



Investment Idea



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JAKS Resources Bhd

Undemanding Valuations

By *Thong Pak Leng, Vice President of Research*



BUY

Price: RM0.395
Target price: RM0.800

JAKS Resources Bhd (JAKS) is primarily engaged in water supply and infrastructure construction projects, property development in Malaysia, as well as power generation in Vietnam. Commercial operations of the Vietnam Power Plant have begun and is expected to provide a steady stream of recurring income for the next 25 years. BUY with an unchanged target price of RM0.80 based on SOP (sum of parts) valuations, implying PER and 19.2x and 19x for FY22 and FY23 respectively.

To recap, the first unit of the Hai Duong Thermal Power Plant has commenced operation on 24 November 2020 while the second unit in January 2021. Based on management's guidance, the 2x600MW power plant will provide a revenue of US\$600m per annum. Assuming a 18% net margin and RM4/USD conversion rate, the JV (30%) will generate net income of RM130m per year for JAKS.

With the recent disposal of the 51% stake in JIC, JAKS is taking a step back from property development for the time being, in view that the local property sector's outlook is expected to remain challenging for a foreseeable future. The company is now shifting its focus into the power and infrastructure construction businesses. JAKS was recently shortlisted for Package 2 (50 megawatt) under the Malaysia's fourth large-scale solar (LSS4) projects. Moving forward, JAKS is actively exploring other renewable power energy projects in Malaysia and Vietnam, such as hydro, solar and liquified natural gas power plants.

The company entered into several MOUs to explore collaboration on the development in renewable energy plants such as solar and hydropower in Sabah. JAKS also entered into a MOU with T&T Group Joint Stock Company to explore possibilities to develop the 1,500 MW liquefied natural gas (LNG) power project in Vietnam.

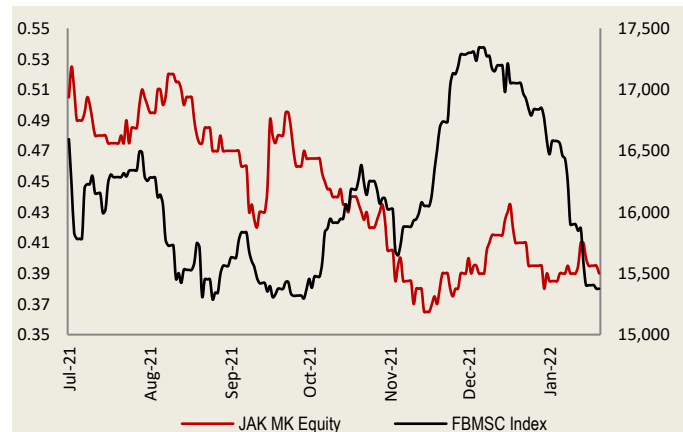
JAKS has been reporting consistent earnings in the past 2 quarters thanks to the contribution from Vietnam. We expect earnings to remain consistent in the coming quarters reflecting the full contribution from Vietnam. We maintain our FY22 numbers while introducing FY23 net earnings forecast at RM97.8m. Going forward, JAKS will continue to expand its business in the power and energy sector in Malaysia and Vietnam.

Sum of Parts Valuation

Book value (ex-Vietnam)	RM562.0m
Vietnam Concession NPV @ 12% discount rate	RM990.6m
Cash proceeds from private placement @ RM0.543/share	RM300.2m
Total SOP	RM1,852.8m
No of shares (enlarged)	2,322.4m
Target price	RM0.80

Technically Speaking

Resistance level	RM0.420
Support level	RM0.375



KLCI	806.7
YTD FBM KLCI change	2,042.3
YTD FBM SC Index change	0.83
YTD stock price change	0.37

Stock Information

Market Cap (RM'm)	806.7
Issued Shares (m)	2,042.3
52-week range (H)	0.83
52-week range (L)	0.37

Major Shareholders

Ang Lam Poah	13.0%
Vaneck Vectors Vietn	2.4%
Dimensional Fund Adv	1.3%

Summary Earnings Table

FY Dec (RM'm)	2020A	2021E	2022F	2023F
Revenue	259.4	77.8	89.5	92.2
EBIT	(45.0)	(13.7)	(10.4)	(9.1)
Pretax profit	(106.0)	97.2	97.7	98.4
Net profit	(80.5)	94.6	96.9	97.8
Core net profit	1.5	94.6	96.9	97.8
Consensus	n.a.	97.8	113.0	123.0
Core EPS (sen)	0.1	4.1	4.2	4.2
EPS growth (%)	-99.3%	6209.8%	2.4%	1.0%
DPS (sen)	0.0	0.0	0.0	0.0
PER (x)	466.0	9.7	9.5	9.4
BV/Share (RM)	0.65	0.54	0.58	0.62
ROE (%)	0.1%	7.9%	7.4%	7.0%
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%

Sources: Company, Rakuten Trade Research



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COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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