

05 December 2022

Kimlun Corporation

Concrete Earnings Prospects, Literally

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KIMLUN's precast concrete product segment is in a bright spot, benefitting from a new wave of investment in semiconductor foundries and data centres by MNCs in Malaysia and a new MRT line project in Singapore. Its labour shortage issue will ease with the arrival of >700 new workers by Apr 2023. We fine-tune up our FY23F net profit by 2%, lift slightly our TP to RM1.12 (from RM1.10) and reiterate our OUTPERFORM call.

We attended KIMLUN's post-3QFY22 results briefing and the key takeaways are as follows:

1. KIMLUN revealed that the strong performance of its manufacturing division in the newly-announced 3QFY22 results was driven by internal orders for precast concrete products for a fast-track building job of a semiconductor plant (the first for KIMLUN) in Penang for a US-based client. Recall, in 3QFY22, the turnover and gross profit of its manufacturing division jumped 35% and 45% sequentially, respectively. Historically, the manufacturing division contributes 40% of KIMLUN's total gross profits.

A new wave of investment in semiconductor foundries and data centres by MNCs in Malaysia has been a shot in the arm for local construction players, including KIMLUN. The building jobs for these foundries and centres, typically fast-track in nature, fetch good margins. KIMLUN is currently bidding for more such jobs in Penang and Johor.

2. Meanwhile, the demand for its precast products in Singapore remains robust underpinned by the construction of Singapore's Cross Island MRT Line in which KIMLUN has secured two tunnel lining segment packages and is awaiting the tender results of another four packages. To recap, a bulk of KIMLUN's external manufacturing revenue is derived from Singapore which it has benefitted from the stronger SGD exchange rate (against MYR) which lifted its manufacturing revenue by c.4% in 3QFY22.

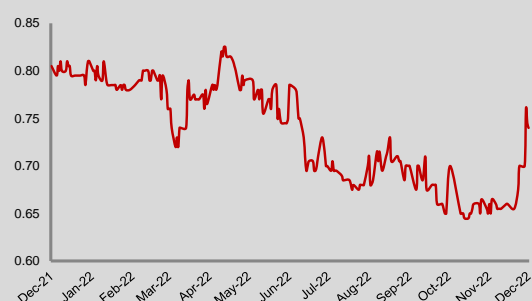
3. YTD, KIMLUN has secured RM353m worth of new jobs. However, it conceded that the chances of meeting its initial FY22F replenishment guidance of RM600m-RM800m (eyeing mainly private jobs) is slim as these awards will likely be deferred into 1QFY23. On the public projects front, KIMLUN is cautiously optimistic that these projects would be rolled out under the new government administration but remain uncertain over the timing. It continues to target works in Sarawak's Autonomous Rapid Transit (ART), Pan Borneo Sarawak Highway (Phase 2), Iskandar Bus Rapid Transit (BRT) and Rapid Transit Systems (RTS).

4. KIMLUN has brought in 70 foreign workers out of a total of 737 approved for both its construction and manufacturing arms. The remaining workers from Indonesia, Bangladesh and Nepal are targeted to come in gradually up until Apr 2023. With the gradual arrival of these workers, KIMLUN will be able to expedite the delivery of its outstanding order book of RM1.74b (as at end-Sep 2022). A new employment act to come into effect on 1 Jan 2023 mandates the payment of overtime salaries to workers earning less a month salary of less than RM4,000 (previously RM2,500). This may slightly dent its bottom-line given that c.10% of its workers fall under this threshold.

OUTPERFORM ↔

Price: **RM0.74**
Target Price: **RM1.12** ↑

Share Price Performance



KLCI	1,481.80
YTD KLCI chg	-5.5%
YTD stock price chg	-8.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KICB MK Equity
Market Cap (RM m)	261.5
Shares Outstanding	353.4
52-week range (H)	0.84
52-week range (L)	0.63
3-mth avg daily vol:	36,914
Free Float	29%
Beta	0.7

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	691	858	1010
EBIT	16	51	73
PBT	1	35	57
Net Profit	-1	27	44
Core PATAMI	-1	27	44
Consensus (NP)	n.a.	28	41
Earnings Revision	n.a.	0%	+2%
Core EPS (sen)	-0.2	7.6	12.3
Core EPS growth (%)	-104	4668	62
NDPS (sen)	1	1.0	2.0
NTA per Share (RM)	2.04	2.11	2.21
Price to NTA (x)	0.4	0.4	0.3
PER (x)	-443.9	9.7	6.0
Debt-to-Equity ratio (x)	0.33	0.18	0.17
Return on Asset (%)	0	2	3
Return on Equity (%)	0	4	6
Net Div. Yield (%)	1.4	1.4	2.7

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5. Its sole on-going property project i.e. 100 Trees at Bandar Seri Alam, Johor, which comprise 60 units of Semi-D's (GDV of RM61m), has seen take up of 33% so far. For FY23, KIMLUN intends to launch Bandar Bukit Bayu phase 2 comprising 16 bungalow units with a GDV of RM40m.

Forecasts and assumptions. Post briefing, we keep our FY22 forecasts unchanged but raise FY23F earnings marginally by 2% to reflect: (i) lowered FY22F replenishment assumption of RM500m (from RM800m) but increased FY23F replenishment of RM1.1b (from RM800m) to account for the deferred contract awards, (ii) higher labour costs from the new employment act, and (iii) stronger manufacturing margins on better margin jobs.

Consequently, TP is raised to RM1.12 (from RM1.10) based on unchanged 9x PER - a discount towards big cap contractors PER range of 13-18x given its much smaller size. There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us (see Page 5).

We continue to like KIMLUN for: (i) being a beneficiary from the continuation of public infra projects rollout post elections, (ii) its geographically diversified earnings base with a strong presence in the precast concrete product segment in Singapore, and (iii) its strong earnings visibility backed by an outstanding order-book of RM1.74b which could keep it busy for the next two years.

Maintain OUTPERFORM.

Risks to our call: (i) sustained weak flows of construction jobs from both the public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	1303	795	691	858	1010	Growth					
GP	134	75	50	84	109	Revenue	29%	-39%	-13%	24%	18%
JVA	0	-1	-1	0	0	EBIT	3%	-65%	-54%	225%	42%
EBIT	96	34	16	51	73	PBT	-2%	-81%	-94%	3546%	62%
Finance costs	-17	-18	-15	-16	-16	PAT	-4%	-86%	-109%	-3796%	62%
PBT	80	16	1	35	57	PATAMI	-5%	-86%	-107%	-4668%	62%
Taxation	-21	-8	-2	-8	-14	Core PATAMI	-5%	-74%	-104%	-4668%	62%
PAT	58	8	-1	27	44	Profitability					
MI	0	0	0	0	0	EBIT margin	7%	4%	2%	6%	7%
PATAMI	58	8	-1	27	44	PBT margin	6%	2%	0%	4%	6%
Exceptionals	0	-7	0	0	0	PAT margin	4%	1%	0%	3%	4%
Core PATAMI	58	15	-1	27	44	PATAMI margin	4%	1%	0%	3%	4%
						Core PATAMI margin	4%	2%	0%	3%	4%
						Effective Tax Rate	-27%	-49%	-175%	-24%	-24%
Balance Sheet						ROE	8.1%	2.1%	-0.1%	3.6%	5.6%
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	ROA	3.8%	1.0%	0.0%	2.0%	3.2%
Fixed Assets	212	179	143	120	110	Leverage					
Intangibles	0	0	0	0	0	Debt/Equity (x)	0.56	0.56	0.43	0.41	0.39
JVA	18	18	17	17	17	Net Debt/(Cash)	342	350	238	131	134
NC Inventories	159	172	214	250	250	Net Debt/Equity (x)	0.47	0.48	0.33	0.18	0.17
Inventories	212	208	169	120	140	Valuations					
Rec+Con.Asset	873	836	703	620	680	Core EPS (sen)	17.2	4.4	-0.2	7.6	12.3
Other Assets	7	7	11	10	10	NDPS (sen)	3.7	1.0	1.0	1.0	2.0
Cash	65	57	70	176	173	BV/share (RM)	2.12	2.11	2.04	2.11	2.21
Total Assets	1546	1477	1326	1313	1380	Core PER (x)	4.3	16.6	-443.9	9.7	6.0
Payables	384	307	267	230	260	Net Div. Yield (%)	5.0%	1.4%	1.4%	1.4%	2.7%
ST Borrowings	252	275	159	159	159	PBV (x)	0.35	0.35	0.36	0.35	0.33
LT Borrowings	154	132	148	148	148						
Other Liabilities	35	28	22	22	22						
Total Liabilities	826	743	595	559	589						
Net Assets	721	734	731	754	791						
Share Cap & Reserves	281	290	290	290	290						
Retained Earnings	439	436	432	455	492						
Shareholder Equity	720	726	721	745	781						
MI	0	8	10	10	10						
Total Equity	721	734	731	754	791						
Cashflow Statement											
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F						
Operating CF	11	13	118	139	9						
Investing CF	-92	-2	-3	-13	10						
Financing CF	104	4	-103	-19	-23						
Change in Cash	23	15	12	107	-4						
Source: Kenanga Research											

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
GAMUDA BHD	OP	3.92	5.15	31.38%	10,157.0	Y	07/2023	35.0	43.6	7.4%	24.7%	10.8	8.7	1.1	10.4%	50.0	12.8%
IJM CORP BHD	MP	1.63	1.68	3.07%	5,726.7	Y	03/2023	8.6	9.2	26.2%	6.9%	19.1	17.9	0.6	3.8%	6.0	3.7%
KERJAYA PROSPEK GROUP BHD	OP	1.14	1.50	31.58%	1,437.6	Y	12/2022	9.3	12.2	19.1%	30.9%	10.4	9.4	1.3	11.2%	4.5	3.9%
KIMLUN CORP BHD	OP	0.740	1.12	51.35%	261.5	Y	12/2022	7.9	12.9	2600.0%	63.0%	9.7	6.0	0.4	4.0%	1.5	2.0%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.48	1.60	8.11%	1,908.3	Y	12/2022	9.8	9.8	0.4%	-0.8%	15.0	15.1	2.8	19.4%	5.0	3.4%
WCT HOLDINGS BHD	MP	0.445	0.460	3.37%	630.7	Y	12/2022	3.5	2.5	75.0%	-28.6%	12.9	17.7	0.2	3.1%	0.0	0.0%
Simple Average								12.4	15.0	454.7%	16.0%	13.0	12.5	1.1	8.6%		4.3%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	★
	Corporate Social Responsibility	★	★	
	Management/Workforce Diversity	★	★	★
	Accessibility & Transparency	★	★	★
	Corruption-Free Pledge	★	★	★
	Carbon-Neutral Initiatives	★	★	★
SPECIFIC	Migrant Worker Welfare	★	★	☆
	Waste Disposal/Pollution Control	★	★	☆
	Work Site Safety	★	★	★
	Environmentally Friendly Construction Technology	★	★	★
	Supply Chain Auditing	★	★	
	Energy Efficiency	★	★	
OVERALL		★	★	★

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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