

Jaks Resources Bhd

Vietnam contribution to cushion local weakness

Summary

- Jaks Resources Bhd's (JAKS) long-term prospects remain challenging, uncertain owing to the depleting construction orderbook at RM139.1m after completing the recognition of balance EPCC works at Vietnam. Still, we reckon that earnings stability will be ensured by the long term contribution from the 30.0%-owned joint venture in coal-fired Hai Doung Power Plant.
- We reckon that the construction segment may continue to see lackluster performance, owing to the absence of relatively large scale replenishment construction projects in the recent years. While the construction sector revival is very much anticipated post state elections and the tabling of Budget 2024 in Malaysia, the elevated building material prices and higher labour cost may keep margins in check.
- Also, the property investment segment may remain soft over the foreseeable future, owing to the low occupancy rate in both Pacific Business Hub and Evolve Concept Mall. The mushrooming of neighbourhood and larger scale retail malls have resulted in oversupply of retail spaces. Moving forward, 3.4m sqf of net lettable area (NLA) from 8 malls (The Exchange TRX, KSL Esplanade Mall, Senada Shopping Centre, MET Galleria, Pavillion Damansara Heights Mall Phase 1, Bloomsdale Mall, 8 Conlay and Sunsuria Forum @ 7th Vavenue) is expected to come onto stream in Klang Valley in coming 3 years.
- Despite that, we are sanguine on the group's efforts to shift their focus onto the power energy segment. We believe that the commercial operation for Large Scale Solar 4 project (LSS4) is expected to commence early July 2023 will strengthen the contribution in power energy segment. The move is expected to potentially generate RM10.0m in per annum in bottom line over the 25-year concession period.
- We also note that JAKS is undertaking a private placement exercise and proceeds will be utilised to repay existing debts and fund working capital. While the move is essential, given that the group is operating in a negative net cash flow position over the past 8 quarters, further dilution in holdings of existing shareholders is not favourable.
- Therefore, we are ceasing coverage on JAKS due to reallocation of internal resources and the lack of retail and institutional interest. We reckon that the trading activities may remain muted over the foreseeable future amid the absence of fresh leads.
- Our last recommendation on JAKS was **BUY** with a fair value at RM0.27. The fair value was derived by sum-of-parts (SOP) approach as we ascribed a target PER of 7.0x to both its construction and property investment segments as we expect the pace of recovery to be measured. Meanwhile, we valued both its concession businesses (coal fired thermal power plant and LSS4) on a discounted cash flow approach.

Ceasing Coverage Note

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BUY

Share price	RM0.175
Target price	-
Previous TP	RM0.27
Capital upside	54.3%
Dividend return	0.9%
Total return	55.2%

Company profile

Engaged in construction, specialising on water-related infrastructure projects, property investment and power generation

Stock information

Bursa Code	4723
Bloomberg ticker	JAK MK
Listing market	MAIN
Share issued (m)	2,219.3
Market Cap (m)	388.4
52W High/Low	0.34 / 0.18
Est. Free float	76.9
Beta	1.1
3-mth avg vol ('000)	8,712.7
Shariah compliant	Yes

Major shareholders

Ang Lam Poah	13.2
Tee Tiam Lee	1.4
Dimensional Fund Advisors	1.3

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-16.7	-5.4	-32.7
Relative	-14.3	-4.5	-30.1

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	97.4	68.1	71.3
EPS (sen)	4.4	3.1	3.2
P/E (x)	4.0	5.7	5.4

Relative performance chart



Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	251.0	108.1	94.7	98.4	85.7	Cash	174.6	143.9	104.6	90.4	61.3
EBITDA	(70.2)	(74.0)	(79.9)	(83.0)	(80.0)	Receivables	251.4	225.5	177.3	161.7	164.4
EBIT	(89.7)	(89.8)	(95.8)	(99.8)	(96.9)	Inventories	0.5	0.5	0.5	0.5	0.5
Net finance income/ (cost)	(24.4)	(20.6)	(23.0)	(25.5)	(24.4)	PPE	726.0	710.4	840.2	843.0	843.3
Associates & JV	3.8	140.7	156.2	127.5	127.1	Others	976.1	1,105.0	1,256.3	1,254.1	1,217.3
Profit before tax	(110.3)	30.3	37.4	2.2	5.8	Assets	2,128.5	2,185.2	2,378.8	2,349.7	2,286.9
Tax	(18.2)	(0.5)	(0.9)	(0.0)	(0.1)	Debts	387.4	372.6	501.9	476.8	453.0
Net profit	(128.5)	29.7	36.5	2.2	5.7	Payables	358.3	238.1	271.8	271.3	258.4
Minority interest	(43.9)	(22.0)	(17.3)	(16.0)	(15.6)	Others	255.3	273.1	250.5	249.1	221.9
Core earnings	56.5	102.1	97.4	68.1	71.3	Liabilities	1,001.0	883.8	1,024.2	997.3	933.3
Diluted core earnings	-	-	51.3	17.1	21.2	Shareholder's equity	925.0	1,061.6	1,074.1	1,074.1	1,074.1
Exceptional items	141.1	(50.4)	(43.6)	(50.0)	(50.0)	Minority interest	(16.4)	(39.3)	(56.6)	(56.6)	(56.6)
Reported earnings	(84.6)	51.8	53.8	18.1	21.3	Equity	1,127.5	1,301.4	1,354.6	1,352.4	1,353.6
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	(110.3)	30.3	37.4	2.2	5.8	Core EPS (sen)	2.5	4.6	4.4	3.1	3.2
Depreciation & amortisation	19.4	15.8	15.9	16.8	16.9	Diluted Core EPS (sen)	-	-	2.1	0.7	0.9
Changes in working capital	22.3	(13.9)	(57.2)	(16.1)	(10.2)	P/E (x)	6.9	3.8	4.0	5.7	5.4
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	8.2	24.4	19.8
Taxation	(3.3)	(3.8)	(4.5)	(0.0)	(0.1)	DPS (sen)	-	-	0.2	0.2	0.2
Others	96.6	80.9	83.7	90.0	90.0	Dividend yield	0.0%	0.0%	0.9%	1.1%	1.1%
Operating cash flow	20.9	(31.4)	(80.9)	(7.1)	(47.7)	BVPS (RM)	0.51	0.59	0.61	0.61	0.61
Net capex	(55.0)	(3.3)	(140.1)	2.9	0.3	P/B (x)	0.3	0.3	0.3	0.3	0.3
Others	(117.7)	(102.9)	66.7	50.0	50.0	EBITDA margin	-28.0%	-68.4%	-84.4%	-84.4%	-93.4%
Investing cash flow	(172.7)	(106.2)	(73.4)	52.9	50.3	EBIT margin	-35.7%	-83.1%	-101.2%	-101.5%	-113.0%
Changes in borrowings	(30.5)	(19.1)	124.7	(25.1)	(23.8)	PBT margin	-44.0%	28.0%	39.5%	2.2%	6.8%
Issuance of shares	245.3	-	-	-	-	PAT margin	-51.2%	27.5%	38.6%	2.2%	6.6%
Dividends paid	-	-	-	(4.4)	(4.4)	Core PAT margin	22.5%	94.4%	102.9%	69.3%	83.2%
Others	(27.5)	119.4	(21.1)	-	-	ROE	5.0%	7.8%	7.2%	5.0%	5.3%
Financing cash flow	187.3	100.3	103.6	(29.5)	(28.3)	ROA	2.7%	4.7%	4.1%	2.9%	3.1%
Net cash flow	35.5	(37.4)	(50.8)	16.2	(25.7)	Net gearing	18.9%	17.6%	29.3%	28.6%	28.9%
Forex	(5.0)	(0.6)	1.9	1.7	1.6						
Others	-	-	-	-	-						
Beginning cash	86.0	116.5	78.6	29.7	47.7						
Ending cash	116.5	78.6	29.7	47.7	23.5						

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(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned