

3QFY16 RESULTS UPDATE

26 December 2016

Kimlun Corporation Berhad

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

Price : RM2.14

Market Capitalization : RM664.0 mln

Market : Main Market

Sector : Construction

Recommendation : Buy

Kimlun: 3QFY16 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	3QFY16	2QFY16	%chg	3QFY15	%chg	9MFY16	9MFY15	%chg
Turnover	224.2	246.4	-9.0%	241.1	-7.0%	705.3	821.7	-14.2%
Operating profit	22.6	33.4	-32.2%	26.3	-13.9%	80.3	68.0	18.1%
Finance costs	(1.9)	(2.1)		(2.5)		(6.2)	(7.2)	
Pre-tax profit	22.0	31.0	-29.3%	26.6	-17.4%	75.7	66.6	13.6%
Tax	(5.4)	(6.9)		(7.0)		(18.0)	(17.3)	
Net profit	16.5	24.1	-31.6%	19.6	-15.8%	57.7	49.3	17.1%
Reported EPS (sen)	5.5	8.0	-31.6%	6.5	-15.8%	18.6	16.4	13.3%
Op. profit margin	10.1%	13.6%		10.9%		11.4%	8.3%	
Pre-tax margin	9.8%	12.6%		11.0%		10.7%	8.1%	
Net profit margin	7.4%	9.8%		8.1%		8.2%	6.0%	
Net assets/share (RM)	1.66							

3QFY16 Results Review

- Kimlun's 9MFY16 net profit of RM57.7 mln broadly came in within our expectations, accounting for approximately 74% of our earnings estimate.
- 9MFY16 revenue declined 14.2% y-o-y mainly due to drop in billings from the construction division due to lesser work executed during the quarter under review while new projects secured are still at initial stage. Notwithstanding the lower revenue, operating profit was up 18.1% y-o-y at RM80.3 mln, largely due to higher operating profit margin from the construction and manufacturing divisions.
- Segmentally, the construction division recorded 5.7% increase in 9MFY16 operating profit y-o-y despite 18.8% y-o-y decline in revenue. The manufacturing, meanwhile, recorded higher revenue and profit due to increase in sales of industrialized building components for the Pengerang, Johor project, which offset the drop in sales of tunnel lining segment following completion of Singapore's underground power transmission network; as well as absence of contribution from the Klang Valley MRT line 1 project. The property development division generated a small turnover and profit, mainly coming from its boutique residential development in Johor.
- Construction and manufacturing remain the key revenue generators, contributing 78.4% and 20.7% to the Group revenue in 9MFY16 respectively.
- Net gearing remained healthy at 0.1x as at end-Sept 2016, backed by a BV/share of RM1.66. The Group also generated a positive net operating cashflow of RM13.5 mln in 9MFY16.
- We maintain our FY16 and FY17 earnings estimates at RM78.3 mln and RM84.6 mln respectively at this juncture. Earnings remain well supported by its order book of RM1.78 bln for construction and RM0.28 bln for manufacturing.

- 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 had earlier 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 has recently bagged a RM52.8 mln job to supply tunnel lining segment for the Klang Valley MRT line 2 project. We believed the Group will secure more jobs in the coming future from various opportunities that included the 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 an unchanged fair value of **RM2.58**, 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	1.70
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)	14.4	9.1	8.2
P/Cash Flow (x)	9.3	7.0	6.4
P/Book Value (x)	1.6	1.4	1.3
Dividend Yield (%)	1.8%	2.7%	3.0%
ROE (%)	11.2%	15.6%	15.3%
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	1,094.4	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: Bursa Marketplace

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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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