

Looking past the mist

We are maintaining our BUY call on Jaks Resources (JAK), with a lower TP of RM 1.70 (RM 2.00), as the fundamentals of the company remain unchanged, despite the disappointing headline PATAMI of RM 0.7mn for FY16. The weaker than expected results were mainly due to several one-offs, and JAK's inability to recognise any EPC contract revenue in the 4QFY16.

Vietnam EPC contract is progressing well

JAK has achieved 15% completion in 2016 on its Vietnam EPC contract, which is inline with our estimates. However, JAK was not able to recognise earnings from the EPC contract in 4Q, as most of the work in 4Q related to the fabrication of equipment, for which revenue can only be recognised once it is fully completed, and based on the percentage of completion. Hence, the sharp fall in both the revenue and profit in 4Q16.

Just an accounting change

As such, we also defer part of the recognition of earnings into 2020, to match the revenue recognition treatment done by JAK. The changes have also lowered our PATAMI by 14% and 2% for FY17 and FY18E, and TP by RM0.14 or 7% (pre-dilution basis). We are still confident that the EPC can achieve COD (commercial operation date) by end of 2020 target.

Taking a prudent approach to its balance sheet

JAK has taken a more prudent approach to address some of its liability regarding the LADs in 4Q. One of the larger LADs (RM12.5mn) was related to Besut Dam that was completed a year ago, which was delayed due to severe weather conditions. The other LAD (RM5.5mn) is also related to Pacific Star project, as JAK is currently behind schedule for Menara Star 2.

Forex is non-cash translation loss

JAK also reported RM8.2mn forex translation loss due to unfavourable swing in the USD/MYR on the cost of its investment in Vietnam, which was subsequently refunded by its JV partner. We view the loss as one-off item. However, if we were to factor in the one-offs and recognition of EPC revenue based on 15% completion, the overall PATAMI should be around RM39.4mn for FY16, slightly lower than the RM41.5mn for FY15.

Looking past the accounting and one-off for value

We are still maintaining our BUY call on the stock, with a lower TP of RM1.70 from RM2.00, despite lowering our EPS by 22% and 8% for FY17 and 18E, to account for the changes recognition of EPC contract and the dilution on the impending 10% new share placement.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016	2017E	2018E
Revenue (RMm)	490.9	461.2	640.4	1,041.0	1,048.2
EBITDA (RMm)	73.8	81.2	57.9	114.3	130.4
Pretax profit (RMm)	54.3	55.3	(7.3)	72.6	98.4
Net profit (RMm)	14.0	41.5	0.7	63.2	88.4
EPS (sen)	3.2	9.5	6.1	13.1	18.3
PER (x)	38.4	13.0	20.1	9.4	6.7
Core net profit (RMm)	14.0	41.5	26.8	63.2	88.4
Core EPS (sen)	3.2	9.5	6.1	13.1	18.3
Core EPS growth (%)	86.9	195.7	(35.3)	114.0	39.9
Core PER (x)	38.4	13.0	20.1	9.4	6.7
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	38.6	10.6	9.3
Chg in EPS (%)				-22.2%	-7.6%
Affin/Consensus (x)				Na	na

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Jaks Resources

JAK MK

Sector: Utilities

RM1.23 @ 27 Feb 2011

BUY (maintain)

Upside 38 %

Price Target: RM1.70

Previous Target: RM2.00



Price Performance

	1M	3M	12M
Absolute	-3.9%	17.1%	7.9%
Rel to KLCI	-4.3%	12.5%	6.0%

Stock Data

Issued shares (m)	438.4
Mkt cap (RMm)/(US\$m)	539.2/121.4
Avg daily vol - 6mth (m)	2.0
52-wk range (RM)	0.81-1.4
Est free float	64.7%
BV per share (RM)	1.20
P/BV (x)	1.03
Net cash/ (debt) (RMm)	(469.17)
ROE (2017E)	9.9%
Derivatives	No
Shariah Compliant	No

Key Shareholders

YIN KOON YEW	9.1%
LAM POAH ANG	8.7%
ORIGINAL INVENTION S	6.0%
PHILIP CAPITAL MANAG	5.5%

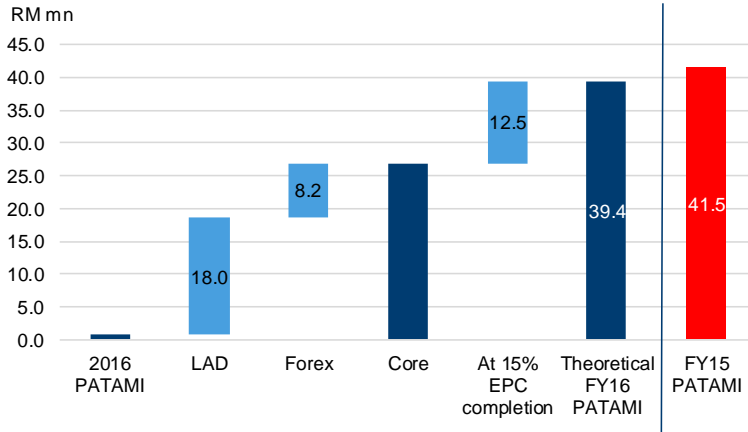
Source: Affin Hwang, Bloomberg

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Key risks

Risks to our call include: i) slower than expected revenue recognition from the Vietnam EPC contract; and ii) lower occupancy rate for its Evolve Concept Mall.

Fig 1: The results are not as bad after factoring in the one-off and recognizing the EPC contract based on 15% completion



Source: Affin Hwang, Company

Fig 2: Results Comparison

FYE 31 Dec (RMm)	4Q16	QoQ % chg	YoY % chg	FY16	YoY % chg	Comment
Revenue	149.3	(28.6)	10.5	640.4	42.5	Mainly driven by construction revenue
Op costs	(141.4)	(24.0)	48.9	(582.4)	58.3	
EBITDA	8.0	(65.4)	(80.2)	58.0	(28.9)	
<i>EBITDA margin (%)</i>	<i>5.3</i>	<i>-5.7pt</i>	<i>-24.5ppt</i>	<i>9.1</i>	<i>-9.1ppt</i>	
Depreciation	(4.5)	17.4	12.3	(14.9)	121.5	Due to Evolve Concept Mall
EBIT	3.4	(82.1)	(90.5)	43.1	(42.5)	
<i>EBIT margin (%)</i>	<i>2.3</i>	<i>-6.9ppt</i>	<i>-24.5ppt</i>	<i>25.5</i>	<i>-8.8ppt</i>	
EI	(26.2)			(26.2)		
Int expense	(4.6)	(34.3)	(40.9)	(24.2)	23.6	Debt from Evolve Concept Mall
Pretax profit	(27.3)	(323.9)	(195.8)	(7.3)	(113.1)	
Tax	(4.2)	>100	>100	(8.7)	7.1	
<i>Tax rate (%)</i>	<i>(15.5)</i>	<i>-29.4ppt</i>	<i>-14.8ppt</i>	<i>nmf</i>	<i>nmf</i>	
Minority interests	7.5	124.6	1,176.1	16.7	(393.4)	
Net profit	(24.0)	(273.3)	(182.0)	0.7	(98.2)	Flow through from revenue
EPS	(5.5)	(273.4)	(181.9)	0.2	(98.3)	
Core net profit	2.2	(84.3)	(92.6)	26.8	117.2	

Source: Affin Hwang, Company data

Fig 3: Updated RNAV with the changes in our EPS forecast and also the enlarged share base

	Equity Value (RM mn)	Per share	Comments
Construction (domestic)	97	0.20	PER at 8x
Pacific Star	236	0.49	20% discount to remaining RNAV
Disposable assets (non-core)			
Evolve City Mall	202	0.42	51% stake at book value
Pacific Star Retail Podium	27	0.06	51% stake at book value
Other lands for disposal	49	0.10	Book Value
Total domestic asset value	611	1.27	
-) Gross Debt	-457	-0.95	Excluding minority interest share
+) Cash	40	0.08	
RNAV (without Vietnam)	193	0.40	
Vietnam IPP	412	0.85	DCF (Only JAKS's 30% stake)
Vietnam EPC contract	414	0.86	PER at 8x
RNAV (Vietnam only)	827	1.71	
Group RNAV	1,020	2.11	
Discount to RNAV	20%	20%	
Target Price (RM)	816	1.70	
# of shares	482.2		

Source: Affin Hwang estimates and forecasts

Jaks Resources – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
Revenue	490.9	461.2	640.4	1,041.0	1,048.2
Operating expenses	(417.1)	(380.0)	(582.5)	(926.6)	(917.8)
EBITDA	73.8	81.2	57.9	114.3	130.4
Depreciation	(4.1)	(6.7)	(14.9)	(23.5)	(14.1)
EBIT	69.7	74.4	43.0	90.8	116.3
Net int inc/(exp)	(15.3)	(19.5)	(24.2)	(18.2)	(17.9)
Exceptional items	-	-	(26.1)	-	-
Pretax profit	54.3	54.9	(7.3)	72.6	98.4
Tax	(20.0)	(8.1)	(8.7)	(18.1)	(24.6)
Minority interest	(20.3)	(5.7)	16.7	8.7	14.6
Net profit	14.0	41.1	0.7	63.2	88.4

Balance Sheet Statement

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
Fixed assets	28.0	19.9	17.9	5.0	1.5
Other long term assets	671.9	707.7	767.0	817.0	847.0
Total non-curr assets	699.9	727.6	784.9	822.0	848.5
Cash and equivalents	80.3	46.0	39.6	5.1	53.4
Stocks	25.7	9.2	4.2	10.2	10.3
Debtors	110.1	71.2	263.6	160.7	161.8
Other current assets	527.2	631.2	465.6	465.6	465.6
Total current assets	743.2	757.6	773.0	631.5	691.2
Creditors	152.7	150.4	438.5	289.6	312.0
Short term borrowings	260.7	230.3	283.5	283.5	283.5
Other current liabilities	137.6	181.9	5.3	5.3	5.3
Total current liab	551.0	562.7	727.2	578.3	600.7
Long term borrowings	343.1	326.2	247.5	237.5	227.5
Other long term liabilities	0.2	0.2	0.2	0.2	0.2
Total long term liab	343.3	326.4	247.6	237.6	227.6
Shareholders' Funds + MI	548.9	596.0	583.0	637.5	711.3

Cash Flow Statement

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
Pretax profit	54.3	54.9	(7.3)	72.6	98.4
Depreciation & amortisation	4.1	6.7	14.9	23.5	14.1
Working capital changes	192.9	69.4	91.4	(52.1)	21.2
Cash tax paid	(20.0)	(8.1)	(8.7)	(18.1)	(24.6)
Others	6.1	(29.2)	28.6	79.4	(127.0)
Cashflow from operations	237.5	93.6	118.9	105.3	(17.9)
Capex	(2.7)	(2.2)	(0.6)	(0.6)	(0.6)
Others	(314.1)	(119.9)	(69.2)	(50.0)	(30.0)
Cash flow from investing	(316.8)	(122.1)	(69.8)	(50.6)	(30.6)
Debt raised/(repaid)	126.9	(97.7)	(27.4)	(10.0)	(10.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Net int inc/(exp)	(4.9)	(8.0)	(12.1)	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Others	(70.9)	61.1	(20.8)	0.0	0.0
Cash flow from financing	51.2	(44.5)	(60.3)	(10.0)	(10.0)
Free Cash Flow	234.8	91.4	118.3	104.7	(18.5)

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
Growth					
Revenue (%)	(16.3)	(6.1)	38.9	62.6	0.7
EBITDA (%)	72.8	10.0	(28.6)	97.4	14.0
Net profit (%)	86.9	192.9	(98.2)	8,482.0	39.9
Profitability					
EBITDA margin (%)	15.0	17.6	9.0	11.0	12.4
PBT margin (%)	11.1	11.9	1.1	7.0	9.4
Net profit margin (%)	2.9	8.9	0.1	6.1	8.4
Effective tax rate (%)	36.7	14.8	119.5	25.0	25.0
ROA (%)	1.0	2.8	1.7	4.3	5.7
Core ROE (%)	2.6	7.0	4.6	9.9	12.4
ROCE (%)	1.6	4.5	3.2	7.2	9.4
Dividend payout ratio (%)	-	-	-	-	-
Liquidity					
Current ratio (x)	1.3	1.3	1.1	1.1	1.2
Op. cash flow (RMm)	73.8	81.2	57.9	114.3	130.4
Free cashflow (RMm)	234.8	91.4	118.3	104.7	(18.5)
FCF/share (sen)	53.6	20.9	27.0	21.7	(3.8)
Asset management					
Debtors turnover (days)	81.8	56.4	56.4	56.4	56.4
Stock turnover (days)	24.7	9.1	4.5	4.5	4.5
Creditors turnover (days)	147.0	149.1	149.1	149.1	149.1
Capital structure					
Net gearing (%)	113.9	101.9	97.3	92.6	69.7
Interest cover (x)	4.8	4.2	2.4	6.3	7.3

Quarterly Profit & Loss

FYE 31 Dec (RMm)	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16
Revenue	135.2	122.8	159.1	209.1	149.3
Operating expenses	(94.9)	(113.2)	(141.7)	(186.1)	(141.4)
EBITDA	40.3	9.6	17.4	23.0	8.0
Depreciation	(4.0)	(3.3)	(3.3)	(3.9)	(4.5)
EBIT	36.3	6.3	14.2	19.2	3.4
Int expense	(7.7)	(6.1)	(6.6)	(7.0)	(4.6)
Exceptional items	-	-	-	-	(26.2)
Pretax profit	28.5	0.2	7.6	12.2	(27.3)
Tax	0.2	(1.4)	(1.4)	(1.7)	(4.2)
Minority interest	0.6	2.2	3.6	3.4	7.5
Net profit	29.3	1.1	9.8	13.9	(24.0)
Margins (%)					
EBITDA	29.8	7.8	10.9	11.0	5.3
PBT	21.1	0.2	4.8	5.8	(18.3)
Net profit	21.7	0.9	6.2	6.6	(16.1)

Source: Company, Affin Hwang forecasts

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