	**1,541.3**	**1,598.1**	**1,662.7**
Payables	290.3	328.2	328.2	328.2	328.2
Borrowings	603.7	556.6	559.8	563.1	566.4
Dues to Customers	0.0	0.0	0.0	0.0	0.0
Other Liabilities	0.20	4.41	28.85	36.93	42.55
Total Liabilities	**894.3**	**889.2**	**916.9**	**928.3**	**937.2**
Shareholders' Equity	459.6	501.1	529.5	574.9	630.6
Total Equity and Liabilities	**1,443.1**	**1,485.2**	**1,541.3**	**1,598.1**	**1,662.7**

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2014A	2015A	2016F	2017F	2018F
Book Value Per Share	1.0	1.1	1.2	1.3	1.4
NTA Per Share	0.6	0.8	0.9	1.0	1.1
EPS (Sen)	3.2	9.5	9.3	14.8	18.1
DPS (Sen)	0.0	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
ROA (%)	1.0	2.8	2.6	4.1	4.8
ROE (%)	3.0	8.3	7.7	11.3	12.6

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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Published and printed by:
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