

1QFY16 RESULTS UPDATE

9 June 2016

Kimlun Corporation Berhad

Price : RM1.85

Market Capitalization : RM556.0 mln

Market : Main Market

Sector : Construction

Recommendation : Buy

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

Kimlun: 1QFY16 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year	
	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

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

FYE Dec (RM mln)	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
Op. Profit Margin (%)	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

DISCLAIMER

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under the CMDF-Bursa Research Scheme.

ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned herein. Furthermore, ZJ Advisory and its related companies may, from time to time, provide or seek to provide advisory and/or other services for the company(ies) mentioned in this report, and may be involved in share placement exercise involving securities mentioned herein. In reviewing this research report, investors should be aware that any or all of the foregoing, may among other things, give rise to real or potential conflicts of interest.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial advice regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

This report has been prepared by ZJ Advisory for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. ZJ Advisory has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/market/listed-companies/research-repository/cmdf-bursa-research-scheme-cbrs>

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
