

30 November 2021

# Kimlun Corporation

## 9MFY21 Below Expectations

By Lum Joe Shen | [lumjs@kenanga.com.my](mailto:lumjs@kenanga.com.my)

9MFY21 CNP of RM3.3m missed expectations due to the unexpected loss incurred in 3QFY21 arising from the FMCO. That said, with the recommencement of construction works on a normalised basis, we expect a sharp rebound in the quarters ahead. YTD replenishment of RM1b is within our RM1.1b target. Post results, we reduce FY21E earnings by 47% but maintain OP with an unchanged TP of RM1.25 pegged to 9x Fwd. PER.

**Unexpected loss this quarter.** 3QFY21 core net loss of RM8.1m dragged 9MFY21 CNP to RM3.3m – below our/consensus estimates at 12%/13% of full-year forecast, respectively. The negative deviation stemmed from the lower-than-expected revenue recognised this quarter which dragged the group into a loss given the fixed operating costs incurred. The weak revenue was attributable to FMCO restrictions (of 1.5 months in the quarter) and reduced productivity as its workers were not all fully vaccinated. No dividends as expected as dividends are normally dished out in the fourth quarter.

**Highlights. QoQ,** 3QFY21 slipped into the red posting CNL of RM8.1m on weaker revenue (-50%) due to lower works done during the quarter attributable to the FMCO which capped productivity as explained above. **YoY,** 9MFY21 CNP of RM3.3m was almost similar to 9MFY20 CNP of RM3.2m on slightly reduced revenue (-4%).

**Outlook.** YTD, Kimlun has replenished RM1b worth of contracts (construction RM900m; manufacturing RM100m) within our target of RM1.1b. In the near future, replenishment prospects include: (i) RTS, (ii) Pan Borneo Sarawak Phase 2, (iii) Autonomous Rail Transit Kuching, (iv) Iskandar BRT, and (v) Central Spine Road. Outstanding order-book stands at RM2b – providing c.2x revenue cover.

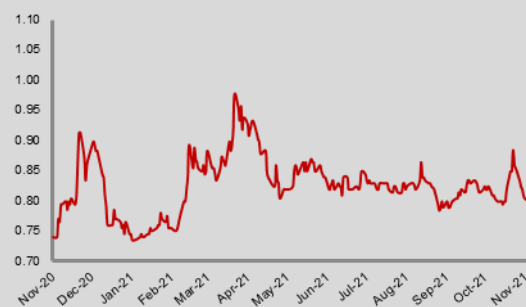
**Reduce FY21E earnings by 47% after lowering revenue assumption and catering for the loss incurred this quarter. Nonetheless, FY22E CNP kept unchanged post results.**

**Despite the weak 3QFY21, we maintain OUTPERFORM with unchanged TP of RM1.25** pegged to 9x FY22E PER. The recovery prospect for Kimlun has strengthened since the recommencement of construction works nation-wide and we continue to like the name for its potential sharp earnings turn-around from a small base. Also, FY22E PER of 5.8x is attractive given that it offers exposure to MRT3 (through the supply of TLS and SBGs) and Singapore which is seeing rising construction activity.

**OUTPERFORM** ↔

Price : **RM0.80**  
Target Price : **RM1.25** ↔

### Share Price Performance



KLCI	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	-10.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KICB MK EQUITY
Market Cap (RM m)	282.7
Shares Outstanding	353.4
52-week range (H)	1.01
52-week range (L)	0.74
3-mth avg daily vol:	265,543
Free Float	25%
Beta	1.0

### Major Shareholders

Phin Sdn Bhd	37.3%
Pang Khang Hau	6.0%
Pang Yon Tin	5.4%

### Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	794.7	754.2	1199.2
EBIT	34.6	40.0	83.3
PBT	15.5	19.2	62.5
<b>Net Profit (NP)</b>	<b>7.9</b>	<b>14.5</b>	<b>47.2</b>
<b>Core NP</b>	<b>15.2</b>	<b>14.5</b>	<b>47.2</b>
Consensus (NP)	n.a.	26.4	44.2
Earnings Revision	n.a.	-47%	0%
Core EPS (sen)	4.5	4.28	13.88
Core EPS growth (%)	-74%	-5%	225%
NDPS (sen)	1.0	0.9	2.6
NTA per Share (RM)	2.0	2.1	2.2
Price to NTA (x)	0.4	0.4	0.4
PER (x)	17.8	18.7	5.8
Debt-to-Equity ratio (x)	0.4	0.2	0.1
Return on Asset (%)	1%	1%	4%
Return on Equity (%)	1%	2%	6%
Net Div. Yield (%)	1.2%	1.1%	3.2%

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

Result Highlights								
FYE Dec (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
<b>Turnover</b>	<b>107.2</b>	<b>214.3</b>	-50%	<b>211.8</b>	-49%	<b>531.8</b>	<b>551.1</b>	-4%
EBITDA	3.7	17.5	-79%	31.9	-88%	47.7	50.1	-5%
Depreciation	-9.5	-10.4	-9%	-18.8	-50%	-30.2	-29.5	2%
<b>EBIT</b>	<b>-5.8</b>	<b>7.1</b>	-181%	<b>13.1</b>	-144%	<b>17.5</b>	<b>20.6</b>	-15%
Interest inc/(exp)	-3.7	-3.7	-1%	-4.1	-10%	-11.1	-13.7	-19%
Associates/JV	-0.1	-0.1	11%	-0.1	22%	-0.4	-0.4	-3%
Exceptional items	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Forex gain/(loss)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Pretax profit</b>	<b>-9.6</b>	<b>3.2</b>	-396%	<b>8.9</b>	-208%	<b>6.0</b>	<b>6.6</b>	-8%
Taxation	1.5	-0.9	266%	-2.5	159%	-2.7	-3.4	-20%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Profit after tax</b>	<b>-8.1</b>	<b>2.3</b>	-446%	<b>6.3</b>	-228%	<b>3.3</b>	<b>3.2</b>	5%
Minority interest	0.0	0.0	n.a.	0.0	-100%	0.0	0.0	-100%
<b>PATAMI</b>	<b>-8.1</b>	<b>2.3</b>	-446%	<b>6.4</b>	-228%	<b>3.3</b>	<b>3.2</b>	3%
<b>Core PATAMI</b>	<b>-8.1</b>	<b>2.3</b>	-446%	<b>6.2</b>	-232%	<b>3.3</b>	<b>3.2</b>	3%
DPS (sen)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	-5%	3%		6%		3%	4%	
Pretax margin	-9%	2%		4%		1%	1%	
NP margin	-8%	1%		3%		1%	1%	
CNP margin	-8%	1%		3%		1%	1%	
EPS (sen)	-2.3	0.7		1.9		0.9	0.9	
Core EPS(sen)	-2.3	0.7		1.8		0.9	0.9	
BV/share (RM)	2.05	2.08		2.10		2.05	2.10	
Net gearing (x)	0.43	0.44		0.47		0.43	0.47	
Effective tax	16%	28%		28%		45%	52%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Construction	84.0	132.4	-37%	182.0	-54%	369.6	435.8	-15%
Manufacturing & Trading	23.2	38.1	-39%	29.8	-22%	113.4	113.6	0%
Property Development	0.0	43.8	-100%	0.0	n.a.	48.8	1.7	2712%
Investment	0.0	0.0	100%	0.0	0%	0.0	0.0	-33%
	<b>107.2</b>	<b>214.3</b>		<b>211.8</b>		<b>531.8</b>	<b>551.1</b>	
<b>GP Segmentation</b>								
Construction	-2.4	7.6	-132%	15.5	-116%	13.7	27.9	-51%
Manufacturing & Trading	2.8	5.9	-52%	6.3	-55%	21.6	16.9	28%
Property Development	0.0	4.7	-100%	0.0	n.a.	5.6	0.3	1528%
<b>GP margins</b>								
Construction	-3%	6%		9%		4%	6%	
Manufacturing & Trading	12%	15%		21%		19%	15%	
Property Development	n.a.	11%				11%	20%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>														
GAMUDA BHD	2.81	7,063.0	Y	07/2022	11.8	11.7	12.7	0.8	0.8	6.8%	2.1%	2.80	MP	
HOCK SENG LEE BERHAD	0.980	538.5	Y	12/2021	16.9	13.4	10.2	0.7	0.6	4.8%	1.5%	0.950	MP	
IJM CORP BHD	1.79	6,387.9	Y	03/2022	17.8	35.2	21.7	0.7	0.7	9.9%	11.7%	1.90	OP	
KERJAYA PROSPEK GROUP BHD	1.17	1,447.7	Y	12/2021	16.0	15.4	9.2	1.5	1.3	9.1%	2.3%	1.50	OP	
KIMLUN CORP BHD	0.800	282.7	Y	12/2021	17.9	18.7	5.8	0.4	0.4	2.2%	2.1%	1.25	OP	
MUHIBBAH ENGINEERING (M) BHD	0.830	401.3	Y	12/2021	N.A.	N.A.	16.6	0.4	0.3	-1.7%	1.2%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.54	1,985.6	Y	12/2021	24.1	22.6	15.6	3.1	2.9	13.3%	2.6%	1.52	MP	
WCT HOLDINGS BHD	0.565	800.7	Y	12/2021	N.A.	34.0	9.0	0.3	0.2	2.3%	0.0%	0.620	MP	
<b>Simple Average</b>					<b>17.4</b>	<b>21.6</b>	<b>12.6</b>	<b>1.0</b>	<b>0.9</b>	<b>5.8%</b>	<b>3.0%</b>			

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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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

