GEMS: Asia Malaysia
Transportation Infrastructure

Deutsche Bank

18 October 2006

IJM Corp

Reuters: **IJMS.KL** Bloomberg: **IJM MK** Exchange: **KLS** Ticker: **IJMS**

Proposes to acquire Road Builder

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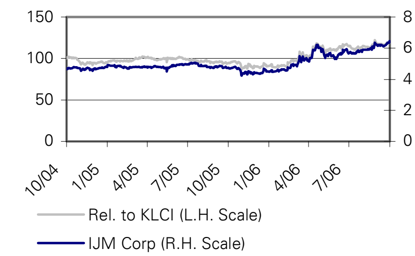
Merger/Acquisition

Buy

Price at 17 Oct 2006 (MYR)	**6.45**
Price target - 12mth (MYR)	**7.65**
52-week range (MYR)	**6.45 - 4.22**
KLCI	**977**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*2.4*	*14.2*	*36.1*
KLCI	*1.9*	*8.3*	*5.7*

Stock data

Market cap (MYRm)	**3,096**
Market cap (USDm)	**842**
Shares outstanding (m)	**479.9**
Major shareholders	**Tronoh (18.7%)**
Free float (%)	**54**

Key indicators

ROE (%)	**9.3**
Net debt/equity (%)	**32.0**
Book value/share (MYR)	**4.61**
Price/book (x)	**1.4**
Net interest cover (x)	**7.3**
Operating profit margin (%)	**12.2**

We are luke-warm on proposed acquisition of Road Builder
IJM Corp has proposed to acquire the entire equity interest of Road Builder (RBH, MYR 2.83, Buy) in a two-for-one share swap. While we like the addition of the recurring income from the ports and toll roads business, we question the need for RBH's property and construction business. We are unexcited over the acquisition and think there will be short-term price weakness in IJM. We are maintaining our Buy rating on a 12-month view as we think IJM will benefit from government pump-priming and EPS growth is likely to be strong over the next 3 years.

Acquisition is not cheap on our figures
At RM3/share, the acquisition values Road Builder at 18.1x and 14.3x P/E FYJun07-08, respectively, which we think is a fair price for Road Builder.

Slight earnings enhancement potential
Assuming the acquisition is completed by mid 2007, it enhances IJM's FYMar08-09 earnings by a small 1.9% and 2.1%, respectively. We expect strong earnings growth of 15%, 18% and 22% in FY07-09, respectively, for IJM on the back of a enlarged RM5.6bn construction orderbook for the group, growth in the ports & toll roads, Indian property earnings and rising sales at the building materials division. It is in a good position to further boost its orderbook, in our opinion.

RM7.65/share TP maintained, execution the key risk
We are maintaining our RM7.65/share TP, based on 18x FD FY08 P/E. We think the stock should trade at premium to the Malaysian market average of around 14x because of its superior earnings growth prospects. We see the key as execution risk relating to its all time high orderbook. Slow and cumbersome merger integration is another risk.

Forecasts and ratios

Year End Mar 31	2005A	2006A	**2007E**	2008E	2009E
Sales (MYRm)	1,802.3	1,665.9	**2,399.3**	3,604.2	4,525.5
EBITDA (MYRm)	328.3	321.2	**351.4**	625.4	801.2
Reported NPAT (MYRm)	185.5	160.4	**198.0**	320.0	427.7
Reported EPS (MYR)	0.43	0.34	**0.41**	0.47	0.58
OLD Reported EPS (MYR)	0.43	0.34	**0.41**	0.48	0.59
% Change	0.0%	0.0%	**0.0%**	-1.3%	-2.2%
DB EPS FD(MYR)	0.42	0.32	**0.37**	0.43	0.53
DB EPS growth (%)	85.5	-23.6	**14.9**	17.6	21.9
PER (x)	11.3	14.8	**17.5**	14.9	12.2
EV/EBITDA (x)	8.3	9.7	**11.8**	10.0	7.6
Yield (net) (%)	2.3	2.3	**1.7**	1.8	1.9

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Deutsche Bank AG/Hong Kong

Model updated: 18 October 2006

Equity Research

Asia

Malaysia

Infrastructure

IJM Corp

Reuters code IJMS.KL

Buy

Price as at 18-Oct RM6.45

Target Price RM7.65

Company Website
http://www.ijm.com

Company description

IJM is a construction based conglomerate

Research Team

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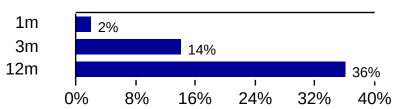
Absolute Price Return(%)

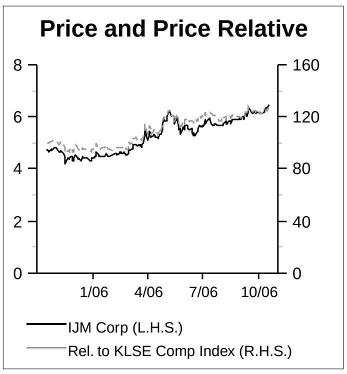


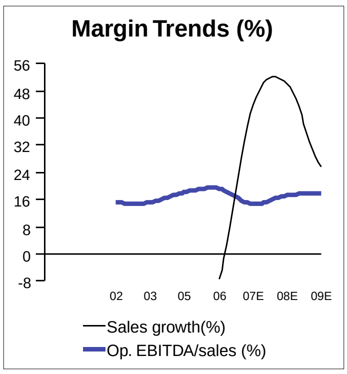
52-week Range:	RM4.22 - RM6.45
Market Cap (m):	RM 3,221
	US$ 877

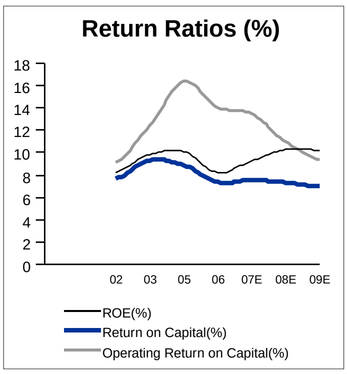
Company identifiers

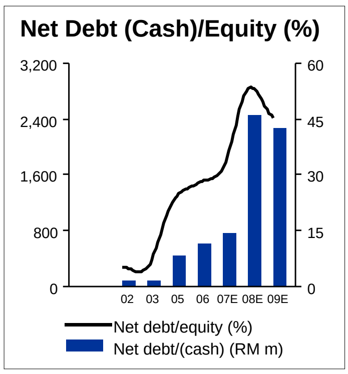
Bloomberg	IJM MK
Cusip	NA
SEDOL	6455217

Y/E 31 March	2002	2003	2005	2006	2007E	2008E	2009E
SUMMARY							
Reported EPS (RM)	0.34	0.39	0.43	0.34	0.41	0.43	0.58
P/E ratio (Reported) (x)	11.0	12.4	11.0	13.9	15.4	14.7	11.0
Reported EPS growth (%)	nm	14.6	nm	-20.8	21.2	4.7	33.7
DB EPS FD (RM)	0.32	0.38	0.42	0.32	0.37	0.43	0.53
P/E ratio (DB) (x)	11.5	12.6	11.3	14.8	17.2	14.7	12.0
Operating CFPS (RM)	0.21	0.27	0.54	0.32	-0.00	0.05	0.33
Free CFPS (RM)	-0.18	-0.08	0.10	-0.36	-0.11	-0.05	0.22
P/CFPS (x)	18.2	17.9	8.7	15.0	nm	139.3	19.5
DPS (RM)	0.09	0.11	0.11	0.11	0.11	0.12	0.12
Dividend yield (%)	2.3	2.2	2.3	2.3	1.7	1.8	1.9
BV/Share (RM)	4.14	3.95	4.01	4.30	4.61	5.42	5.87
Price/BV (x)	1.18	1.09	1.20	1.18	1.38	1.17	1.08
Weighted average shares (m)	352	372	432	471	480	741	741
Average market cap (RM m)	1,318	1,806	2,045	2,237	3,221	3,221	3,221
Enterprise Value (RM m)	1,603	2,012	2,716	3,112	4,266	6,376	6,242
EV/Sales	1.2	1.5	1.5	1.9	1.8	1.8	1.4
EV/EBITDA	8.2	9.7	8.3	9.7	12.1	10.2	7.8
EV/EBIT	9.6	11.2	9.8	11.7	14.6	12.0	9.0
EV/Operating Capital	1.3	2.4	2.2	2.2	2.5	1.2	1.1
INCOME STATEMENT (RM m)							
Sales revenue	1,295	1,364	1,802	1,666	2,399	3,604	4,526
Operating EBITDA	195	207	328	321	351	625	801
Depreciation	26	26	52	56	59	81	85
Amortisation	2	2	0	0	0	14	20
Operating EBIT	166	179	277	265	293	530	696
Net interest income (expense)	-8	-8	-41	-49	-40	-76	-98
Associates/affiliates	18	35	48	43	37	41	42
Investment and other income/expense	0	0	0	0	0	0	0
Exceptionals/extraordinaries	15	0	0	0	9	0	0
Income tax expense	55	56	79	76	78	129	166
Minorities/preference dividends	16	5	19	23	23	46	46
Net income	120	146	185	160	198	320	428
CASH FLOW (RM m)							
Cash flow from operations	72	101	234	149	-2	34	241
Movement in net working capital	124	68	-304	-52	-235	-387	-296
Capex	-135	-131	-189	-318	-50	-73	-80
Free cash flow	-63	-30	45	-169	-52	-39	161
Other investing activities	-74	-32	-221	27	0	0	0
Equity raised/(bought back)	43	54	237	92	1	0	1
Dividends paid	-30	-38	-55	-59	-52	-85	-91
Net inc/(dec) in borrowings	-1	52	243	323	112	2,252	15
Other financing cash flows	362	48	-375	-62	-45	-1,565	109
Total cash flows from financing	375	115	49	294	16	602	35
Net cash flow	238	54	-127	152	-36	563	196
Movement in net debt/(cash)	-238	-2	370	171	148	1,689	-181
BALANCE SHEET (RM m)							
Cash and other liquid assets	238	292	165	317	281	844	1,040
Tangible fixed assets	674	250	349	466	457	3,049	3,044
Goodwill	0	0	0	0	0	0	0
Other intangible assets	3	11	58	61	61	61	61
Associates/investments	387	757	1,207	1,410	1,447	1,658	1,700
Other assets	1,287	1,181	1,672	1,863	2,637	3,912	4,886
Total assets	2,590	2,491	3,449	4,117	4,884	9,524	10,731
Interest bearing debt	320	372	615	938	1,050	3,302	3,317
Other liabilities	703	658	861	943	1,430	1,596	2,405
Total liabilities	1,023	1,030	1,476	1,881	2,479	4,898	5,722
Shareholders' equity	1,457	1,509	1,839	2,066	2,212	4,012	4,349
Minorities	103	18	135	169	192	614	660
Total shareholders' equity	1,560	1,528	1,974	2,235	2,404	4,626	5,009
Net working capital	587	501	805	989	1,426	2,134	2,684
Net debt/(cash)	82	80	450	621	769	2,458	2,277
Capital	1,642	1,608	2,424	2,857	3,173	7,083	7,286
RATIO ANALYSIS							
Sales growth (%)	nm	5.3	nm	-7.6	44.0	50.2	25.6
Op. EBITDA/sales (%)	15.0	15.2	18.2	19.3	14.6	17.4	17.7
Op. EBIT/sales (%)	12.9	13.1	15.3	15.9	12.2	14.7	15.4
Payout ratio (%)	25.3	27.6	25.1	31.7	26.2	26.7	21.2
ROE (%)	8.3	9.8	10.1	8.2	9.3	10.3	10.2
Return on Capital (%)	7.7	9.3	8.9	7.4	7.5	7.3	7.0
Operating Return on Capital (%)	9.1	12.4	16.4	14.1	13.5	11.0	9.4
Capex/sales (%)	10.5	9.6	10.5	19.1	2.1	2.0	1.8
Capex/depreciation (x)	5.2	5.1	3.7	5.7	0.9	0.9	0.9
Net debt/equity (%)	5.2	5.2	22.8	27.8	32.0	53.1	45.5
Net interest cover (x)	20.8	23.1	6.7	5.4	7.3	7.0	7.1









Source: Deutsche Bank AG estimates, company data

Details of the acquisition proposal

IJM announced the proposed acquisition of all the assets and liabilities of Road Builder (RBH) for a purchase consideration of RM1.56bn. The acquisition will be satisfied via the issuance of RM1.56bn nominal value redeemable unsecured loan stocks (RULS) in IJM. The RULS have a tenure of 5 years, carry a 3% per annum coupon and are redeemable for cash at any time after the issue date with a mandatory redemption at maturity. The RULS will not be listed on any stock exchange and are non-tradeable.

IJM will then offer to acquire all outstanding RBH shares at the indicative offer price of RM3.00 per RBH share, which will be satisfied by the issuance of 1 new IJM share at RM6.00 per share for every 2 existing RBH shares held.

If RBH becomes a subsidiary of IJM after the proposed offer, IJM will propose that RBH undertake a capital repayment to distribute the RULS to the shareholders of RBH. The RULS are an intermediate instrument to facilitate the transaction and will be cancelled if RBH becomes a wholly-owned subsidiary.

IJM will acquire RBH's 69.96% equity interest in RB Land for a purchase consideration of RM198.7m or RM0.50 per share. Upon the proposed acquisition becoming unconditional, IJM will extend a mandatory offer to acquire the remaining 30.04% stake in RB Land from the other shareholders at not less than RM0.50 per share. The total cash consideration for the remaining shares will amount to circa RM85.4m.

The indicative offer price was derived after taking into consideration the 5-Day weighted average price.

Figure 1: Indicative offer price

	5-Day WAP to 17-Oct-06	Offer price	Premium/ (Discount)
IJM	6.35	6	5.5
RBH	2.78	3	(7.3)
RB Land	0.5	0.5	0

Source: Deutsche Bank

IJM does not intend to maintain the listing status of RBH in the event RBH does not comply with the shareholder spread requirements of Bursa Securities.

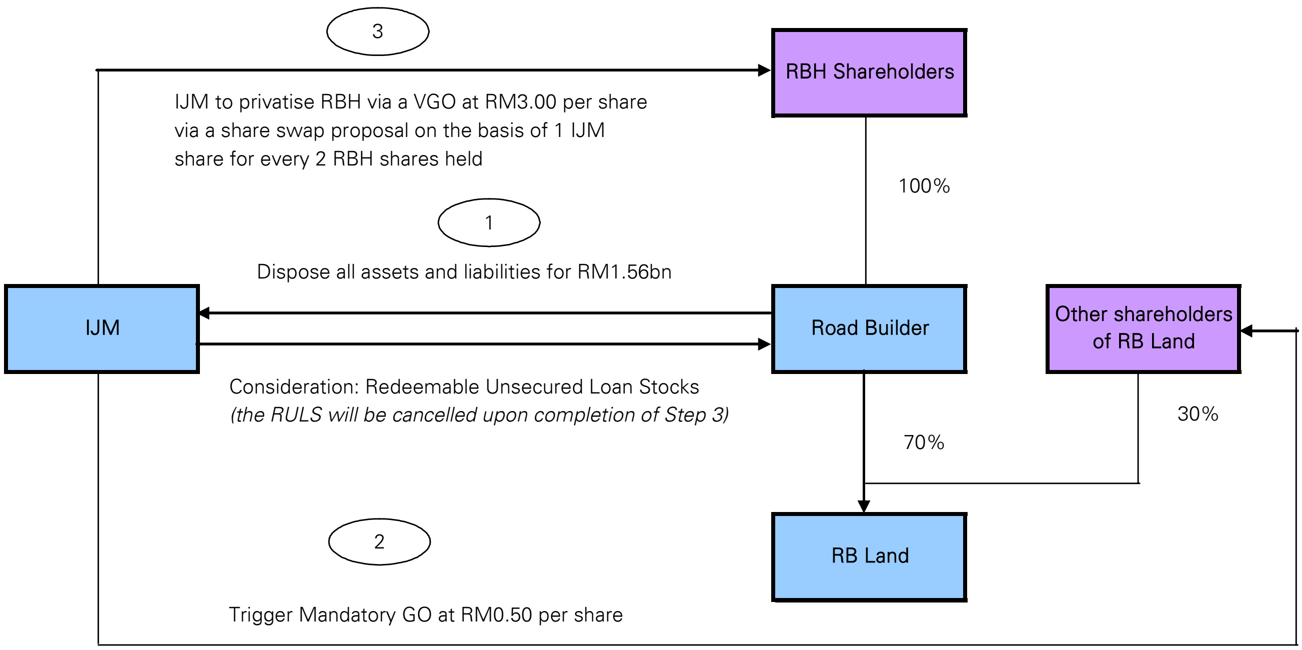
IJM's rationale behind the proposed acquisition is to diversify its sources of income and enhance earnings visibility. RBH's portfolio includes toll roads and ports which will enhance IJM's recurring income and cash flow. This will effectively reduce the group's reliance on cyclical nature of the construction and property industry.

Figure 2: Shareholding structure of IJM

	Existing stake (%)	After the proposed acquisition (%)
Tronoh	19	13
EPF	9	9.7*
The Capital Group	11	8
RBH Shareholders	0	30
Other shareholders of IJM	61	40

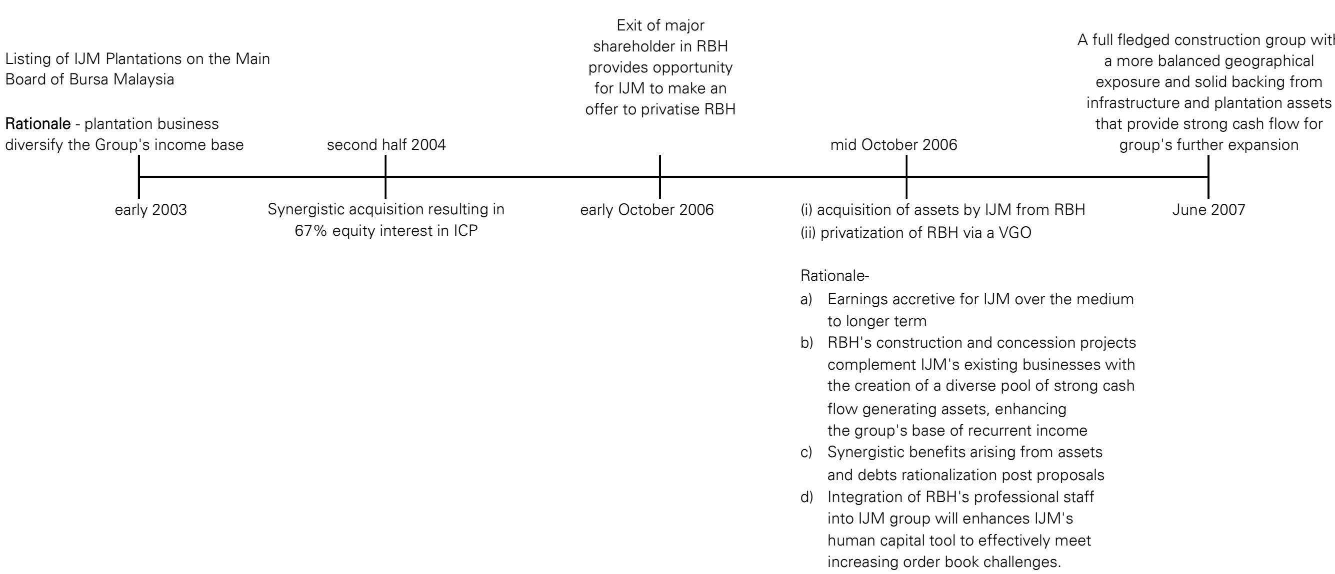
*Source: Company data *Based on the assumption that EPF accepts the Proposed Offer*

Figure 3: An overview of the proposal



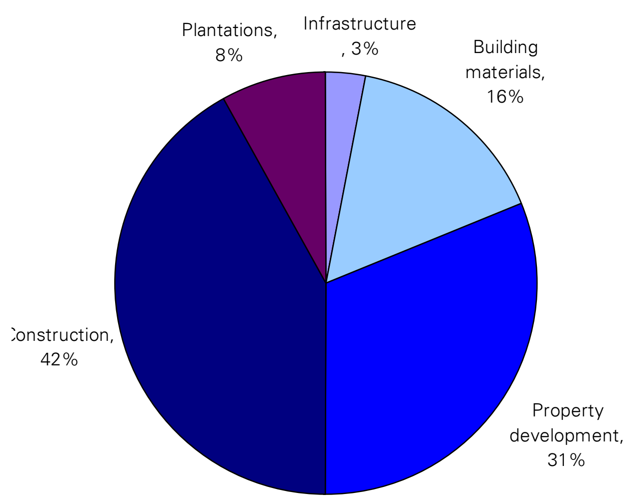
Source: Company Data

Figure 4: Strategic fits to IJM's transformation



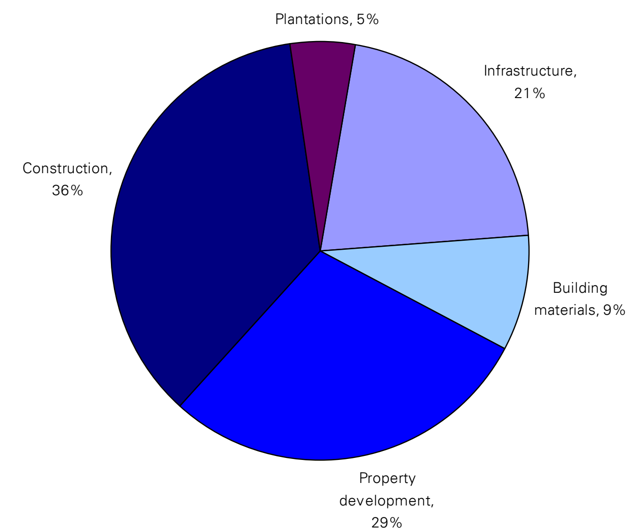
Source: Company Data

Figure 5: IJM operating profit FY06 (pre-merger)



Source: Company Data

Figure 6: IJM operating profit FY06 (post merger)



Source: Company Data

Unexcited over the acquisition

The addition of the ports and toll roads businesses are positive because we think the earnings quality is higher: earnings from both these divisions are recurring and growing. However, we question the rationale for the acquisition of the property and construction business. Management thinks that the construction business will give them the added capacity to expand its orderbook, but we do not think the cost of construction capacity is high. Smaller, pure construction companies trade at below 10x P/E. IJM's property division is already pretty busy with the upcoming launch of Canal City next year, exceptional growth in India and the possible acquisition of a 25% stake in Kumpulan Europlus/Talam. Hence, in our view, we do not see the need to buy another property division.

At RM3/share, Road Builder is valued at 18.1x and 14.3x FYJun07-08, respectively, relative to the Malaysian market's 15.5x and 13.5x for 2006-07 and IJM's 17.5x and 15.3x for FYMar07-08, respectively. Hence, the impact of the acquisition on IJM's earnings is close to neutral. However, the acquisition price is not cheap in our view. Fortunately, IJM is using shares for the acquisition and not cash.

Over the short term, we think Road Builder and IJM's share prices will move towards the 2:1 exchange ratio i.e., IJM's stock price will move down and/or Road Builder's stock price will move up.

Maintain Buy on IJM

We think there may be a short-term price weakness in IJM as a result of the unexciting acquisition. However, we continue to think that IJM will benefit from the government pump-priming and should see commendable earnings growth going forward. Our forecasts assume that the Road Builder acquisition is completed by mid 2007 and there is 100% acceptance by Road Builder shareholders for the share swap.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
IJM Corp	IJMS.KL	6.45 (MYR) 17 Oct 06	6
Road Builder	ROAD.KL	2.83 (MYR) 17 Oct 06	6

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.

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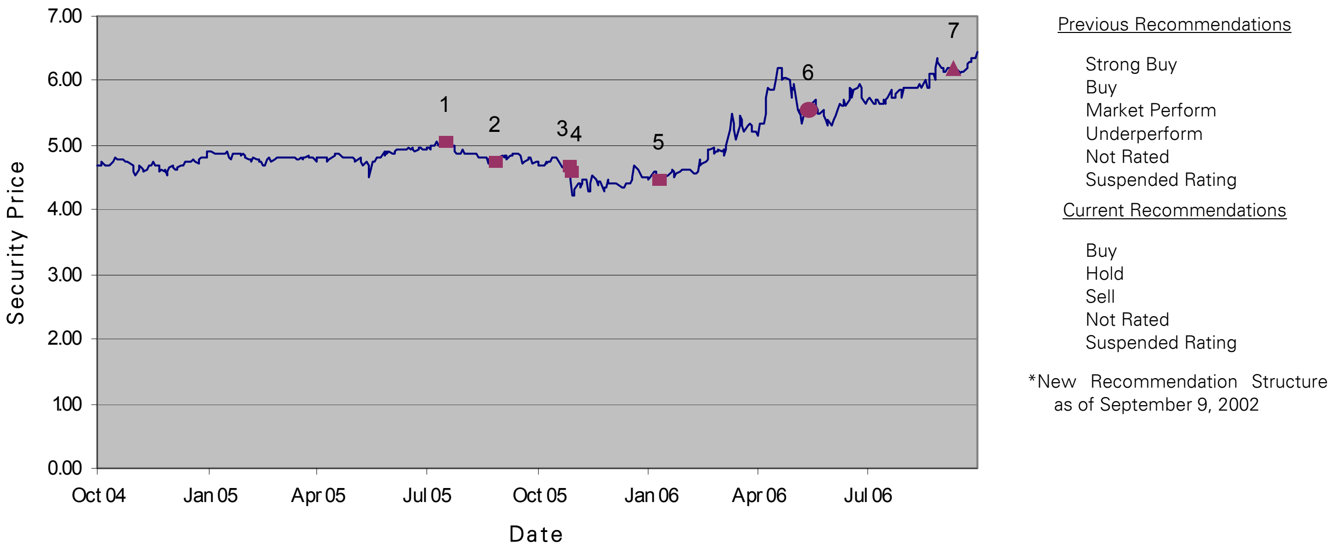
Historical recommendations and target price: IJM Corp (IJMS.KL)

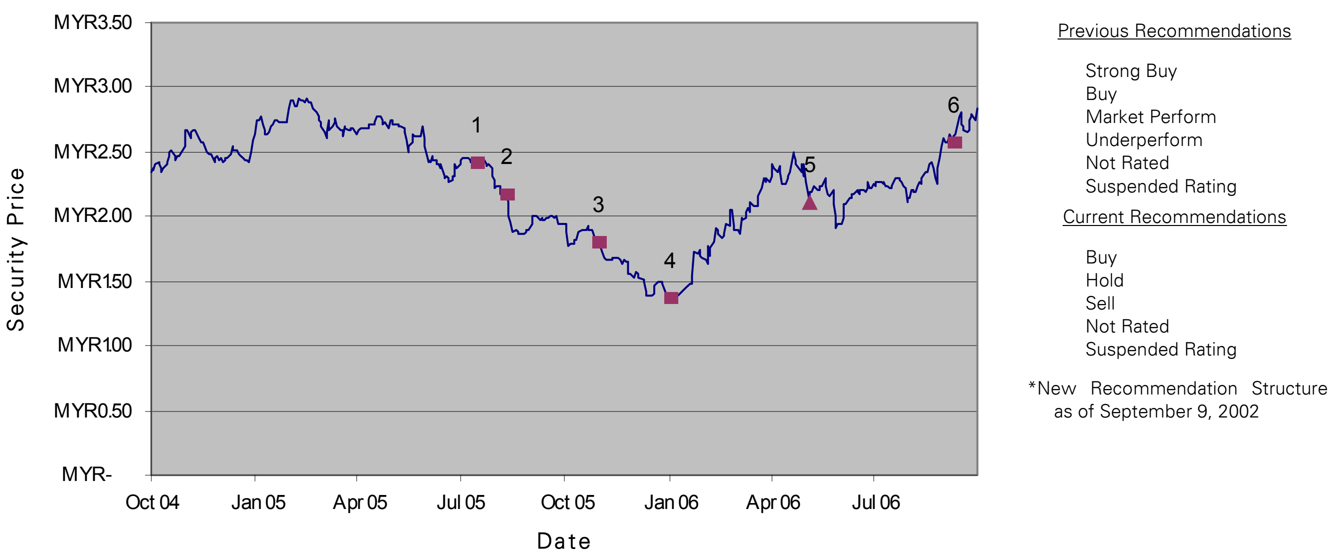
(as of 10/17/2006)



1. 2/8/2005: Buy, Target Price Change MYR5.90
2. 13/9/2005: Buy, Target Price Change MYR5.60
3. 13/11/2005: Buy, Target Price Change MYR5.50
4. 14/11/2005: Buy, Target Price Change MYR5.50
5. 26/1/2006: Buy, Target Price Change MYR5.40
6. 30/5/2006: Downgrade to Hold, Target Price Change MYR5.90
7. 28/9/2006: Upgrade to Buy, Target Price Change MYR7.65

Historical recommendations and target price: Road Builder (ROAD.KL)

(as of 10/17/2006)



1. 2/8/2005: Hold, Target Price Change MYR2.40
2. 28/8/2005: Hold, Target Price Change MYR2.20
3. 17/11/2005: Hold, Target Price Change MYR1.90
4. 19/1/2006: Hold, Target Price Change MYR1.48
5. 22/5/2006: Upgrade to Buy, Target Price Change MYR2.60
6. 26/9/2006: Buy, Target Price Change MYR3.00

Equity rating key	Equity rating dispersion and banking relationships

Buy: Expected total return (including dividends) of 10% or more over a 12-month period.
Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period.
Sell: Expected total return (including dividends) of -10% or worse over a 12-month period.
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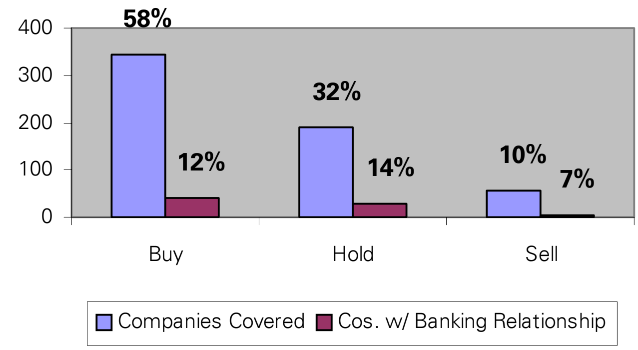

Asia-Pacific Universe

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