

22 September 2021

KESM Industries Bhd

Lockdown Woes

4QFY21 CNL of RM1.5m (-298% QoQ; +55% YoY) further depressed FY21 CNP to RM4.0m (vs. RM0.1m FY20), which came in below our, but above consensus, expectation, accounting for only 57%/158% of respective estimates. Our CNP excluded RM3.3m worth of gain from investment which we deem as non-core. The group suffered impacts from the movement control order, and reduced loading volume due to wafer shortage, resulting in its utilisation rate dipping below 30%. We anticipate a slow recovery for KESM owing to its lesser role in the automotive supply chain. Maintain MARKET PERFORM with a lower TP of RM11.40.

Below expectations. 4QFY21 CNL of RM1.5m (-298% QoQ; +55% YoY) further depressed FY21 CNP to RM4.0m (vs. RM0.1m FY20), which came in below our, but above consensus, expectation, accounting for only 57%/158% of respective estimates. We have stripped off RM3.3m worth of gain from investment securities which we deem to be non-core to the group's business operation.

Results' highlight. QoQ, 4QFY21 dipped into the red with CNL of RM1.5m as the group continued to suffer the challenges posed by the Covid-19 pandemic. In addition to the movement control order, the group also experienced a reduction in loading volume from customers due to insufficient wafer supplies. This led to a 5.1% decrease in revenue to RM58.0m. YoY, 4QFY21 revenue rose 26% to RM58.0m as the group experienced improved demand for burn-in and test services. As a result, CNL improved to RM1.5m (vs. CNL of RM3.3m). Cumulatively, FY21 revenue edged 3% higher to RM248.3m when compared to FY20 while CNP climbed to RM4.0m (vs. CNP of RM0.1m in FY21).

Struggling to ride the automotive wave. The group continues to exhibit lagging performance compared to its automotive peers which have reported stellar earnings, in tandem with the surge in demand for automotive semiconductor components. We believe this is due to the fact that KESM is likely involved in less important automotive chips.

Anticipating a very gradual recovery. KESM's utilisation rate for the period in review dipped below 30% due to the sporadic relaxation or tightening of the movement control order. We anticipate a very gradual recovery for KESM instead of an exuberant one seen in other companies. Over the longer term, the group remains optimistic to benefit from the automotive semiconductor boom as it is expected to be a multi-year growth trend. As the group increases its vaccination rate among its workforce coupled with the easing on movement restrictions, KESM should be able to achieve an improved utilisation rate in FY22.

Reduce FY22E CNP by 24% to RM14.0m and introduce FY23E CNP of RM21.0m.

Maintain MARKET PERFORM with a lower Target Price of RM11.40 (previously RM12.00) based on CY22E PER of 27.8x, at 3-year mean.

Risks to our call include: (i) faster-than-expected ramp-up in volume for burn-in and test services, (ii) faster-than-expected adoption of new semiconductor modules in automobiles, and (iii) sudden surge in customer's forecast.

MARKET PERFORM ↔

Price: RM12.20
Target Price: RM11.40 ↓

Expected Capital Gain: RM0.08 -6.6%
Expected Divd. Yield: RM0.09 0.7%
Expected Total Return: -RM0.71 -5.8%

KLCI Index 1,530.44

Stock Information

Bloomberg Ticker	KESM MK Equity
Bursa Code	9334
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	43.0
Market Cap (RM m)	524.8
52-week range (H)	17.62
52-week range (L)	8.01
Free Float	31.2%
Beta	0.93
3-mth avg daily vol:	381,408

Major Shareholders

Sunright Ltd	48.4%
KWAP	4.9%
Aberdeen	4.9%

Summary Earnings Table

FY July (RM m)	2021A	2022E	2023E
Revenue	248.3	260.4	276.9
EBIT	7.9	10.6	18.2
PBT	11.0	15.6	23.4
Net profit	4.0	14.0	21.0
Core Net Profit	4.0	14.0	21.0
Consensus (NP)	2.5	11.4	10.4
Earnings Revision	N.A.	-24%	0%
Core EPS (sen)	9.3	32.6	48.9
Core EPS growth (%)	4072	250.4	49.7
DPS (sen)	9.0	9.0	9.0
BV/Share (RM)	8.3	8.6	8.9
Core PER (x)	131.0	37.4	25.0
PBV (x)	1.5	1.4	1.4
Net. Gearing (x)	-0.6	-0.7	-0.8
Div. Yield (%)	0.7	0.7	0.7

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.3%	7.9%	44.3%
Relative (%)	-1.9%	11.5%	42.5%

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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE July (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	58.0	61.1	-5.1%	46.3	25.5%	248.3	241.0	3.0%
EBITDA	14.9	16.8	-11.3%	12.0	24.0%	68.5	67.3	1.7%
EBIT	0.3	2.1	-87.4%	-2.6	110.3%	10.7	5.0	115.2%
PBT	0.0	1.9	-99.7%	-1.6	100.4%	11.0	5.7	94.1%
Taxation	-0.7	-1.0	35.0%	-1.7	60.6%	-3.7	-5.6	33.9%
Net Profit	-0.7	0.9	-173.2%	-3.3	80.1%	7.3	0.1	7540.6%
Core Net Profit	-1.5	0.7	-297.7%	-3.3	55.3%	4.0	0.1	4072.9%
EPS (sen)	-3.4	1.7	-297.7%	-7.6	55.1%	9.3	0.3	3417.6%
DPS (sen)	6.0	0.0		0.0		9.0	7.5	
EBITDA margin	25.6%	27.4%		25.9%		27.6%	27.9%	
EBIT margin	0.5%	3.5%		-5.6%		4.3%	2.1%	
PBT margin	0.0%	3.1%		-3.5%		4.4%	2.4%	
PATAMI margin	-2.5%	1.2%		-7.1%		1.6%	0.0%	
Effective tax rate	-11000%	-53.2%		104.4%		-33.5%	-98.3%	

Source: Company, Kenanga Research

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Malaysian Technology Peers 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.			
D&O GREEN TECHNOLOGIES BERHAD	5.89	7,060.0	Y	12/2021	58.9%	15.8%	148%	16.1%	120.5	48.6	41.9	14.5	11.5	23.7%	0.3%	6.00	OP
GHL SYSTEMS BHD	1.84	2,100.4	Y	12/2021	4.3%	36.3%	8.4%	41.8%	73.5	67.8	47.8	4.4	4.0	6.5%	0.0%	2.30	OP
INARI AMERTRON BHD	3.63	13,370.5	Y	06/2021	22.5%	14.6%	19.2%	14.7%	36.0	30.2	26.3	8.7	8.0	26.4%	2.3%	4.80	OP
JHM CONSOLIDATION BHD	2.00	1,115.2	Y	12/2020	29.8%	10.7%	72.2%	11.1%	41.9	24.3	21.9	4.7	3.8	15.8%	0.8%	2.00	MP
KELINGTON GROUP BHD	1.76	1,131.7	Y	12/2021	25.5%	40.1%	84.7%	45.7%	52.1	28.2	19.4	5.4	4.7	16.7%	0.9%	2.50	OP
KESM INDUSTRIES BERHAD	12.20	524.8	Y	07/2020	4.9%	6.4%	4072%	250%	131.0	37.4	25.0	1.5	1.4	3.8%	0.7%	11.40	MP
MALAYSIAN PACIFIC INDUSTRIES BERHAD	45.06	8,962.3	Y	06/2021	10.0%	10.0%	11.3%	10.0%	32.2	28.8	26.2	7.1	8.0	15.6%	0.7%	56.20	OP
P.I.E. INDUSTRIAL BERHAD	3.40	1,305.7	Y	12/2021	59.9%	7.5%	31.2%	27.0%	24.0	18.3	14.4	2.3	2.0	11.1%	2.5%	4.15	OP
SKP RESOURCES BHD	1.86	2,906.0	Y	03/2022	12.3%	12.4%	21.7%	12.4%	21.6	17.7	15.8	4.1	3.7	21.0%	2.8%	2.60	OP
UNISEM (M) BERHAD	8.32	6710.4	Y	12/2021	18.5%	7.0%	64.3%	8.5%	42.5	28.6	26.4	3.5	3.2	12.1%	0.7%	9.80	OP

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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