

1QFY14 RESULTS UPDATE

3 June 2015

Kimlun Corporation Berhad

Price : RM1.31

Market Capitalization : RM393.7 men

Market : Main Market

Sector : Construction

Recommendation : Hold

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

Kimlun: 1QFY15 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year	
	1QFY15	4QFY14	% chg	1QFY14	% chg
Turnover	322.2	280.4	14.9%	332.7	-3.2%
Operating profit	19.6	17.0	15.3%	28.9	-32.3%
Finance costs	(2.5)	(3.4)		(3.4)	
Pre-tax profit	19.3	13.6	41.8%	25.6	-24.9%
Tax	(5.1)	(2.8)		(6.7)	
Net profit	14.1	9.2	54.3%	18.5	-23.8%
Reported EPS (sen)	4.7	3.0	54.3%	6.9	-31.5%
Op. profit margin	6.1%	6.1%		8.7%	
Pre-tax margin	6.0%	4.8%		7.7%	
Net profit margin	4.4%	3.3%		5.6%	
Net assets/share (RM)	1.38				

1QFY15 Results Review

- Kimlun's 1QFY15 results came in slightly ahead of our earnings estimate, accounting for 29% of our FY15 estimate.
- While 1QFY15 operating profit showed a decline of 32.3% y-o-y, it was mainly due to a gain on land disposal in FY14 that boosted the bottom line then. In the absence of the gain, 1QFY15 operating profit would have been some 30% higher y-o-y.
- Overall, both the construction and manufacturing divisions registered healthy turnover and operating profit growth. Revenue and operating profit for construction expanded 12% and 18% y-o-y respectively in 1QFY15, while 15% and 87% y-o-y growth were seen at the manufacturing side. Management attributed the improved performance to higher billings as well as better profit margins jobs.
- Construction contributed 86% to Group revenue in 1QFY15 with the balance coming from manufacturing. We note that the accounting practice for its property development project in Cyberjaya has been changed from consolidation to equity accounting due to adoption of new financial reporting standard.
- Net gearing remained stable at 0.2x as at end-March 2015, backed by a BV/share of RM1.38. The Group incurred a negative net operating cashflow of RM5 mln in 1QFY15 but this is not a concern given its healthy cash holdings of RM77.3 mln.
- We leave our FY15 earnings estimate of RM47.9 mln unchanged for now, given the slowdown in the property market particularly in Iskandar Malaysia where the Group has a number of projects. The impact from the slowdown in Iskandar Malaysia, and to a larger extent, the overall property sector, on construction and property players remains to be seen. Additionally, Kimlun still has 25% unsold units at its Cyberjaya project and we reckon the selling process would be slow under the current market condition.

- On a brighter note, Kimlun still sits on an order book of some RM1.24 bln as of March 2015 which would give earnings visibility for about 9 months. Its lean balance sheet should help the Group weather through the challenging time as well. And we also expect the Group to be able to secure some projects for segmental box girders and tunnel lining segments under the KV MRT line 2.
- No dividend was declared for the quarter under review.

Recommendation

We maintain our **Hold** recommendation on Kimlun with an unchanged fair value of **RM1.44** at this juncture, 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, catalysts for earnings growth appeared be lacking in the near-term.

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)	8.8	8.7	8.2
P/Cash Flow (x)	5.8	5.6	5.4
P/Book Value (x)	1.0	1.0	0.9
Dividend Yield (%)	2.3%	2.9%	3.1%
ROE (%)	11.9%	11.3%	11.0%
Net gearing	0.7	0.2	0.2

P&L Summary

FYE Dec (RM mIn)	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

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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