

28 February 2020

# Kimlun Corporation

## FY19 Met Expectations

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**FY19 CNP of RM58.4m (-4% YoY) is within expectations, accounting for 97%/101% of our/consensus forecasts. The full-year performance saw weaker construction earnings being mitigated by better manufacturing profit. Maintain OUTPERFORM with a slightly lower SoP-derived Target Price of RM1.60 (from RM1.65 previously).**

**Within expectations.** FY19 CNP of RM58.4m (-4% YoY) is in-line, representing 97%/101% of our/consensus expectations. The full-year results saw the construction division posting lower gross profit of RM80.9m (-8%) on the back of RM1.03b (+29%) revenue, of which was mitigated by stronger gross profit contribution of RM51.3m (+34%) from the manufacturing segment. The overall performance was dragged by lower gross margin for the construction (FY19's 7.8% versus FY18's 11.0% due to a higher mix of lower-margin projects) and manufacturing (FY19's 13.8% versus FY18's 15.2% arising from a larger proportion of the lower-margin precast concrete products) divisions.

**Results' highlights.** 4QFY19 CNP of RM16.7m was up 36% QoQ but down 27% YoY. This came on the back of: (i) the construction division registering gross profit of RM24.5m (+58% QoQ/-20% YoY), and (ii) the manufacturing segment recording gross profit of RM13.3m (+8% QoQ/-8% YoY). The final quarter was also affected by higher effective tax rate of 29.1% (versus 3QFY19's 21.4% and 4QFY18's 24.2%). The company has proposed DPS of 3.3 sen, translating to a dividend yield of 3.0%.

**Outlook.** Forward earnings will be underpinned by outstanding order-book of RM1.3b of construction jobs (anchored mainly by the Pan Borneo Highway Sarawak project) and RM0.24b of manufacturing orders as of end-Dec 2019.

**Tweaking our earnings.** We have fine-tuned our net profit forecast to RM65m (+5%) for FY20 and introduce our projection of RM63m for FY20 after tweaking our assumptions mainly on timing of progress billings and margin assumptions.

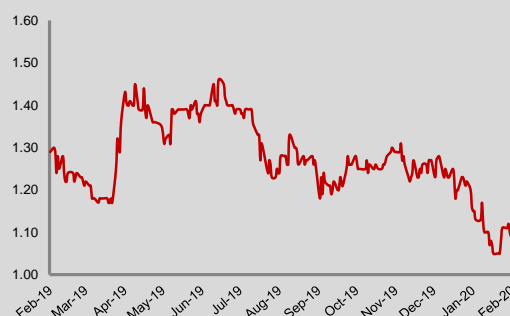
**Maintain OUTPERFORM with a lower Target Price of RM1.60 (from RM1.65).** Our TP is derived from SoP-valuation method (see table overleaf), which implies P/E multiple of 8.4x on FY20 earnings. We like Kim Lun as a small-cap contractor play which also offers exposure to the affordable housing segment and rising construction activities in Singapore.

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

## OUTPERFORM ↔

Price : RM1.09  
Target Price : RM1.60 ↓

### Share Price Performance



KLCI	1,505.59
YTD KLCI chg	-5.2%
YTD stock price chg	-12.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KICB MK EQUITY
Market Cap (RM m)	370.4
Shares Outstanding	339.8
52-week range (H)	1.49
52-week range (L)	1.04
3-mth avg daily vol:	155,033
Free Float	27%
Beta	1.2

### Major Shareholders

Phin Sdn Bhd	36.9%
Pang Khang Hau	6.0%
Pang Yon Tin	5.4%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1,302.8	1,181.9	1,164.6
EBIT	96.7	90.8	87.3
PBT	79.7	86.2	82.7
<b>Net Profit</b>	<b>58.4</b>	<b>65.1</b>	<b>62.5</b>
<b>Core PATAMI</b>	<b>58.4</b>	<b>65.1</b>	<b>62.5</b>
Consensus (NP)	N.A.	57.7	61.6
Earnings Revision	N.A.	+5%	N.A.
Core EPS (sen)	17.4	20.0	19.2
Core EPS growth (%)	-7	27	-4
NDPS (sen)	3.3	4.7	4.5
NTA per Share (RM)	2.1	2.2	2.4
Price to NTA (x)	0.5	0.5	0.5
PER (x)	6.3	5.4	5.7
Debt-to-Equity ratio (x)	0.5	0.2	0.0
Return on Asset (%)	4%	5%	5%
Return on Equity (%)	8%	9%	8%
Net Div. Yield (%)	3.0%	4.3%	4.1%

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### Results Highlight

FYE Dec (RM m)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
<b>Turnover</b>	<b>323.0</b>	<b>336.1</b>	<b>-4%</b>	<b>310.7</b>	<b>4%</b>	<b>1,302.8</b>	<b>1,012.0</b>	<b>29%</b>
<b>EBIT</b>	<b>28.7</b>	<b>19.5</b>	<b>47%</b>	<b>33.6</b>	<b>-15%</b>	<b>96.7</b>	<b>92.7</b>	<b>4%</b>
Interest exp	(4.2)	(3.9)	7%	(3.9)	8%	(16.7)	(11.9)	40%
Associates/JV	(1.0)	0.1	n.m.	0.5	n.m.	(0.4)	0.8	n.m.
<b>Pretax profit</b>	<b>23.5</b>	<b>15.7</b>	<b>50%</b>	<b>30.2</b>	<b>-22%</b>	<b>79.7</b>	<b>81.7</b>	<b>-2%</b>
Taxation	(6.8)	(3.4)	103%	(7.3)	-7%	(21.3)	(20.6)	3%
<b>Profit after tax</b>	<b>16.7</b>	<b>12.3</b>	<b>35%</b>	<b>22.9</b>	<b>-27%</b>	<b>58.4</b>	<b>61.1</b>	<b>-4%</b>
Minority interest	0.0	(0.0)	-	0.0	-	0.0	0.1	-
<b>PATAMI</b>	<b>16.7</b>	<b>12.3</b>	<b>36%</b>	<b>22.9</b>	<b>-27%</b>	<b>58.4</b>	<b>61.1</b>	<b>-4%</b>
<b>Core PATAMI</b>	<b>16.7</b>	<b>12.3</b>	<b>36%</b>	<b>22.9</b>	<b>-27%</b>	<b>58.4</b>	<b>61.1</b>	<b>-4%</b>
DPS (sen)	3.3	0.0		3.7		3.3	3.7	
EBIT margin	8.9%	5.8%		10.8%		7.4%	9.2%	
Pretax margin	7.3%	4.7%		9.7%		6.1%	8.1%	
EPS (sen)	4.9	3.6		6.9		17.4	18.8	
Core EPS(sen)	4.9	3.6		6.9		17.4	18.8	
Effective tax	29.1%	21.4%		24.2%		26.7%	25.2%	

Source: Company, Kenanga Research

### Segmental Breakdown

FYE Dec (RM m)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
<b>Revenue</b>								
Construction	259.6	274.5	-5%	232.8	11%	1,031.1	801.1	29%
Manufacturing & Trading	98.7	87.0	13%	97.2	2%	373.0	252.7	48%
Property Development	4.7	3.0	55%	1.1	316%	8.5	4.5	88%
Investment & Others (incl elimination)	(40.0)	(28.5)	41%	(20.4)	96%	(109.9)	(46.3)	137%
<b>Total</b>	<b>323.0</b>	<b>336.1</b>	<b>-4%</b>	<b>310.7</b>	<b>4%</b>	<b>1,302.8</b>	<b>1,012.0</b>	<b>29%</b>
<b>Gross Profit</b>								
Construction	24.5	15.5	58%	30.6	-20%	80.9	87.9	-8%
Manufacturing	13.3	12.3	8%	14.4	-8%	51.3	38.4	34%
Properties	0.9	0.7	38%	0.2	298%	1.7	0.9	88%
Investment & Others (incl elimination)	0.1	0.1	89%	0.2	-35%	0.2	0.8	-78%
<b>Total</b>	<b>38.9</b>	<b>28.5</b>	<b>36%</b>	<b>45.4</b>	<b>-14%</b>	<b>134.1</b>	<b>128.0</b>	<b>5%</b>
<b>Gross Profit Margin</b>								
Construction	9.5%	5.7%		13.1%		7.8%	11.0%	
Manufacturing	13.5%	14.1%		14.9%		13.8%	15.2%	
Properties	19.2%	21.5%		20.0%		20.0%	20.0%	
Investment & Others (incl elimination)	-	-		-		-	-	
<b>Total</b>	<b>12.0%</b>	<b>8.5%</b>		<b>14.6%</b>		<b>10.3%</b>	<b>12.7%</b>	

Source: Company, Kenanga Research

### Sum-of-parts valuation

Segment	Value (RMm)	Valuation Basis
Construction	253.2	FY20 P/E of 7.3x (at 3-year mean valuation)
Manufacturing & Trading	204.5	P/E of 8x
Property Development	82.3	P/BV of 0.6x (-1SD below mean) with inventory adjustment
Net cash / (debt) at holding company	2.4	
<b>Aggregate valuation</b>	<b>542.4</b>	
No of shares (m)	339.8	
<b>RNAV per share (RM)</b>	<b>1.60</b>	

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.			
<b>STOCKS UNDER COVERAGE</b>																	
GAMUDA BHD	3.61	9,071.2	Y	07/2020	33.5%	9.7%	-25.2%	-19.3%	11.1	14.8	18.4	1.1	1.1	7.3%	3.3%	4.70	OP
GEORGE KENT (MALAYSIA) BHD	0.860	458.8	Y	01/2020	-22.2%	10.1%	-43.0%	18.0%	6.1	10.7	9.1	1.0	0.9	9.0%	4.7%	0.970	MP
HOCK SENG LEE BERHAD	1.28	703.4	Y	12/2020	21.8%	16.2%	18.2%	21.5%	15.8	10.8	9.0	0.9	0.8	8.8%	1.9%	1.77	OP
IJM CORP BHD	1.99	7,222.6	Y	03/2020	4.9%	8.6%	-32.6%	13.9%	17.3	25.6	22.5	0.7	0.7	2.8%	1.5%	2.15	MP
KERJAYA PROSPEK GROUP BHD	1.27	1,563.7	Y	12/2020	33.7%	18.8%	12.6%	20.6%	10.4	9.3	7.7	1.6	1.4	16.4%	N.A.	1.50	OP
KIMLUN CORP BHD	1.09	370.4	Y	12/2019	-9.3%	-1.5%	11.5%	-4.0%	6.1	5.4	5.7	0.5	0.5	9.7%	4.3%	1.60	OP
MITRAJAYA HOLDINGS BHD	0.255	224.7	Y	12/2019	-4.8%	-52.3%	-46.2%	-130.0%	N.A.	N.A.	N.A.	0.3	0.4	-17.0%	0.0%	0.110	UP
MUHIBBAH ENGINEERING (M) BHD	1.66	802.5	Y	12/2019	9.9%	-3.4%	-21.4%	28.5%	5.5	7.0	5.5	0.7	0.7	9.8%	3.1%	2.35	OP
SUNWAY CONSTRUCTION GROUP BHD	1.86	2,398.2	Y	12/2020	42.9%	3.9%	30.4%	4.0%	18.6	14.3	13.8	4.0	3.7	26.6%	3.9%	2.15	OP
WCT HOLDINGS BHD	0.685	961.4	Y	12/2020	0.8%	-0.2%	-29.6%	4.5%	7.7	11.0	10.5	0.3	0.3	2.7%	0.0%	0.750	MP
<b>Simple Average</b>					<b>11.1%</b>	<b>1.0%</b>	<b>-12.5%</b>	<b>-4.2%</b>	<b>10.6</b>	<b>12.1</b>	<b>11.3</b>	<b>1.1</b>	<b>1.0</b>	<b>7.9%</b>	<b>2.5%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.325	193.8	Y	06/2020	N.A.	N.A.	N.A.	N.A.	13.2	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.080	30.5	Y	06/2020	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.1	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.05	518.1	Y	12/2019	-9.3%	58.2%	-17.7%	53.5%	8.5	10.3	0.0	1.0	1.1	11.3%	4.0%	1.62	BUY
GADANG HOLDINGS BHD	0.595	433.2	Y	05/2020	3.8%	0.1%	33.9%	14.2%	9.8	7.3	0.0	0.5	0.5	7.6%	1.3%	0.687	NEUTRAL
JAKS RESOURCES BHD	1.39	905.1	Y	12/2019	80.6%	-50.3%	683.9%	-42.4%	59.0	7.5	0.0	0.9	0.9	15.0%	0.0%	1.20	NEUTRAL
MUDAJAYA GROUP BHD	0.455	268.4	N	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.8	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	3.02	500.9	Y	06/2020	41.6%	2.6%	107.5%	3.3%	19.2	9.2	0.1	1.5	1.4	16.4%	6.6%	3.88	NEUTRAL
PESONA METRO HOLDINGS	0.200	139.0	Y	12/2020	7.1%	-9.7%	111.7%	-10.7%	12.6	5.9	0.0	0.7	N.A.	11.4%	5.0%	0.290	BUY
PROTASCO BHD	0.355	172.2	Y	12/2020	3.4%	11.7%	97.8%	2.5%	28.7	14.5	0.0	0.5	0.5	3.6%	3.9%	0.315	NEUTRAL
TRC SYNERGY BHD	0.390	187.4	Y	12/2020	12.1%	4.6%	55.9%	27.2%	9.5	6.1	0.0	0.5	N.A.	9.6%	5.1%	0.500	NEUTRAL

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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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

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