

31 May 2019

# Kimlun Corporation

## 1Q19 Within Expectations

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**1Q19 CNP of RM15.9m came within our/consensus' expectations, at 26% of estimates, and as expected, no dividend was declared. FY19-20E earnings of RM60.4-61.9m kept unchanged. Maintain MARKET PERFORM with an unchanged Target Price of RM1.35.**

**Within expectations.** 1Q19 core net profit (CNP) of RM15.9m came within at 26% of both our/consensus estimates. No dividend was declared, as expected.

**Results' highlight. YoY,** 3M19 registered CNP of RM15.9m (+26%) mainly due to surge in revenue (+44%) driven by manufacturing (+204%) and construction (+24%) divisions. This is mainly attributed to: (i) higher precast sales from KVMRT2, and (ii) higher progress billings from Pan Borneo Highway. EBIT margin slightly compressed to 8% (vs. 3M18: 9%) due to an increase in depreciation (+59%) on more machinery for Pan Borneo. **QoQ,** despite 1Q19 revenue of RM318.6m (+3%), CNP declined (-31%) to RM15.9m (vs. 4Q18 CNP of RM22.9m) as construction GP margin normalised (-5ppt) to 8%. Note that 4Q18 construction's GP margin was significantly higher at 13%, benefiting from cost savings from value engineering on certain projects.

**Buoyed by affordable housing and sale of precast.** Moving forward, KIMLUN's outlook should be buoyed by the affordable housing segment which we estimate should yield high single-digit to low-teens GP margins. Its manufacturing division should continue to see steady delivery of its precast concrete products with higher sales mix from lower margin KVMRT2's Segmental Box Girders. All in, while we anticipate higher construction billings from Pan Borneo Highway (progress c.55%), FY19 should see slight margin compression, premised on the reasons above. KIMLUN's outstanding order-book stands at c.RM2.0b (construction RM1.7b; manufacturing RM0.3b) which should provide 2-year's visibility.

**No changes to our FY19-20E earnings** of RM60.4-61.9m.

**Maintain MARKET PERFORM with an unchanged Target Price of RM1.35** based on the unchanged valuation of 7.0x FY19E PER which is at the lower-end of the 6-11x range which we ascribed to small-mid cap players. We pegged KIMLUN to the lower-end of our valuation range in line with the smaller contractors and due to their lower-margins project mix.

**Key risks for our call are:** (i) higher/lower-than-expected margins, and (ii) acceleration/delay in construction works.

## MARKET PERFORM ↔

**Price :** RM1.39  
**Target Price :** RM1.35 ↔

### Share Price Performance



KLCI 1,636.50  
YTD KLCI chg -3.2%  
YTD stock price chg 28.7%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker KICB MK Equity  
Market Cap (RM m) 461.3  
Shares Outstanding 331.9  
52-week range (H) 1.72  
52-week range (L) 1.00  
3-mth avg daily vol: 322,886  
Free Float 52%  
Beta 1.2

### Major Shareholders

Phin Sdn Bhd 36.7%  
Pang Yon Tin 5.9%  
Pang Khang Hau 5.3%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	1012.0	1072.8	1017.3
EBIT	92.7	84.5	86.5
PBT	81.7	79.9	81.9
<b>Net Profit</b>	<b>61.1</b>	<b>60.4</b>	<b>61.9</b>
<b>Core PATAMI</b>	<b>61.1</b>	<b>60.4</b>	<b>61.9</b>
Consensus (NP)	n.a.	61.4	62.8
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	18.8	18.6	19.0
Core EPS growth (%)	-11%	-1%	3%
NDPS (sen)	4.4	4.3	4.4
NTA per Share (RM)	2.0	2.1	2.3
Price to NTA (x)	0.7	0.7	0.6
PER (x)	7.4	7.5	7.3
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	5%	5%	5%
Return on Equity (%)	9%	9%	8%
Net Div. Yield (%)	3.2%	3.1%	3.2%



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Result Highlight								
	1Q19	4Q18	QoQ	1Q18	YoY	3M19	3M18	YoY
<b>FYE Dec (RM'm)</b>								
<b>Turnover</b>	<b>318.6</b>	<b>310.7</b>	<b>3%</b>	<b>220.9</b>	<b>44%</b>	<b>318.6</b>	<b>220.9</b>	<b>44%</b>
EBITDA	39.7	45.7	-13%	28.0	42%	39.7	28.0	42%
Depreciation	-13.8	-12.1	14%	-8.7	59%	-13.8	-8.7	59%
<b>EBIT</b>	<b>25.9</b>	<b>33.6</b>	<b>-23%</b>	<b>19.3</b>	<b>34%</b>	<b>25.9</b>	<b>19.3</b>	<b>34%</b>
Interest inc/(exp)	-4.5	-3.9	15%	-2.4	88%	-4.5	-2.4	88%
Associates/JV	0.3	0.5	-45%	0.2	64%	0.3	0.2	64%
Exceptional items	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Forex gain/(loss)	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
<b>Pretax profit</b>	<b>21.7</b>	<b>30.2</b>	<b>-28%</b>	<b>17.1</b>	<b>27%</b>	<b>21.7</b>	<b>17.1</b>	<b>27%</b>
Taxation	-5.8	-7.3	-21%	-4.5	27%	-5.8	-4.5	27%
Deferred tax	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
<b>Profit after tax</b>	<b>15.9</b>	<b>22.9</b>	<b>-31%</b>	<b>12.6</b>	<b>26%</b>	<b>15.9</b>	<b>12.6</b>	<b>26%</b>
Minority interest	0.0	0.0	0%	0.1	-56%	0.0	0.1	-56%
<b>PATAMI</b>	<b>15.9</b>	<b>22.9</b>	<b>-31%</b>	<b>12.6</b>	<b>26%</b>	<b>15.9</b>	<b>12.6</b>	<b>26%</b>
<b>Core PATAMI</b>	<b>15.9</b>	<b>22.9</b>	<b>-31%</b>	<b>12.6</b>	<b>26%</b>	<b>15.9</b>	<b>12.6</b>	<b>26%</b>
DPS (sen)	0.0	3.7		0.0		0.0	0.0	
EBIT margin	8%	11%		9%		8%	9%	
Pretax margin	7%	10%		8%		7%	8%	
NP margin	5%	7%		6%		5%	6%	
CNP margin	5%	7%		6%		5%	6%	
EPS (sen)	4.8	7.0		3.9		4.8	3.9	
Core EPS(sen)	4.8	7.0		3.9		4.8	3.9	
BV/share (RM)	2.1	2.0		1.9		2.1	1.9	
Net gearing (x)	0.4	0.4		0.1		0.4	0.1	
Effective tax	27%	24%		26%		27%	26%	

Source: Company, Kenanga Research

Segmental Breakdown								
	1Q19	4Q18	QoQ	1Q18	YoY	3M19	3M18	YoY
<b>External Revenue</b>								
Construction	241.2	232.8	4%	194.1	24%	241.2	194.1	24%
Manufacturing & Trading	76.5	76.8	0%	25.1	204%	76.5	25.1	204%
Property Development	0.8	1.1	-26%	1.7	-50%	0.8	1.7	-50%
<b>GP Segmentation</b>								
Construction	20.1	30.6	-34%	24.4	-18%	20.1	24.4	-18%
Manufacturing & Trading	14.3	14.4	-1%	2.2	542%	14.3	2.2	542%
Property Development	0.1	0.2	-37%	0.3	-58%	0.1	0.3	-58%
<b>GP margins</b>								
Construction	8%	13%		13%		8%	13%	
Manufacturing & Trading	19%	19%		9%		19%	9%	
Property Development	17%	20%		20%		17%	20%	

Source: Company, Kenanga Research

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### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
EVERSENDAI CORP BHD	0.420	328.0	Y	12/2019	-7.3%	-3.2%	-10.9%	-2.1%	5.2	5.9	6.0	0.3	0.3	5.6%	0.0%	N.A.	CEASED
GAMUDA BHD	3.45	8,517.5	Y	07/2019	-20.8%	0.3%	-27.7%	1.3%	10.4	14.4	14.2	1.1	1.1	7.7%	3.5%	2.85	UP
GEORGE KENT (MALAYSIA) BHD	1.12	603.3	Y	01/2020	14.4%	-0.3%	4.9%	33.1%	8.0	7.6	5.7	1.3	1.2	16.0%	4.4%	1.15	UP
HOCK SENG LEE BERHAD	1.41	774.8	Y	12/2019	18.7%	15.6%	31.6%	10.3%	14.4	11.0	9.9	1.0	0.9	8.8%	1.8%	1.40	MP
IJM CORP BHD	2.11	7,650.8	Y	03/2020	22.8%	2.0%	11.0%	2.2%	18.3	16.5	16.2	0.8	0.8	4.7%	2.4%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.23	1,516.8	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.0	9.9	9.7	1.6	1.4	14.4%	2.4%	1.20	MP
KIMLUN CORP BHD	1.39	461.3	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	7.4	7.5	7.3	0.7	0.7	9.0%	3.1%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.340	302.5	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	6.8	11.5	13.0	0.4	0.4	3.3%	4.4%	0.200	UP
MUHIKBAH ENGINEERING (M) BHD	2.77	1,335.2	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	8.2	8.5	8.1	1.2	1.1	14.8%	2.5%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	1.99	2,571.2	Y	12/2019	-6.1%	21.9%	-12.2%	22.3%	18.4	21.0	17.2	4.2	3.9	19.4%	2.8%	1.40	UP
WCT HOLDINGS BHD	0.945	1,305.5	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	10.4	12.1	10.1	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average					4.7%	3.4%	-4.5%	7.6%	10.8	11.4	10.7	1.2	1.1	9.8%	2.4%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.425	254.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	17.3	N.A.	N.A.	0.6	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.180	68.6	Y	06/2019	N.A.	N.A.	N.A.	N.A.	132.0	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.32	651.1	Y	12/2019	24.2%	27.3%	27.6%	27.4%	10.6	8.3	0.0	1.3	1.4	16.0%	4.4%	1.72	BUY
GADANG HOLDINGS BHD	0.820	542.6	Y	05/2019	11.8%	15.6%	-33.0%	15.9%	5.6	8.4	0.0	0.7	N.A.	8.8%	2.8%	0.890	NEUTRAL
JAKS RESOURCES BHD	0.735	472.7	Y	12/2019	74.4%	-48.7%	655.6%	-21.2%	31.2	4.1	0.0	0.5	0.5	12.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.290	171.1	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.50	414.7	Y	06/2019	224.3%	-2.7%	135.7%	-6.5%	26.7	11.3	0.1	1.3	1.3	11.5%	7.5%	2.56	NEUTRAL
PESONA METRO HOLDINGS	0.235	163.3	Y	12/2019	12.1%	9.5%	131.5%	-0.5%	19.8	8.6	0.0	1.0	N.A.	10.3%	4.3%	0.260	BUY
PROTASCO BHD	0.260	126.6	Y	12/2019	-1.4%	7.9%	365.8%	31.2%	N.A.	9.6	0.0	0.4	0.4	3.6%	5.4%	0.220	SELL
TRC SYNERGY BHD	0.655	314.7	Y	12/2019	18.3%	16.0%	67.3%	24.4%	15.1	9.0	0.0	0.7	0.7	8.2%	3.7%	0.690	BUY

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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