

IJM's MRT2 viaduct package V203 award within expectations

KUALA LUMPUR: IJM Corporation Bhd's (IJM) MRT2 viaduct package award worth RM1.47 billion has been viewed by analysts as within expectations.

According to the research arm of Kenanga Investment Bank Bhd (Kenanga Research), Mass Rapid Transit Corporation Sdn Bhd (MRT Corp) had last week in their media release announced that they awarded two more viaduct packages, i.e. V203 and V210, with IJM bagging V203 worth RM1.47 billion.

Work package V203 stretches from Jinjang to Jalan Ipoh with a total length of 4.6 kilometres (km), and Kenanga Research expected construction to take up to 60 months.

Thus far, the research arm gathered that IJM had not received any official letter from MRT Corp, which explained the absence of announcement to Bursa Malaysia on the job award.

However, a formal announcement from IJM was made on Friday in which it wished to confirm that its wholly owned subsidiary IJM Construction Sdn Bhd had submitted the tender for package V203 and that it has yet to receive the written confirmation of the outcome of the tender from MRT Corp.

The research arm highlighted that this would be IJM's first job secured in financial year 2017 (FY17).

Kenanga Research was neutral on this news as it was within the research arm's FY16-17E construction orderbook replenishment as-

sumption of RM5 billion, (FY16: RM2 billion, FY17: RM3 billion).

"To recap, IJM only managed to secure RM0.9 billion worth of jobs for FY16," the research arm said.

"However, IJM will make up for the shortfall of RM1.1 billion of our assumption for FY16 with this particular project, which is coming in slightly later than expected."

Assuming pre-tax margins of seven per cent, this particular contract is expected to contribute circa RM15.4 million to IJM's bottom-line per annum, which was already factored into the research arm's FY17E earnings of RM669 million.

Meanwhile, the research arm of TA Securities Holdings Bhd (TA Research) noted that securing a work package of MRT line 2 was within market expectation given IJM's experience in related works and the group's good track record in the execution of Viaduct Package V5 and Station Package ST5 in MRT line 1.

"MRT Corp commented that the selection of successful tenderer was based on the best evaluated tender, where both technical and commercial aspects of the tenders were evaluated.

"For Work Package V203, IJM submitted the lowest price among the tenderers," it observed.

TA Research also noted that this is the first construction contract secured by the group in FY17.

With this job win, the research arm estimated the new job to improve the group's outstanding

construction order book to RM7.2 billion.

Assuming an operating margin of eight per cent, the research arm expected the project to enhance the group's net earnings by RM89.4 million, or 2.5sen per share throughout the construction period.

On a side note, Kenanga Research pointed out that currently, IJM's outstanding orderbook stands at circa RM8.5 billion (previously, circa RM7 billion) with the winning of V203, providing earnings visibility at least for the next two to three years.

Moving into the second half of current year 2016 (2HCY16), Kenanga Research expected more job awards for IJM underpinned by the project tenders that they have participated such as Pan Borneo Sarawak, LRT3, SUKE, and DASH.

"We are confident that they will be able to bag at least two more jobs from the four above-mentioned projects given their strong track records in infrastructure works," the research arm said.

Having made no changes to its FY16-17E earnings and while expecting more positive news flow from the construction sector for IJM, Kenanga Research maintained its 'market perform' call on IJM.

As for TA Research, the research arm adjusted the order book replenishment in FY16 to RM939.7 million, from its previous assumption of RM2 billion, to reflect the actual total construction job win in FY16.