

Kimlun Corporation

A Soft 1QFY23, Momentum to Pick Up

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KIMLUN's 1QFY23 results missed expectations due to slower-than-expected work progress on sites. On a brighter note, YTD job wins are on track to meet our full-year assumption. We cut our FY23-24F earnings forecasts by 19% and 11%, respectively, reduce our TP by 20% to RM0.90 (from RM1.12) but maintain our OUTPERFORM call.

Below expectations. 1QFY23 core net profit of RM0.4m missed expectations, accounting for a mere 1% each of both our full-year forecast and the full-year consensus estimate. The variance against our forecast came largely from lower-than-expected revenue of its construction unit which generated low gross profit, insufficient to offset the fixed operating and overhead costs at the group level. We had earlier anticipated revenue to ramp up from its significant RM780m Sarawak Sabah Link Road contract (secured back in Nov 2021) as the project moved up the S-curve.

While 1QFY23 revenue was flat YoY, gross profit improved 90% on better margins thanks to the higher share of revenue derived from its manufacturing division which commands significantly better margins compared to its construction arm. Furthermore, on lower selling and administrative expenses (-23%), it returned to the black from a loss a year ago.

YTD job wins of RM590m (comprising RM440m for construction and RM150m for manufacturing) are on track to meet our full-year replenishment assumption of RM1.1b (in-line with the company's internal target of RM1.0b-RM1.2b). We hold the view that public contracts would see an expedited roll-out in 2HCY23 after the current government has reviewed certain public jobs awarded by its predecessor. KIMLUN's job prospects in 2HFY23 appear promising underpinned by: (i) Pan Borneo phase 2, (ii) Johor Bahru – Singapore RTS project, (iii) flood mitigation projects (iv) Singapore Cross Island Line, (v) semiconductor factories, and (vi) MRT3. As at end-FY22, its outstanding order book stood at RM1.7b, close to its peak of RM2.4b recorded during the last construction upcycle in FY17.

Forecasts. We cut our FY23-24F earnings forecasts by 19% and 11%, respectively, to reflect slower work progress. We now foresee the momentum at its Sarawak Sabah Link Road contract to only pick up materially in 2HFY23.

Consequently, we reduce our TP by 20% to RM0.90 (from RM1.12) based on unchanged 9x PER, at a 50% discount to the 18x we ascribed to market leader GAMUDA given KIMLUN's much smaller size. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

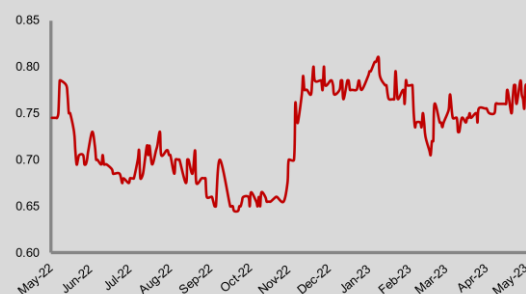
We continue like KIMLUN for: (i) being a beneficiary from the continuation of public infra project rollouts, (ii) its geographically diversified earnings base with a strong presence in the precast concrete product segment in Singapore's booming infrastructure space, (iii) the increased demand for fast turnaround factory construction from manufacturing companies diverting away from China which benefits its precast arm, and (iv) its strong earnings visibility backed by an outstanding order-book of RM1.7b which would keep it busy for the next two to three years. Maintain **OUTPERFORM**.

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

OUTPERFORM ↔

Price : **RM0.755**
Target Price : **RM0.90** ↓

Share Price Performance



KLCI 1,454.19
YTD KLCI chg -2.8%
YTD stock price chg 1.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KICB MK EQUITY
Market Cap (RM m)	275.6
Shares Outstanding	353.4
52-week range (H)	0.84
52-week range (L)	0.63
3-mth avg daily vol:	71,741
Free Float	29%
Beta	0.8

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	756	840	1044
EBIT	53	62	78
PBT	40	46	63
Net Profit (NP)	37	35	48
Core NP	37	35	48
Consensus (NP)	-	46	53
Earnings Revision	-	-19%	-11%
Core EPS (sen)	10.4	9.9	13.5
Core EPS growth (%)	-	-5	35
NDPS (sen)	1.0	1.0	1.0
NTA per Share (RM)	2.14	2.22	2.35
Price to NTA (x)	0.4	0.3	0.3
PER (x)	7.2	7.6	5.6
Debt-to-Equity ratio (x)	0.16	0.16	0.10
Return on Asset (%)	3	3	3
Return on Equity (%)	5	4	6
Net Div. Yield (%)	1.3	1.3	1.3

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Result Highlights

FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Revenue	173.2	164.0	6%	174.0	0%	173.2	174.0	0%
COGS	-158.7	-145.7	9%	-166.4	-5%	-158.7	-166.4	-5%
GP	14.5	18.3	-21%	7.6	90%	14.5	7.6	90%
Other Income	0.8	4.1	-81%	0.9	-10%	0.8	0.9	-10%
Selling and admin expenses	-8.9	-51.7	-83%	-11.6	-23%	-8.9	-11.6	-23%
Finance costs	-3.7	-3.3	12%	-3.1	20%	-3.7	-3.1	20%
JV	-0.7	-0.4	87%	-0.4	97%	-0.7	-0.4	97%
PBT	1.9	-33.0	106%	-6.6	129%	1.9	-6.6	129%
Tax	-1.6	6.8	-123%	0.5	-426%	-1.6	0.5	-426%
PAT	0.4	-26.2	101%	-6.1	106%	0.4	-6.1	106%
MI	-0.1	0.0	n.a.	0.0	46%	-0.1	0.0	46%
Net Profit	0.4	-26.2	102%	-6.1	107%	0.4	-6.1	107%
Exceptionals	0.0	-44.0	-100%	0.0	n.a.	0.0	0.0	n.a.
CNP	0.4	17.8	-98%	-6.1	107%	0.4	-6.1	107%
DPS (sen)	0.0	1.0	-100%	0.0	n.a.	0.0	0.0	n.a.
GP margin	8%	11%		4%		8%	4%	
PBT margin	1%	-20%		-4%		1%	-4%	
Net Profit margin	0%	-16%		-3%		0%	-3%	
CNP margin	0%	11%		-3%		0%	-3%	
Effective tax	-82%	-21%		-7%		-82%	-7%	
Net gearing (x)	0.45	0.33		0.29		0.45	0.29	

Source: Company, Kenanga Research

Segmental Breakdown

External Revenue	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Construction	119.9	113.4	6%	110.5	9%	119.9	110.5	9%
Manufacturing & Trading	48.4	51.2	-5%	33.9	43%	48.4	33.9	43%
Property Development	4.8	-0.6	942%	29.5	-84%	4.8	29.5	-84%
Investment	0.0	0.0	-20%	0.0	33%	0.0	0.0	33%
Total	173.2	164.0	6%	174.0	0%	173.2	174.0	0%
GP Segmentation								
Construction	4.0	2.2	77%	-1.7	332%	4.0	-1.7	332%
Manufacturing & Trading	10.4	17.3	-40%	5.5	90%	10.4	5.5	90%
Property Development	0.8	-0.6	230%	3.6	-78%	0.8	3.6	-78%
Investment	0.9	6.2	-86%	1.2	-23%	0.9	1.2	-23%
Elimination	-1.6	-6.8	-76%	-0.9	69%	-1.6	-0.9	69%
Total	14.5	18.3	-21%	7.6	90%	14.5	7.6	90%
GP margins								
Construction	3%	2%		-2%		3%	-2%	
Manufacturing & Trading	21%	34%		16%		21%	16%	
Property Development	17%	108%		n.m.		17%	12%	
Total	8%	11%		4%		8%	4%	

Source: Company, 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
GAMUDA BHD	OP	4.26	5.15	20.89%	11,334.7	Y	07/2023	35.0	43.6	7.4%	24.7%	11.7	9.4	1.2	10.4%	50.0	11.7%
IJM CORP BHD	MP	1.58	1.67	5.70%	5,550.4	Y	03/2024	9.2	8.6	-2.1%	-6.3%	17.3	18.5	0.6	4.0%	6.0	3.8%
KERJAYA PROSPEK GROUP BHD	OP	1.13	1.50	32.74%	1,425.0	Y	12/2023	12.2	14.0	31.0%	14.6%	9.3	8.1	1.3	14.6%	6.0	5.3%
KIMLUN CORP BHD	OP	0.755	0.900	19.21%	266.8	Y	12/2023	10.3	14.1	-5.4%	37.1%	7.6	6.5	0.4	5.2%	1.0	1.3%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.69	2.13	26.04%	2,179.0	Y	12/2023	12.6	13.2	19.4%	4.8%	13.3	12.7	3.2	24.9%	5.0	3.0%
WCT HOLDINGS BHD	OP	0.405	0.600	48.15%	574.0	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.1	11.0	0.2	2.7%	0.5	1.2%
Simple Average					21,329.9					6.7%	16.1%	13.2	11.4	0.9	6.6%		4.4%

Source: Bloomberg, Kenanga Research

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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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