

UPDATE REPORT

28 March 2016

Kimlun Corporation Berhad

Price : RM1.77

Market Capitalization : RM532.0 mln

Market : Main Market

Sector : Construction

Recommendation : Buy

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

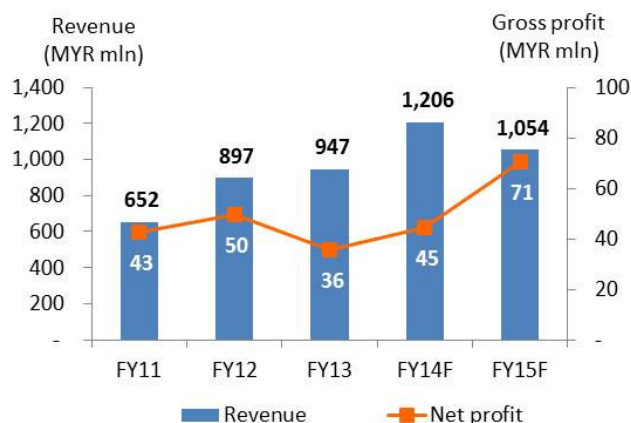
Recent Development

- **Pan Borneo Highway Contract.** Kimlun announced on 10 March 2016 that Lebuhraya Borneo Utara Sdn Bhd had awarded a RM1.46 bln Pan Borneo Highway (PBH) contract to a joint venture company (JVC) to be set up by Zecon Berhad and Kimlun. The JVC shall be on a 70:30 basis between Zecon and Kimlun, translating into RM440 mln contract win to the latter. The award involves development and upgrading of Serian Round About to Pantu Junction, and is slated to complete by 2020.
- This award lifts Kimlun's orderbook to approximately RM1.6 bln, with YTD contract wins reaching about RM700 mln. Assuming a profit margin of 6%, the PBH project would translate into some RM26 mln contribution over the next 48 months.
- **More infrastructure project opportunities.** Kimlun is also eyeing for opportunities in other infrastructure projects such as the Central Spine Road, DASH and SUKE Expressway as well as RAPID. The recent PHB award certainly places Kimlun in a good position to secure more infrastructure jobs going forward.
- **Diversifying from residential projects.** During the recent analysts briefing, management also shared its strategy to diversify the Group's construction focus into non-residential projects in Johor given the current property slowdown in the southern state. It has secured its first hospital construction project to build the Gleneagle Medini Hospital, in addition to constructing the Johor Bahru Southkey Megamall (a retail mall), Pagoh Education Hub student hostel as well as a religious building.
- **Supply for KVMRT2.** Kimlun targets to secure jobs worth between RM100 mln – RM200 mln in FY16, excluding the potential contract from KVMRT2. For KVMRT2, the tender for segmental box girder had closed in December 2015, while tender tunnel lining segment is yet to open. During KVMRT1, the Group clinched about half of the precast concrete supply worth a combined RM272 mln, and we are confident it would again secure a sizeable award for KVMRT2 given its good track record for KVMRT1.

Quick Review on Financial Performance

- Following lackluster performance in FY13 and FY14, Kimlun achieved breakthrough in FY15 achieving net profit of RM70.7 mln (58.5% y-o-y) on the back of RM1.05 bln revenue.
- FY15 revenue declined 12.7% y-o-y mainly due to lower turnover from its construction and manufacturing divisions. However, in spite of the lower revenue, net profit jumped 58.5% y-o-y, underpinned by several factors that include:-
 - Better profit margin achieved in the construction segment due to execution of higher margin projects, further aided by lower raw materials cost and fuel price;
 - Improved profit margin from the manufacturing division following completion of supply for KVMRT1 which carried lower profit margin;
 - Lower selling and administrative expenses boosted by forex gain; and
 - Reduced interest expense as proceeds from the Rights Issue resulted in lower utilization of banking lines.

FY11-FY15 Revenue & Net Profit



Segmental performance between 1QFY14 to 4QFY15

RM mln	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15
REVENUE								
Construction	241.1	254.0	242.4	229.7	270.4	211.6	199.2	175.7
Manufacturing & Trading	45.0	52.6	48.2	46.7	51.7	46.0	40.7	53.5
Property	46.5	-	-	-	-	0.8	1.1	2.8
SEGMENT RESULTS								
Construction	15.5	12.7	13.6	13.4	18.2	18.6	18.6	16.7
Manufacturing & Trading	6.8	8.1	8.4	8.9	12.8	9.6	13.0	18.4
Property	15.4	-	-	-	-	0.2	0.1	0.3
SEGMENTAL PROFIT MARGINS								
Construction	6.4%	5.0%	5.6%	5.8%	6.7%	8.8%	9.3%	9.5%
Manufacturing & Trading	15.2%	15.4%	17.5%	19.1%	24.8%	21.0%	32.0%	34.3%
Property	33.1%	-	-	-	-	23.2%	13.1%	11.6%

- On segmental basis, profit margins for both construction and manufacturing divisions have been experiencing uptrend over the past 2 years, underpinned by reasons mentioned earlier. Note that the lumpy property earnings in 1QFY14 was chiefly due to the one-off gain arising from the disposal of its land. Meanwhile, the Cyberjaya project, Hive, is now reflected as an associate contribution.
- Net gearing remains very comfortable at 0.15x as at end-December 2015, backed by a BV/share of RM1.53. The Group also generated a positive net operating cash flow of RM31.4 mln in FY15. A higher dividend of 5.8 sen has been proposed for FY15, representing a 52% increase over the 3.8 sen dividend in FY14.
- We are encouraged by the improvement in Kimlun's financial performance over the last year. Coupled with the positive outlook on construction riding on the infrastructure spending by the Government, we are upbeat on Kimlun's prospects. We estimate the Group to register core net profit of RM62.9 mln and RM69.7 mln in FY16 and FY17 respectively. Our estimate is supported by its outstanding orderbook of about RM1.6 bln.

Recommendation

We upgrade our recommendation on Kimlun to **Buy** with a fair value of **RM2.12**, pegging its FY17 fully diluted EPS against a target PER multiple of 11x in line with its small-cap construction peers. We like Kimlun for its prudent and proven leadership, healthy fundamentals as well as good track record in securing contracts.

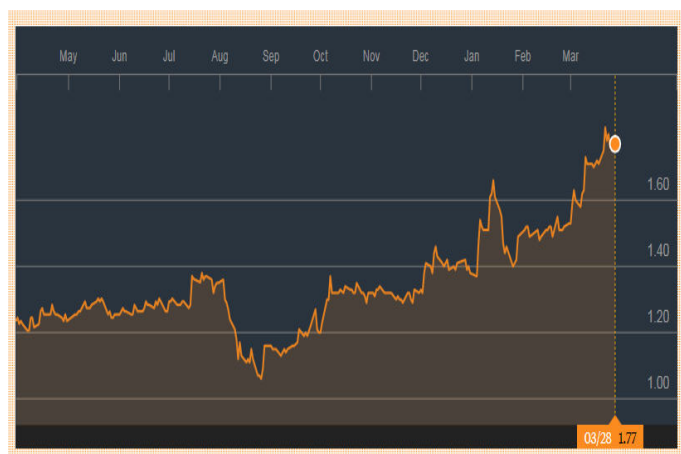
Per Share Data

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)	11.9	7.5	8.5
P/Cash Flow (x)	7.7	5.8	6.2
P/Book Value (x)	1.3	1.2	1.1
Dividend Yield (%)	2.1%	3.3%	3.0%
ROE (%)	11.2%	15.6%	12.6%
Net gearing	0.2	0.2	0.2

P&L Summary

FYE Dec (RM mIn)	FY14	FY15	FY16e	FY17f
Revenue	1,206.4	1,053.6	1,126.0	1,190.2
Operating profit	67.1	93.6	86.4	95.2
Net Int Exp	(12.0)	(9.5)	(9.7)	(9.5)
Pre-tax Profit	59.8	93.4	81.7	90.7
Eff. Tax Rate	25.5%	24.3%	24.5%	24.5%
Net Profit	44.6	70.7	62.9	69.7
(%)	5.6%	8.9%	7.7%	8.0%
Pre-tax Margin (%)	5.0%	8.9%	7.3%	7.6%
Net Margin (%)	3.7%	6.7%	5.6%	5.9%

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)
(An investment adviser licensed by the Securities Commission)
Suite 22B, 22nd Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
