



JAKS RESOURCES BERHAD

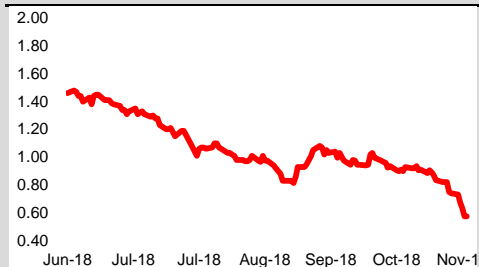
Neutral

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	RM0.65
Current Price	RM0.575
Expected Return	+13%
Market Sector	Main Construction
Bursa Code	4723
Bloomberg Ticker	JAK MK
Shariah Compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	RM0.57 – RM1.84
3-Month Average Vol ('000)	4,361.3

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-36.5	-43.1	-61.7
Relative Returns	-36.3	-36.7	-58.2

KEY STOCK DATA

Market Capitalisation (RM m)	313.9
No. of Shares (m)	545.9

MAJOR SHAREHOLDERS

	%
Koon Yew Yin	10.9
Ang Lam Poah	9.1
Tan Pheng Kit	6.2

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Back to Losses

Contrary to our expectations of stronger 2H18, JAKS Resources' (JAKS) earnings performance in 3QFY18 took an unexpected turn by swinging back to a net loss of RM2.8m. YTD, the Group's net profit of RM27.8m only constituted c.35% and c.37% of our and consensus full year estimates. This earnings discrepancy is mainly due to unexpected lower billings from its Vietnam EPC contract which registered revenue and profit after tax of RM32.8m and RM7.6m, which were even lower when compared to similar period a year ago. To recap, the project started in March 2016, with target completion by 2H2020 or c.4.5 years construction period. So far, only RM591m has been recognized or only 31% of total construction cost of RM1.89bn with c.1.5 years to targeted completion date. That said, management still believes that the power plant is on track to complete on schedule. We would rather err on the side of caution as power plant earnings continue to be erratic even though construction progress is believed to have been ahead of schedule just a few months ago. As such we cut our FY18-20 earnings estimates by 52%/22%/18% respectively. We are also wary over the various dilutive equity fund raisings done so far and the legal row with Star Media Group. Factoring higher execution risk and potential losses from the Pacific Star legal row, we revise our TP lower to RM0.65 (from RM1.10 previously), derived from higher c.60% discount to our SOTP estimates of RM1.60 or effectively pegged at c.6x PER. Maintain **Neutral**.

§ Outstanding orderbook at RM1.9bn (from RM2.0bn in 2QFY18).

Vietnam IPP EPC 2 contract registered RM32.8m in revenue and remained the largest net profit contributor with RM7.6m during the quarter. However, the profit after tax was lower c.26% YoY which was attributed to construction works which have now been refocused on completion of key components of the main power plant mainly undertaken by the Chinese partner, CPECC. We understand that of the total RM1.89bn order book for the Vietnam EPC contract, only RM591m has been billed so far.

As for the property division, unbilled sales as at 3QFY18 stood at RM160.5m, mainly from the Pacific Star development. The business division continued to bleed with higher losses due to reversal of LAD totaling RM12.1m, relating to Tower A of Pacific Star. As for its mall, the Evolve Concept mall is still incurring losses totaling RM6.4m. We still expect property to continue dragging earnings in the near term while waiting for completion of Pacific Star and also improvement of mall occupancy which is now only has 55% open tenants.

KEY FORECAST TABLE

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F	CAGR
Revenue	640.4	676.9	689.8	889.8	671.3	1.2%
Operating Profit	16.5	138.5	93.8	132.9	126.2	66.3%
Pre-tax Profit	-7.3	112.2	63.0	103.1	119.4	NA
Net Profit	-16.7	126.7	38.3	62.7	72.6	NA
EPS (Sen)	-3.1	23.2	7.0	11.5	13.3	NA
P/E (x)	-19.0	2.5	8.3	5.0	4.4	
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

Table 1: Results Summary

Results Review (RM m)	3Q18	3Q17	2Q18	Y-o-y (%)	Q-o-q (%)	YTD FY18	YTD FY17	Y-o-y (%)
Revenue	125.2	140.4	178.3	-10.8	-29.8	513.7	466.1	10.2
EBIT	-7.3	18.1	11.2	nm	nm	21.0	29.9	-29.8
PBT	-11.9	11.2	6.0	nm	nm	4.9	9.6	-49.0
Net profit	-2.8	9.7	12.7	nm	nm	27.8	19.2	44.8
Margins:								
EBIT	-5.8	12.9	6.3			4.1	6.4	
PBT Margin	-9.5	8.0	3.4			1.0	2.1	
Net Profit Margin	-2.2	6.9	7.1			5.4	4.1	

Source: Bloomberg, PublicInvest Research estimates

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
Revenue	640.4	676.9	689.8	889.8	671.3
Gross Profit	90.6	179.7	120.1	167.4	134.0
Operating expenses	-74.1	-41.2	-26.4	-34.5	-7.8
Operating Profit	16.5	138.5	93.8	132.9	126.2
Other Gains / (Losses)	0.4	8.4	4.1	5.3	28.3
Finance Costs	-24.2	-34.7	-34.8	-35.0	-35.2
Pre-tax Profit	-7.3	112.2	63.0	103.1	119.4
Income Tax	-8.7	-23.5	-15.1	-24.7	-28.7
Effective Tax Rate (%)	119.5	-20.9	-24.0	-24.0	-24.0
Minorities	-0.7	-14.9	-9.6	-15.7	-18.2
Net Profit	-16.7	126.7	38.3	62.7	72.6
Growth					
Revenue (%)	38.8	5.7	1.9	29.0	-24.5
Gross Profit (%)	-2.5	98.3	-33.1	39.3	-19.9
Net Profit (%)	-140.3	-858.2	-69.7	63.6	15.8

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
Property, Plant & Equipment	17.1	18.0	18.8	19.8	20.8
Cash and Cash Equivalents	101.7	133.8	202.7	158.6	141.7
Receivables	263.6	274.0	189.0	243.8	247.6
Other Assets	1,175.5	1,207.9	1,241.8	1,283.2	1,329.8
Total Assets	1,557.9	1,633.6	1,652.3	1,705.3	1,739.9
Payables	443.8	443.8	443.8	443.8	443.8
Borrowings	530.9	533.4	535.9	538.4	541.0
Dues to Customers	0.0	0.0	0.0	1.0	2.0
Other Liabilities	0.17	34.80	24.17	29.77	9.98
Total Liabilities	974.9	1,012.0	1,003.8	1,013.0	996.7
Shareholders' Equity	504.8	543.4	570.3	614.2	665.0
Total Equity and Liabilities	1,557.9	1,633.6	1,652.3	1,705.3	1,739.9

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2016A	2017A	2018F	2019F	2020F
Book Value Per Share	0.9	1.0	1.0	1.1	1.2
NTA Per Share	0.7	0.7	0.8	0.9	0.9
EPS (Sen)	-3.1	23.2	7.0	11.5	13.3
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 (%)	-1.1	7.8	2.3	3.7	4.2
ROE (%)	-3.3	23.3	6.7	10.2	10.9

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 12 months.
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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