Investment Research for CMDF – Bursa Research Scheme

4QFY16 RESULTS UPDATE

# Kimlun Corporation Berhad

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

Price :	RM2.21
Market Capitalization :	RM685.8 mln
Market :	Main Market
Sector :	Construction
Recommendation :	Buy

FYE Dec		Quarter-on	-Quarter	Year-on-Year		Cumulative			
(RM mln)	4QFY16	3QFY16	%chg	4QFY15	%chg	FY16	FY15	%chg	
Turnover	235.4	224.2	5.0%	232.0	1.5%	940.7	1,053.6	-10.7%	
Operating profit	32.5	22.6	43.7%	25.7	26.9%	112.8	93.6	20.5%	
Finance costs	(1.7)	(1.9)		(2.3)		(7.8)	(9.5)		
Pre-tax profit	33.3	22.0	51.4%	26.7	24.4%	109.0	93.4	16.7%	
Тах	(9.1)	(5.4)		(5.3)		(27.1)	(22.7)		
Net profit	24.2	16.5	46.5%	21.4	13.0%	81.9	70.7	15.9%	
Reported EPS (sen)	8.0	5.5	46.5%	7.1	13.0%	27.3	23.5	15.9%	
Op. profit margin	13.8%	10.1%		11.1%		12.0%	8.9%		
Pre-tax margin	14.1%	9.8%		11.5%		11.6%	8.9%		
Net profit margin	10.3%	7.4%		9.2%		8.7%	6.7%		
Net assets/share (RM)	) 1.74								

## 4QFY16 Results

- Kimlun registered a strong FY16 performance with record net profit of RM81.9 mln despite a lower revenue of RM940.7 mln.
- Both the construction and manufacturing divisions recorded lower revenue in FY16, declining 12.8% and 7.5% y-o-y respectively. The lower construction turnover was due to lower progress billings while the contraction in manufacturing turnover was a result of reduced sales orders for tunnel lining segments (TLS) to Singapore's underground power transmission network (UPTN).
- Notwithstanding the 10.7% reduction in revenue y-o-y, Kimlun's net profit grew 15.9% y-o-y to RM81.9 mln, translating into net profit margin of 8.7% vis-à-vis 6.7% a year ago. The profit expansion was largely owing to execution of projects with higher profit margin as well as lower raw materials and fuel prices during the period. In addition, there was some large variation orders approved in 4QFY16 and this too, contributed to the increase in profitability.
- Construction and manufacturing remain the key revenue generators, contributing 80.0% and 19.2% to the Group revenue in FY16 respectively.
- Net gearing remained healthy at 0.1x as at end-Dec 2016, backed by a BV/share of RM1.74. The Group also generated a positive net operating cashflow of RM60.8 mln in FY16.
- We retain our FY17 earnings estimates of RM84.6 mln at this juncture. Earnings are supported by its order book of RM1.67 bln for construction and RM0.26 bln for manufacturing.
- Looking ahead, we continue to be like the prospects of Kimlun. Nevertheless, we understand there are some timing mismatch at its manufacturing division in FY17 that would affect earnings. The Group's supply orders to Singapore MRT's Thomson Line is at the tail end while supply of TLS and segmental box girders for Klang Valley MRT line 2 project are only expected to pick up later part of FY17. This also explains the reason behind the small earnings growth in our FY17 forecast.

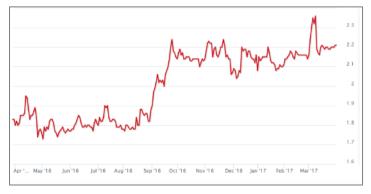
- On the construction side, we understand Kimlun's Pan Borneo Highway contract is progressing as planned. We believe given Kimlun's proven track record, it would be able to replenish its construction order book.
- The Board has recommended a final single tier dividend of 6.5 sen for FY16, subject to shareholders' approval at the upcoming AGM.

### 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				P&L Summary				
FYE Dec	FY15	FY16	FY17e	FYE Dec (RM mln)	FY14	FY15	FY16	FY17e
Book Value (RM)	1.53	1.74	1.91	Revenue	1.206.4	1,053.6	940.7	1,156.8
Cash Flow (sen)	30.5	20.8	24.5		,	,		,
Earnings (sen)	23.5	27.3	24.5	Operating profit	67.1	93.6	112.8	114.9
Net Dividend (sen)	5.8	6.5	6.8	Net Int Exp	(12.0)	(9.5)	(7.8)	(9.5)
Payout Ratio (%)	24.7%	25.0%	25.0%	Pre-tax Profit	59.8	93.4	109.0	110.4
PER (x)	9.1	7.9	8.7	Eff. Tax Rate	25.5%	24.3%	24.5%	24.5%
P/Cash Flow (x)	7.0	10.3	8.7	Net Profit	44.6	70.7	81.9	84.6
P/Book Value (x)	1.4	1.2	1.1	INEL FIOR	44.0	70.7		
Dividend Yield (%)	2.7%	3.0%	3.2%	Op. Profit Margin (%)	5.6%	8.9%	12.0%	9.9%
ROE (%)	15.4%	15.7%	12.8%	Pre-tax Margin (%)	5.0%	8.9%	11.6%	9.5%
Net gearing	0.2	0.1	0.1	Net Margin (%)	3.7%	6.7%	8.7%	7.3%

Kimlun's last 12-month share price chart



Source: Bursa Marketplace

#### Analyst: Tan Yoke Ping

months

#### **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 from current level

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