

Lower progress billings drag 2Q18

Jaks Resources (JAKS) 1H18 PATAMI of RM24.2m (+44.7% yoy) came in below expectation, delivering only 32% of our full year forecast. 2QFY18 saw lower progress billings for the Vietnam EPC construction work, and higher LADs in the property division. However, we are expecting stronger earnings contribution from the Vietnam EPC contract ahead. We maintain our BUY call with an unchanged TP of RM1.90. We believe the stock is still undervalued trading at 8.8x 2019E PER.

Better 1H18 performance

JAKS recorded a stronger set of 1H18 results, with higher PATAMI of RM24.8m (+44.7% yoy). This was largely due to stronger revenue growth, underpinned by the construction division's Vietnam EPC construction work. Consequently, pretax profit also improved from a pretax loss of RM1.6m to a pretax profit of RM16.8m due to higher progress billings from the Vietnam EPC construction works. However, the strong performance by the construction sector was dampened by wider core losses in the property segment, mainly due to higher LAD incurred.

Vietnam still a beacon

On a quarterly basis, JAKS produced a softer set of result where revenue and core net profit saw a decline by 15% and 28% respectively. The weaker performance was attributable to lower progress billings recognised in 2Q18 compared to 1Q18 and higher LAD incurred of RM8.3m from the property segment. Losses from the property division was partially offset by a RM5.8m gain from the disposal of USJ Land properties. Despite a weaker 2Q results, we are expecting stronger progress recognition in the coming quarters, as they will start receiving equipment that are fabricated offsite. Management is guiding that the project is still on track to start commercial operations by 2020. Construction earnings from the EPCC contract is expected to peak in 2019.

Maintain BUY with unchanged TP at RM1.90

We maintain our BUY call and our RNAV based TP at RM1.90. The re-rating catalyst for the stock will be the progress of its Vietnam power plant project. Downside risks to our call are 1) wider losses from its property segment; and 2) slower recognition from its Vietnam EPC contract.

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	81.4	115.8	59.7
Pretax profit (RMm)	(6.9)	112.2	56.8	91.2	107.2
PATAMI (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)	531.5	3.6	6.2	5.7	4.9
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)	15.7	12.4	6.2	5.7	4.9
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)	15.8	12.6	8.8	6.7	11.7
Chg in EPS (%)	-	-	-	-	-
Affin/Consensus (x)	-	-	0.9	0.9	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Result Note

Jaks Resources

JAK MK
Sector: Utilities

RM 0.97 @ 28 August 2018

BUY (maintain)

Upside: 97%

Price Target: RM1.90

Previous Target: RM1.90



Price Performance

	1M	3M	12M
Absolute	-12.3%	-35.7%	-28.0%
Rel to KLCI	-15.0%	-37.5%	-30.2%

Stock Data

Issued shares (m)	545.9
Mkt cap (RMm)/(US\$m)	526.8/128.5
Avg daily vol - 6mth (m)	4.0
52-wk range (RM)	0.94-1.84
Est free float	62.1%
BV per share (RM)	1.44
P/BV (x)	0.67
Net cash/ (debt) (RMm)	(408.06)
ROE (2018E)	545.9
Derivatives	No
Shariah Compliant	No

Key Shareholders

Yew Yin Koon	10.9%
Lam Poah Ang	9.1%
Kit Pheng Tan	6.2%
Original Invention Sdn Bhd	5.4%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q17	1Q18	2Q18	QoQ % chg	YoY % chg	1H17	1H18	Yoy % chg	Comment
Revenue	170.9	210.2	178.3	(15.2)	4.3	325.7	388.5	19.3	Mainly driven by Vietnam EPC construction work
Op costs	(157.7)	(189.4)	(169.9)	(10.3)	7.7	(299.9)	(359.3)	19.8	
EBITDA	13.2	20.8	8.4	(59.4)	(36.1)	25.8	29.2	13.3	
<i>EBITDA margin (%)</i>	<i>7.7</i>	<i>9.9</i>	<i>4.7</i>	<i>(5.2)</i>	<i>(3.0)</i>	<i>7.9</i>	<i>7.5</i>	<i>(0.4)</i>	
Depreciation	(3.0)	(3.8)	(3.0)	(19.3)	1.7	(6.5)	(6.8)	4.2	
EBIT	10.2	17.0	5.4	(68.4)	(47.2)	19.2	22.4	16.4	
<i>EBIT margin (%)</i>	<i>6.0</i>	<i>8.1</i>	<i>3.0</i>	<i>(5.1)</i>	<i>(3.0)</i>	<i>5.9</i>	<i>5.8</i>	<i>(0.1)</i>	
EI	(7.6)	0.0	5.8	>100	>100	(7.6)	5.8	>100	Gain from disposal of Subang Jaya land
Int expense	(7.2)	(6.2)	(5.2)	(17.3)	(28.0)	(13.2)	(11.4)	(14.0)	
Pretax profit	(4.6)	10.8	6.0	(44.1)	>100	(1.6)	16.8	>100	
Tax	(0.3)	(0.4)	(1.0)	136.5	314.4	(0.6)	(1.5)	151.5	
<i>Tax rate (%)</i>	<i>(5.5)</i>	<i>4.1</i>	<i>17.2</i>	<i>13.1</i>	<i>22.7</i>	<i>(36.6)</i>	<i>8.8</i>	<i>45.4</i>	
Minority interests	6.8	7.5	7.7	3.3	14.1	11.7	15.2	30.2	
Net profit	2.0	17.8	12.7	(28.6)	543.6	9.5	30.6	221.1	
EPS	0.4	3.6	2.4	(32.4)	454.5	2.1	6.1	185.4	
Core net profit	9.6	17.8	6.9	(61.1)	(27.6)	17.1	24.8	44.7	Below our and consensus estimates.

Important Disclosures and 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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