ZJ Research

Investment Research for CMDF - Bursa Research Scheme

Your guide to making intelligent investment decisions



1QFY16 RESULTS UPDATE

9 June 2016

Kimlun Corporation Berhad

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

Market Capitalization : RM556.0 mln

Price:

Market: **Main Market**

RM1.85

Sector: Construction

Recommendation: Buy

FYE Dec		Quarter-on-Quarter		Year-on-Year	
(RM mln)	1QFY16	4QFY15	% chg	1QFY15	%chg
Turnover	234.8	232.0	1.2%	322.2	-27.1%
Operating profit	24.2	25.7	-5.6%	19.6	23.6%
Finance costs	(2.2)	(2.3)		(2.5)	
Pre-tax profit	22.7	26.7	-15.0%	19.3	18.0%
Tax	(5.6)	(5.3)		(5.1)	
Net profit	17.1	21.4	-20.1%	14.1	21.2%
Reported EPS (sen)	5.7	7.1	-20.1%	4.7	21.2%
Op. profit margin	10.3%	11.1%		6.1%	
Pre-tax margin	9.7%	11.5%		6.0%	
Net profit margin	7.3%	9.2%		4.4%	
Net assets/share (RM)	1.59				

1QFY16 Results Review

- Kimlun turned in a net profit of RM17.1 mln in 1QFY16, which is largely within our earnings estimate, accounting for 27% of our FY16 estimate.
- 1QFY16 revenue declined 27.1% y-o-y on reduced contribution from manufacturing and construction divisions. The drop in manufacturing turnover was principally due to lower progress billings during the quarter under review, while manufacturing sales were affected in the absence of supply of segmental box girders to the Klang Valley MRT project what was completed in FY15. Notwithstanding the reduction in revenue, net profit was 21.2% higher y-o-y, boosted by improved gross profit margins achieved from both construction and manufacturing divisions, arising from lower raw material and fuel price during the quarter.
- Construction contributed 79% to Group revenue in 1QFY16, followed by manufacturing (20%) and property development (1%).
- Sequentially, revenue was flat q-o-q but net profit fell 20.1% mainly due to foreign exchange loss of RM3.2 mln and lower profit contribution from its associate at RM0.7 mln vs. RM3.3 mln in 4QFY15 as its property project in Cyberjaya, Cyber Bistari (Hyve), is nearing completion.
- Net gearing remained stable at 0.2x as at end-June 2016, backed by a BV/share of RM1.59. The Group incurred a negative net operating cashflow of RM7.7 mln in 1QFY16 but this is not a concern give its healthy cash holdings of RM58.2 mln.
- We leave our FY16 earnings estimate of RM62.9 mln unchanged for now. Earnings remain well supported by its orderbook of RM1.48 bln for construction and RM0.34 mln for manufacturing. The take-up rate for Hyve is encouraging at approximately 82% and the remaining unsold units will also provide small income stream in the coming months.
- Overall, we are positive on the prospects of Kimlun. Given its good track record, the manufacturing division stands good chance to secure more contracts from the ongoing MRT

Kimlun Corporation Bhd

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Line expansion in Singapore. 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. Meanwhile, the construction division too is expected to perform well as more affordable housing projects in the market would lead to increase in demand for industrialized building system, which is a core competency of Kimlun.

No dividend was declared for the quarter under review.

Recommendation

We maintain our **Buy** recommendation on Kimlun with an unchanged fair value of **RM2.12**, which is derived from pegging our FY17 fully diluted earnings against a target PER multiple of 11x (unchanged). We like Kimlun for its prudent and proven leadership, healthy fundamentals as well as good track record in securing contracts.

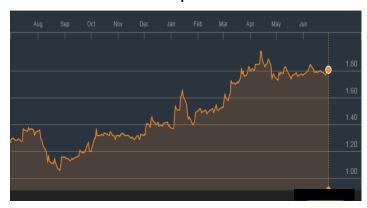
Per Share Data

FYE Dec	FY14	FY15	FY16e
Book Value (RM)	1.33	1.51	1.66
Cash Flow (sen)	23.0	30.5	28.5
Earnings (sen)	14.8	23.5	20.9
Net Dividend (sen)	3.8	5.8	5.2
Payout Ratio (%)	25.6%	24.7%	25.0%
PER (x)	12.2	7.7	8.6
P/Cash Flow (x)	7.9	5.9	6.4
P/Book Value (x)	1.4	1.2	1.1
Dividend Yield (%)	2.1%	3.2%	2.9%
ROE (%)	11.2%	15.6%	12.6%
Net gearing	0.2	0.2	0.2

P&L Summary

053.6 1,12	16e FY17f 26.0 1,190.2
	26.0 1,190.2
93.6	36.4 95.2
(9.5)	9.7) (9.5)
93.4	31.7 90.7
4.3% 24	.5% 24.5%
70.7	62.9 69.7
8.9% 7.	.7% 8.0%
8.9% 7.	.3% 7.6%
6.7% 5.	.6% 5.9%
	(9.5) (193.4 { 4.3% 24 70.7 { 8.9% 7

Kimlun's last 12-month share price chart



Source: Bloomberg

Analyst: Nicole Tan Yoke Ping (nicole@zj.com.my)

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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ZJ Advisory Sdn Bhd (Co No: 645449-V)

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Suite 22B, 22nd Floor, Sunway Tower, No 86, Jalan Ampang, 50450 Kuala Lumpur Tel (603) 2032 2328 Facsimile (603) 2032 1328