

2QFY16 RESULTS UPDATE

29 September 2016

Kimlun Corporation Berhad

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

Price : RM2.15

Market Capitalization : RM667.0 mln

Market : Main Market

Sector : Construction

Recommendation : Buy

Kimlun: 2QFY16 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY16	1QFY16	%chg	2QFY16	%chg	1HFY16	1HFY15	%chg
Turnover	246.4	234.8	4.9%	258.5	-4.7%	481.2	580.6	-17.1%
Operating profit	33.4	24.2	38.0%	22.1	51.2%	57.6	41.7	38.3%
Finance costs	(2.1)	(2.2)		(2.3)		(4.3)	(4.7)	
Pre-tax profit	31.0	22.7	36.7%	20.8	49.4%	53.8	40.0	34.3%
Tax	(6.9)	(5.6)		(5.2)		(12.5)	(10.3)	
Net profit	24.1	17.1	41.0%	15.6	54.8%	41.2	29.7	38.8%
Reported EPS (sen)	8.0	5.7	41.0%	5.2	54.8%	13.7	9.9	38.8%
Op. profit margin	13.6%	10.3%		8.6%		12.0%	7.2%	
Pre-tax margin	12.6%	9.7%		8.0%		11.2%	6.9%	
Net profit margin	9.8%	7.3%		6.0%		8.6%	5.1%	
Net assets/share (RM)	1.61							

2QFY16 Results Review

- Kimlun's 1HFY16 net profit of RM41.2 mln exceeded our expectations, having accounted for 65% of our earnings estimate, despite a drop in revenue by 17.1% y-o-y.
- The decline in 1HFY16 revenue was largely due to lower contribution from construction (-23.2% y-o-y), which was partially offset by 9.6% and 5-fold increase in manufacturing and property development turnover respectively. Note that property contribution to turnover remains very small at RM4.1 mln.
- Despite lower revenue, 1HFY16 net profit increased 38.8% y-o-y, attributed to much better gross profit (GP) margin of 15.8% in 1HFY16 vs. 9.9% a year ago. The construction arm saw its GP margin expanded to 10.6% in 1HFY16 from 7.6% in 1HFY15 due to execution of higher profit margin projects that were further boosted by lower raw materials and fuel costs. The manufacturing segment, meanwhile, enjoyed higher GP margin of 33.7% in 1HFY16 vs. 23.0% a year ago on the back of weaker RM against SGD, plus having completed KV MRT project last year that carried lower profit margins.
- Construction and manufacturing remain the key revenue generators, contributing 77.7% and 22.4% to the Group revenue in 1HFY16 respectively.
- Kimlun's share of profit from JV declined to RM422,000 in 1HFY16 from RM3.1 mln in the preceding year's corresponding period following the completion of its JV project, the Cyber Bistari (Hyve) in Cyberjaya, Selangor. The Group also made a provision of RM1.6 mln for liquidated ascertained damages due to late delivery of the properties to the purchasers.
- Net gearing remained healthy at 0.1x as at end-June 2016, backed by a BV/share of RM1.61. The Group also generated a positive net operating cashflow of RM7.07 mln in 1HFY16.

- We upgrade our FY16 and FY17 earnings estimates between 21% and 24% to RM78.3 mln and RM84.6 mln respectively after factored in higher profit margins for both its construction and manufacturing businesses. Earnings remain well supported by its order book of RM1.9 bln for construction and RM0.3 bln for manufacturing. The take-up rate for Hyve remains at approximately 83%.
- Looking ahead, we continue to be upbeat on the prospects of Kimlun. It has proven track record in securing projects for both its 2 key divisions. The Group has secured a number of contracts that included the Pan Borneo Highway Sarawak Project – Serian Roundabout to Pantu Junction project, in which it has a 30% interest; some residential projects in Johor and Selangor as well as a hospital construction job, to name a few.
- The manufacturing division did well too, having secured RM199 mln contract in March 2016 to supply segmental box girders for the KV MRT Line 2 project. There are a number of opportunities in the near future that included supply of tunnel lining segment for KV MRT Line 2, LRT line 3 as well as MRT projects in Singapore.
- No dividend was declared for the quarter under review.

Recommendation

We maintain our **Buy** recommendation on Kimlun with a higher fair value of **RM2.58** (from RM2.12), which is derived from pegging our revised 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	1.70
Cash Flow (sen)	23.0	30.5	33.6
Earnings (sen)	14.8	23.5	26.1
Net Dividend (sen)	3.8	5.8	6.5
Payout Ratio (%)	25.6%	24.7%	25.0%
PER (x)	12.2	7.7	6.9
P/Cash Flow (x)	7.9	5.9	5.4
P/Book Value (x)	1.4	1.2	1.1
Dividend Yield (%)	2.1%	3.2%	3.6%
ROE (%)	11.2%	15.6%	15.3%
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	1,094.4	1,156.8
Operating profit	67.1	93.6	106.8	114.9
Net Int Exp	(12.0)	(9.5)	(9.7)	(9.5)
Pre-tax Profit	59.8	93.4	102.1	110.4
Eff. Tax Rate	25.5%	24.3%	24.5%	24.5%
Net Profit	44.6	70.7	78.3	84.6
Op. Profit Margin (%)	5.6%	8.9%	9.8%	9.9%
Pre-tax Margin (%)	5.0%	8.9%	9.3%	9.5%
Net Margin (%)	3.7%	6.7%	7.2%	7.3%

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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