

Outthink. Outperform.

## More money into Vietnam

Jaks Resources (Jaks) has announced that it will be issuing a renounceable rights issue of up to 278m warrants, with an indicative price of RM0.25 per warrant, on the basis of 1 warrant for every 2 existing shares. Given that the indicative pricing for the right is in the money, there should be no dilution to current shareholders; hence, we are maintaining our BUY call and TP at RM1.90 unchanged.

### Issuance in the money, no immediate dilution

Based on the current price indication, the total cost of the new share is at RM1.25 (RM0.25 for the subscription and RM1.00 for the conversion of the warrants), which is at 15% discount to the current share price. Given the sharp discount, there is a high likelihood that most of the rights will be subscribed, in our view. The warrants will expire in 5 years from the date of issuance, and can be converted from the 2nd anniversary date of the issuance. The total immediate fund raised from the subscription is RM68.2m-RM69.5m, with an additional RM278m from the conversion of warrants at a later date.

### More money for Vietnam

Bulk of the money raised from the subscription will be utilised for the Vietnam power plant project, as the additional funding (RM45-46m) is needed to expedite the current progress of its EPCC contract. We believe that the allocation of RM10m to renewable energy projects is a good indicator that management is making progress in identifying new projects that will help to replenish the earnings shortfall from the completion of the Vietnam EPCC contract in 2020. The funds from the warrants conversion could be used as equity if those new projects does materialise or take up the option to acquire additional stake in the current Vietnam power plant project.

### Maintain BUY call with unchanged TP at RM1.90

We are maintaining our RNAV based TP at RM1.90 and BUY call as the company's fundamentals remains unchanged, and there is no dilution impact to the current shareholders. The re-rating catalyst for the stock will be the progress of its Vietnam power plant project. Downside risks to our call are 1) widening losses from its property segment, and 2) slower recognition from its Vietnam EPC contract.

### Earnings & Valuation Summary

FYE 31 Dec	2016A	2017A	2018E	2019E	2020E
Revenue (RMm)	632.2	676.9	1,376.3	952.5	639.6
EBITDA (RMm)	57.9	63.0	81.4	115.8	59.7
Pretax profit (RMm)	(6.9)	112.2	56.8	91.2	107.2
Net profit (RMm)	0.8	126.7	77.0	84.2	96.9
EPS (sen)	0.2	26.7	15.5	17.0	19.5
PER (x)	793.2	5.4	9.3	8.5	7.4
Core net profit (RMm)	27.0	37.1	77.0	84.2	96.9
Core EPS (sen)	6.2	7.8	15.5	17.0	19.5
Core EPS growth (%)	>100	26.8	98.5	9.5	15.1
Core PER (x)	23.4	18.4	9.3	8.5	7.4
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)	19.4	16.2	11.7	8.7	15.6
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.5	1.1	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

## Company Update

# Jaks Resources

JAK MK  
Sector: Utilities

RM1.44 @ 6 June 2018

**BUY (maintain)**

Upside 32%

**Price Target: RM1.90**

Previous Target: RM1.90



## Price Performance

	1M	3M	12M
Absolute	-0.7%	-11.1%	-8.9%
Rel to KLCI	2.9%	-7.5%	-8.1%

## Stock Data

Issued shares (m)	545.9
Mkt cap (RMm)/(US\$m)	786.2/197.9
Avg daily vol - 6mth (m)	2.8
52-wk range (RM)	1.25-1.84
Est free float	54.6%
BV per share (RM)	1.44
P/BV (x)	1.00
Net cash/ (debt) (RMm)	(408.06)
ROE (2018E)	9.4%
Derivatives	Nil
Shariah Compliant	No

## Key Shareholders

Koon Yew Yin	21.1%
Ang Lam Poah	8.9%
Tan Kit Pheng	8.7%
Original Invention	5.4%

Source: Affin Hwang, Bloomberg

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**Fig 1: Utilisation of the fund raised from the subscription of warrants**

	Timeframe for utilisation	Minimum Scenario RM'000	Maximum Scenario RM'000
Vietnam Power Plant Project <sup>(1)</sup>	Within 12 months	45,002	46,300
Partial repayment of bank borrowings <sup>(2)</sup>	Within 6 months	12,541	12,541
Renewable Energy Project <sup>(3)</sup>	Within 12 months	10,000	10,000
Estimated expenses for the Proposed Rights Issue of Warrants <sup>(4)</sup>	Upon completion	700	700
<b>Total</b>		<b>68,243</b>	<b>69,541</b>

Source: Company

**Fig 2: The current share base would be enlarged by ~50%-52% if the warrants were to be converted**

	Minimum Scenario		Maximum Scenario	
	No. of JRB Shares ('000)	RM'000	No. of JRB Shares ('000)	RM'000
Share capital as at the LPD	545,943	598,975	545,943	598,975
Assuming all the existing outstanding LTIP Options are exercised <sup>(1)</sup>	-	-	10,385	17,758
After exercise of outstanding LTIP Options	545,943	598,975	556,328	616,733
Assuming full exercise of Warrants <sup>(2)</sup>	272,972	341,215	278,164	347,705
<b>Enlarged share capital</b>	<b>818,915</b>	<b>940,190</b>	<b>834,492</b>	<b>964,438</b>

Source: Company

**Fig 3: RNAV valuation for JAKS**

	Equity Value (RM m)	Per share	Comments
Disposable assets (non-core)			
Evolve City Mall	202	0.25	70% book value
Pacific Star Business Hub	86	0.16	70% book value
Total domestic asset value	222	0.41	
-) Net Debt	-158	-0.29	Excluding minority interest share
<b>RNAV (without Vietnam)</b>	<b>64</b>	<b>0.12</b>	
Vietnam IPP	407	0.75	DCF (Only JAKS's 30% stake)
Vietnam EPC contract	829	1.52	PER at 10x
<b>RNAV (Vietnam only)</b>	<b>1,237</b>	<b>2.27</b>	
<b>Group RNAV</b>	1,300	2.38	
Discount to RNAV	20%	20%	
<b>Target Price (RM)</b>	<b>1,040</b>	<b>1.90</b>	
# of shares	545.9		

Source: AffinHwang estimates and forecasts

Affin Hwang Investment Bank Bhd (14389-U)

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# Jaks Resources – FINANCIAL SUMMARY

## Profit & Loss Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Revenue	632.2	676.9	1,376.3	952.5	639.6
Operating expenses	(574.3)	(613.9)	(1,294.9)	(836.7)	(507.9)
<b>EBITDA</b>	<b>57.9</b>	<b>63.0</b>	<b>81.4</b>	<b>115.8</b>	<b>131.7</b>
Depreciation	(14.6)	(14.3)	(10.8)	(10.7)	(10.7)
<b>EBIT</b>	<b>43.4</b>	<b>48.7</b>	<b>70.6</b>	<b>105.0</b>	<b>121.0</b>
Net int inc/(exp)	(24.1)	(26.1)	(13.8)	(13.8)	(13.8)
Exceptional items	(26.2)	89.6	-	-	-
<b>Pretax profit</b>	<b>(6.9)</b>	<b>112.2</b>	<b>56.8</b>	<b>91.2</b>	<b>107.2</b>
Tax	(9.5)	(2.1)	(14.2)	(22.8)	(25.7)
Minority interest	17.2	16.6	34.3	15.8	15.5
<b>Net profit</b>	<b>0.8</b>	<b>126.7</b>	<b>77.0</b>	<b>84.2</b>	<b>96.9</b>

## Balance Sheet Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Fixed assets	17.9	7.0	6.8	6.6	7.5
Other long term assets	767.0	938.1	968.1	998.1	1,028.1
<b>Total non-curr assets</b>	<b>784.9</b>	<b>945.1</b>	<b>974.9</b>	<b>1,004.7</b>	<b>1,035.6</b>
Cash and equivalents	39.6	130.0	68.8	12.7	85.8
Stocks	4.2	1.8	8.5	5.9	3.9
Debtors	263.6	366.5	573.9	397.1	175.2
Other current assets	465.6	418.2	418.2	418.2	418.2
<b>Total current assets</b>	<b>773.0</b>	<b>916.6</b>	<b>1,069.4</b>	<b>834.0</b>	<b>683.2</b>
Creditors	438.5	559.9	859.9	585.9	383.6
Short term borrowings	283.5	153.2	3.2	3.2	3.2
Other current liabilities	5.3	66.0	66.0	66.0	66.0
<b>Total current liab</b>	<b>727.2</b>	<b>779.1</b>	<b>929.2</b>	<b>655.1</b>	<b>452.8</b>
Long term borrowings	247.5	310.6	300.6	300.6	300.6
Other long term liabilities	0.2	0.2	0.2	0.2	0.2
<b>Total long term liab</b>	<b>247.6</b>	<b>310.8</b>	<b>300.8</b>	<b>300.8</b>	<b>300.8</b>
<b>Shareholders' Funds + MI</b>	<b>583.0</b>	<b>771.8</b>	<b>814.4</b>	<b>882.8</b>	<b>965.3</b>

## Cash Flow Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Pretax profit	(6.9)	112.2	56.8	91.2	107.2
Depreciation & amortisation	14.6	14.3	10.8	10.7	10.7
Working capital changes	91.4	304.4	86.1	(94.7)	21.5
Cash tax paid	(9.5)	(2.1)	(14.2)	(22.8)	(25.7)
Others	29.4	(190.6)	(10.0)	(10.0)	(12.0)
<b>Cashflow from operations</b>	<b>118.9</b>	<b>238.2</b>	<b>129.5</b>	<b>(25.6)</b>	<b>101.7</b>
Capex	(0.6)	(0.1)	(0.6)	(0.6)	(0.6)
Others	(69.2)	(180.5)	(30.0)	(30.0)	(30.0)
<b>Cash flow from investing</b>	<b>(69.8)</b>	<b>(180.5)</b>	<b>(30.6)</b>	<b>(30.6)</b>	<b>(30.6)</b>
Debt raised/(repaid)	(27.4)	(8.2)	(160.0)	0.0	0.0
Equity raised/(repaid)	0.0	76.4	0.0	0.0	0.0
Net int inc/(exp)	(12.1)	(12.6)	0.0	0.0	1.0
Dividends paid	0.0	0.0	0.0	0.0	1.0
Others	(20.8)	(3.3)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(60.3)</b>	<b>52.3</b>	<b>(160.0)</b>	<b>0.0</b>	<b>2.0</b>
<b>Free Cash Flow</b>	<b>118.3</b>	<b>238.1</b>	<b>128.9</b>	<b>(26.2)</b>	<b>101.1</b>

Source: Company, Affin Hwang forecasts

## Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
<b>Growth</b>					
Revenue (%)	37.1	7.1	103.3	(30.8)	(32.8)
EBITDA (%)	45.9	8.7	29.2	42.3	13.8
Net profit (%)	(98.1)	15,816.9	(39.3)	9.5	15.1
<b>Profitability</b>					
EBITDA margin (%)	9.2	9.3	5.9	12.2	20.6
PBT margin (%)	-	1.1	16.6	4.1	9.6
Net profit margin (%)	-	0.1	18.7	5.6	8.8
Effective tax rate (%)	-	137.1	1.9	25.0	25.0
ROA (%)	1.7	2.0	3.8	4.6	5.6
Core ROE (%)	4.6	4.8	9.4	9.5	10.0
ROCE (%)	3.2	3.4	6.9	7.1	7.7
Dividend payout ratio (%)	-	-	-	-	-
<b>Liquidity</b>					
Current ratio (x)	1.1	1.2	1.2	1.3	1.5
Op. cash flow (RMm)	57.9	63.0	81.4	115.8	131.7
Free cashflow (RMm)	118.3	238.1	128.9	(26.2)	101.1
FCF/share (sen)	27.0	50.2	26.0	(5.3)	20.4
<b>Asset management</b>					
Debtors turnover (days)	152.2	152.2	152.2	152.2	100.0
Stock turnover (days)	2.8	2.8	2.8	2.8	2.8
Creditors turnover (days)	295.6	295.6	295.6	295.6	295.6
<b>Capital structure</b>					
Net gearing (%)	97.3	47.3	30.0	33.6	22.6
Interest cover (x)	2.4	2.4	5.9	8.4	9.5

## Quarterly Profit & Loss

FYE 31 Dec (RMm)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Revenue	154.8	170.9	140.4	210.7	210.2
Operating expenses	(142.2)	(157.7)	(136.4)	(186.4)	(189.4)
EBITDA	12.6	13.2	4.0	24.3	20.8
Depreciation	(3.5)	(3.0)	(4.0)	(3.7)	(3.8)
EBIT	9.0	10.2	(0.0)	20.6	17.0
Int expense	(6.1)	(7.2)	(6.9)	(5.9)	(6.2)
Exceptional items	-	(7.6)	18.1	88.0	-
Pretax profit	3.0	(4.6)	11.2	102.6	10.8
Tax	(0.3)	(0.3)	(1.3)	(0.3)	(0.4)
Minority interest	4.9	6.8	(0.3)	5.1	7.5
Net profit	7.5	2.0	9.7	107.5	17.8
<b>Margins (%)</b>					
EBITDA	8.1	7.7	2.8	11.5	9.9
PBT	1.9	(2.7)	8.0	48.7	5.1
Net profit	4.9	1.2	6.9	51.0	8.5

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**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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