# 2018 – A good year to fix all the problems

**We are maintaining our BUY call on Jaks Resources (JAKS) with an unchanged TP of RM2.25, as the core PATAMI for 2017 at RM37.1m (+37.5% yoy) surpassed our full year forecast. Headline net profit grew by 158x, mainly driven by two land sales and the reversal of LAD related to an earlier construction project. We believe the growth outlook for Jaks remain robust, as we believe Jaks will benefit from the higher earnings recognition from its Vietnam EPCC contract moving into 2018.**

### Vietnam construction more than 20% completed

Jaks has completed around 22% (RM401m out of RM1,800m) of its Vietnam EPCC contract, which started since 2016, and management is confident that they can complete the project on time by 2020. As such we are expecting a higher revenue contribution from the project, as Jaks ramps up its progress to meet the deadline. We are expecting Jaks to complete another 30% or RM540m of construction work in 2018. However, the downside risk to earnings would likely be the strengthening of MYR, as the project is based in US$.

### Working to fix the problem in its property segment

Excluding the land sale gain of RM88m for 2017, the LBT for the segment has widened to RM 22.3m from RM 19.8m, due to the LAD cost related to the Pacific Star project, and also the losses from the Evolve Concept Mall. As the Pacific Star project will be completed by 2018, we are expecting the losses from the segment to narrow. Management has also indicated that they are currently looking at different strategies to revive the loss making Evolve Concept Mall. We believe the near-term catalyst for the

### Maintain BUY with and unchanged TP of RM2.25

We maintain our BUY call on JAKS, based on an unchanged RNAV-based 12-month TP of RM2.25. The stock valuation is still undemanding, trading only at 9.5x 2018E PER. The key risks will likely arise from: 1) the progress of its Vietnam project, 2) construction order book wins, and 3) the timing and value of the disposal of its non-core assets.

### Earnings & Valuation Summary

| FYE 31 Dec | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| Revenue (RMm) | 632.2 | 676.9 | 1,376.3 | 952.5 | 639.6 |
| EBITDA (RMm) | 57.9 | 63.0 | 92.7 | 127.2 | 71.3 |
| Pretax profit (RMm) | (6.9) | 112.2 | 68.1 | 103.1 | 119.7 |
| Net profit (RMm) | 0.8 | 126.7 | 85.4 | 93.1 | 106.4 |
| EPS (sen) | 0.2 | 26.7 | 17.7 | 19.3 | 22.1 |
| PER (x) | 930.9 | 6.3 | 9.5 | 8.8 | 7.7 |
| Core net profit (RMm) | 27.0 | 37.1 | 85.4 | 93.1 | 106.4 |
| Core EPS (sen) | 6.2 | 7.8 | 17.7 | 19.3 | 22.1 |
| Core EPS growth (%) | >100 | 77.9 | 126.8 | 9.0 | 14.3 |
| Core PER (x) | 27.4 | 21.6 | 9.5 | 8.8 | 7.7 |
| 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) | 46.8 | 10.0 | 16.6 | 12.1 | 21.6 |
| | | | | | |
| Chg in EPS (%) | | | - | - | - |
| Affin/Consensus (x) | | | 1.0 | 1.1 | - |

*Source: Company, Affin Hwang forecasts, Bloomberg*

### Results Note

# Jaks Resources

JAK MK
Sector: Utilities

### RM1.69 @ 28 February 2018

### BUY (maintain)

Upside: 33%

### Price Target: RM2.25

Previous Target: RM2.25


### Price Performance

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | -2.9% | 20.7% | 56.5% |
| Rel to KLCI | -2.2% | 11.7% | 42.8% |

### Stock Data

| | |
|---|---|
| Issued shares (m) | 495.0 |
| Mkt cap (RMm)/(US$m) | 836.5/213.3 |
| Avg daily vol - 6mth (m) | 2.3 |
| 52-wk range (RM) | 1.01-1.84 |
| Est free float | 51.7% |
| BV per share (RM) | 1.22 |
| P/BV (x) | 1.39 |
| Net cash/ (debt) (RMm) | (465.69) |
| ROE (2018E) | 10.4% |
| Derivatives | No |
| Shariah Compliant | No |

### Key Shareholders

| | |
|---|---|
| Yew Yin Koon | 22.2% |
| Lam Poah Ang | 9.9% |
| Kit Pheng Tan | 8.9% |
| Original Invention Sdn Bhd | 6.0% |

*Source: Affin Hwang, Bloomberg*

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### Fig 1: Results Comparison

| FYE 31 Dec (RMm) | 4Q17 | QoQ % chg | YoY % chg | 2017 | YoY % chg | Comment |
|---|---|---|---|---|---|---|
| Revenue | 210.7 | *50.1* | *41.1* | 676.9 | *5.7* | Mainly driven by construction revenue |
| Op costs | (186.4) | *36.7* | *31.9* | (622.8) | *6.9* | |
| **EBITDA** | **24.3** | *508.1* | *205.1* | **54.1** | *(6.8)* | Higher margin due to increase contribution from Vietnam EPC |
| *EBITDA margin (%)* | *11.5* | *+8.7ppt* | *+6.2ppt* | *8.0* | *-1.1ppts* | |
| Depreciation | (3.7) | *(6.8)* | *(17.7)* | (14.3) | *(4.5)* | Due to Evolve Concept Mall |
| **EBIT** | **20.6** | *>100* | *>100* | **39.8** | *(7.6)* | |
| *EBIT margin (%)* | *9.8* | *+9.8ppt* | *+7.5ppt* | *5.9* | *-0.8ppts* | |
| EI | 88.0 | | | 98.5 | | |
| Int expense | (5.9) | *(13.8)* | *30.0* | (26.1) | *7.9* | Debt from Evolve Concept Mall |
| **Pretax profit** | **102.6** | *815.3* | *>100* | **112.2** | *>100* | |
| Tax | (0.3) | *(80.0)* | *(93.8)* | (2.1) | *(75.3)* | |
| *Tax rate (%)* | *0.3* | *-11.3ppt* | *+15.7ppt* | *1.9* | *+121.4ppts* | |
| Minority interests | 5.1 | *>100* | *(31.9)* | 16.6 | *(0.8)* | Mainly due to the 51%-owned loss-making property segment |
| **Net profit** | **107.5** | *1,013.5* | *>100* | **126.7** | *17,111.4* | Flow through from revenue |
| **EPS** | 22.7 | *983.7* | *>100* | 26.9 | *16,687.5* | |
| **Core net profit** | **19.5** | *4,509.7* | *798.6* | **37.1** | *37.5* | |

*Source: Affin Hwang, Company data*

### Fig 2: RNAV valuation for JAKS

| | Equity Value (RM m) | Per share | Comments |
|---|---|---|---|
| Construction (domestic) | 116 | 0.24 | PER at 8x |
| Disposable assets (non-core) | | | |
| Evolve City Mall | 202 | 0.42 | 51% stake at book value |
| Pacific Star Retail Podium | 51 | 0.11 | 51% stake at book value |
| Other lands for disposal | 193 | 0.40 | Book Value |
| Total domestic asset value | 563 | 1.17 | |
| -) Gross Debt | -439 | -0.91 | Excluding minority interest share |
| +) Cash | 40 | 0.08 | |
| **RNAV (without Vietnam)** | **166** | **0.34** | |
| Vietnam IPP | 407 | 0.84 | DCF (Only JAKS's 30% stake) |
| Vietnam EPC contract | 790 | 1.64 | PER at 10x |
| **RNAV (Vietnam only)** | **1,197** | **2.48** | |
| **Group RNAV** | 1,361 | 2.82 | |
| Discount to RNAV | 20% | 20% | |
| **Target Price (RM)** | **1,089** | **2.25** | |
| # of shares | 482.2 | | |

*Source: Affin Hwang estimates and forecasts*

**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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