

IJM to get earnings boost from WCE, MRT

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KUALA LUMPUR: The two major construction projects that were recently awarded to IJM Corp Bhd will bode well for the company and provide it with earnings visibility for the next two to three years, say analysts.

Last Thursday, IJM received the green light to proceed with the West Coast Expressway (WCE), a project that has been delayed for more than 10 years.

Kumpulan Europlus Bhd, a 25% associate of IJM, announced that its 64.2% subsidiary, West Coast Expressway Sdn Bhd, had received an approval letter from the government for the expressway project, which has an estimated project cost of RM7.07 billion.

The concession is on a build-operate-transfer (BOT) basis and

for a period of 60 years – the longest concession the government has ever given out. The expressway from Banting in Selangor to Taiping in Perak will cover a distance of 316km, of which 224km will be tolled while 92km will be toll-free.

Although the construction of WCE will be implemented through open tender, OSK Research, in a Jan 27 note, said it sees IJM as a front runner to bag at least half of the RM6 billion construction works available, given its close rapport with Kumpulan Europlus.

MIDF Research shared the same view and said IJM will have a higher chance to undertake the full WCE project or part of it. Apart from IJM's association with Kumpulan Europlus, MIDF said IJM's strong track record of undertaking expressway construction in the country as well as abroad will

also increase its chances.

Last Thursday, IJM was also reported to have been awarded a RM974 million construction package from Mass Rapid Transit Corp Sdn Bhd (MRT Corp).

IJM's wholly-owned subsidiary, IJM Construction Sdn Bhd, was appointed the main contractor for Package V5 of the Klang Valley MRT Sungai Buloh — Kajang Line (KVMRT) project.

Under Package V5, IJM will undertake the construction and completion of Viaduct Guideway and other associated works from Maluri Portal to Plaza Phoenix Station.

Affin Investment Bank, in a report last Friday, said it expects Package V5 to boost IJM's net profit in FY13 and FY14 by 3.8%, assuming a pre-tax profit margin of 10% and a construction period of three years.

MIDF Research said, assuming the MRT project is for three

years with a 6% to 7% net profit margin, IJM is set to recognise RM20 million to RM23 million in additional annual net profit. MIDF said this could increase IJM's earnings per share by another 1.4 sen to 1.7 sen.

On IJM's order book, Affin Investment believes that it could increase to RM6 billion, while MIDF said it could rise to RM10 billion.

MIDF said excluding the WCE project, IJM's outstanding order book stands at RM4.7 billion with the MRT job.

MIDF said the MRT project alone already covers up to 65% of IJM's RM1.5 billion assumed order book replenishment rate in FY12 (ending March).

OSK Research, meanwhile, has tweaked its FY13 order book replenishment assumption for IJM from RM2 billion to RM4 billion.

For FY11, IJM posted a net profit

of RM321.3 million on revenue of RM3.721 billion.

MIDF Research is forecasting net profit of RM442.4 million and revenue of RM4.435 billion for IJM in FY12.

For FY13, it has forecast net profit of RM585.73 million and RM5.557 billion in revenue.

Last Friday, IJM rose 25 sen to RM5.70. Its shares have traded between a high of RM6.71 and low of RM3.90 over the past 52 weeks.

Affin Investment Bank maintains a "buy" call on the stock and has increased its target price to RM7.06 from RM5.73 previously, while ECM Libra Investment Bank reiterated its "buy" recommendation with an unchanged target price of RM7.02.

MIDF Research upgraded its recommendation from "neutral" to "buy" with a target price of RM6.24 from RM5.45 previously.