

4QFY14 RESULTS UPDATE

10 March 2015

Kimlun Corporation Berhad

Price : RM1.37

Market Capitalization : RM411.8 men

Market : Main Market

Sector : Construction

Recommendation : Hold

Bursa / Bloomberg Code: 5171 / KICB MK
Stock is Shariah-compliant.

Kimlun: 4QFY14 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY14	3QFY14	% chg	4QFY13	% chg	FY14	FY13	% chg
Turnover	280.4	294.8	-4.9%	270.9	3.5%	1,219.7	947.0	28.8%
Operating profit	17.0	16.2	5.1%	12.7	33.9%	115.4	83.1	38.9%
Finance costs	(3.4)	(2.8)		(3.2)		(12.6)	(11.5)	
Pre-tax profit	13.6	13.4	1.6%	9.5	43.1%	65.2	38.2	70.9%
Tax	(2.8)	(3.3)		3.2		(16.1)	(2.7)	
Net profit	9.2	9.0	1.6%	12.8	-28.6%	45.1	35.7	26.3%
Reported EPS (sen)	3.0	3.0	1.6%	5.3	-42.9%	15.4	14.9	3.6%
Op. profit margin	6.1%	5.5%		4.7%		9.5%	8.8%	
Pre-tax margin	4.8%	4.5%		3.5%		5.3%	4.0%	
Net profit margin	3.3%	3.1%		4.7%		3.7%	3.8%	
Net assets/share (RM)	1.33							

4QFY14 Results Review

- Kimlun turned in a net profit of RM9.2 mln in 4QFY14, bringing FY14 earnings to RM45.1 mln. The results were within our expectations, having reached 103% of our earnings estimate.
- The Group posted a record turnover of RM1.22 bln in FY14, which was a hefty rise of 28.8% y-o-y over FY13, buoyed by higher revenue from its construction and property development divisions. Construction turnover increased 28% y-o-y on higher execution of jobs in FY14, while property division's revenue jumped 5-fold to RM101.2 mln mainly due to recognition of land sale as well as much higher progress billings at its maiden SOHO project in Cyberjaya, Selangor. Manufacturing segment, on the other hand, registered a more subdued growth of 3% y-o-y, contributed by the ongoing supply of segmental box girdles (SBG) to the Klang Valley MRT (KVMRT) project. Overall, construction made up 76% of FY14 Group turnover, followed by manufacturing (16%) and property (8%).
- FY14 PBT expanded by a massive 70.9% y-o-y to RM65.2 mln that was chiefly attributed to the gain of RM10.8 mln on the sale of land in 1QFY14. Excluding the land sale, PBT still grew a healthy 42% y-o-y. By and large, we considered FY14 as a recovery year for Kimlun after a lackluster FY13 performance where it was hit by higher staff cost, depreciation charge and interest expense in connection with its new plant in Senawang that was not compensated by the corresponding increase in sales due to time taken to gradually ramp up production. Moreover, it was also affected by cost overrun in FY13. In FY14, the increase in opex was offset by increased production at the Senawang plant, while the property division, which yields higher profit margin, also contributed more significantly to the Group's earnings.
- FY14 net profit increased at a more muted rate of 26.3% y-o-y (vs. 70.9% PBT growth y-o-y) due to higher effective tax rate at 24.6%. The Group enjoyed a much lower effective tax rate of 7.1% in FY13 owing to the reinvestment allowances from its capex activities.
- Net gearing is comfortable at 0.2x as at end-December 2014, backed by a BV/share of RM1.33. After recording several years of deficit in operating cash flow, Kimlun finally generated positive

operating cash flow in FY14. This was mainly made possible by the proceeds from the sale of its land in 1QFY14.

- After updating our parameters, we put our FY15 earnings estimate at RM47.9 mln on the back of RM1.33 bln in turnover. Kimlun's earnings growth is supported by its current order book of RM1.4 bln as of 31 Dec 2014. The order book comprises RM1.19 bln worth of construction projects with the remaining from manufacturing jobs. The current order book appears to be a far cry from the RM2.3 bln it recorded in Dec 2013. However, management had clarified that this was a deliberate decision in order to select "good jobs" in view of the slowdown in the property sector which inevitably may lead to collection issues.
- On the whole, FY15 started out on a positive note and is set to be a better year for Kimlun. It has bagged some RM400-odd mln construction jobs YTD with management expecting more to come. Manufacturing division would likely secure some jobs from Singapore MRT projects while continuing its supply for KVMRT. As for the property arm, apart from the existing project, Kimlun is targeting to launch another small RM50 mln landed residential project in Pontian Johor by end of March 2015. Of more concern to us though, would be its ability to reverse its shrinking profit margin trend. The bulk of the construction jobs it has are high-rise buildings where Kimlun's share of profit is lower given the need to employ various specialist contractors. Then there is also the risk of slowdown in Iskandar Malaysia where it derives most of its jobs.
- The board recommended a final single-tier dividend of 3.8 sen for FY14 (vs. 3.0 sen in FY13), subject to shareholders' approval at the upcoming AGM.

Recommendation

At this juncture, we maintain our **Hold** recommendation on Kimlun with an unchanged fair value of **RM1.44**, which is derived from pegging our FY15 earnings against a target PER multiple of 9x (unchanged). While we continue to like Kimlun's leadership and healthy fundamentals, its near-term prospects appear muted until its profit margin recovers.

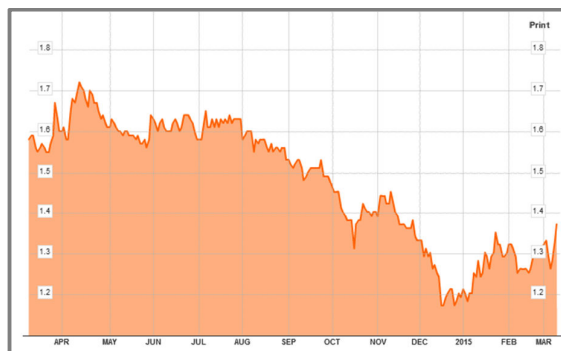
Per Share Data

FYE Dec	FY13	FY14	FY15f
Book Value (RM)	1.25	1.33	1.45
Cash Flow (sen)	22.8	23.2	24.4
Earnings (sen)	14.9	15.0	15.9
Net Dividend (sen)	3.0	3.8	4.0
Payout Ratio (%)	25.2%	25.3%	25.1%
PER (x)	9.2	9.1	8.6
P/Cash Flow (x)	6.0	5.9	5.6
P/Book Value (x)	1.1	1.0	0.9
Dividend Yield (%)	2.2%	2.8%	2.9%
ROE (%)	11.9%	11.3%	11.0%
Net gearing	0.7	0.3	0.3

P&L Summary

FYE Dec (RM mln)	FY12	FY13	FY14	FY15f
Revenue	896.6	947.0	1,219.7	1,328.3
Operating profit	67.5	49.7	77.8	79.7
Net Int Exp	(6.8)	(11.5)	(12.6)	(12.7)
Pre-tax Profit	60.7	38.2	65.2	67.0
Eff. Tax Rate	18.7%	7.1%	24.6%	24.0%
Net Profit	49.5	35.7	45.1	47.9
(%)	7.5%	5.2%	6.4%	6.0%
Pre-tax Margin (%)	6.8%	4.0%	5.3%	5.0%
Net Margin (%)	5.5%	3.8%	3.7%	3.6%

Kimlun's last 12-month share price chart



Source: Bloomberg

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RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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