

1QFY17 RESULTS UPDATE

29 June 2017

# Kimlun Corporation Berhad

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

Price : RM2.25

Market Capitalization : RM698.2 mln

Market : Main Market

Sector : Construction

Recommendation : Buy

## Kimlun: 1QFY17 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year	
	1QFY17	4QFY16	%chg	1QFY16	%chg
Turnover	170.2	235.4	-27.7%	234.8	-27.5%
Operating profit	21.3	32.5	-34.7%	24.2	-12.2%
Finance costs	(1.5)	(1.7)		(2.2)	
Pre-tax profit	19.8	33.3	-40.3%	22.7	-12.6%
Tax	(4.5)	(9.1)		(5.6)	
Net profit	15.4	24.2	-36.4%	17.1	-10.1%
Reported EPS (sen)	5.0	7.8	-36.4%	5.7	-12.8%
Op. profit margin	12.5%	13.8%		10.3%	
Pre-tax margin	11.7%	14.1%		9.7%	
Net profit margin	9.0%	10.3%		7.3%	
Net assets/share (RM)	1.79				

## 1QFY17 Results

- Following a strong performance in FY16, Kimlun kicked off FY17 on a softer note with 1QFY17 revenue and net profit falling 27.5% and 10.1% y-o-y to RM170.2 mln and RM15.4 mln respectively. The results were slightly below our expectation.
- The variation was mainly due to lower contributions from both the construction and manufacturing divisions. Turnover and profit from construction business were down 21.0% and 14.6% y-o-y, while manufacturing too, recorded 53.2% and 47.3% y-o-y decline respectively.
- Management clarified that the weaker performance was largely due to timing issue, as the Group completed several larger scale construction projects last year while the new jobs secured has yet to reach significant billing stage. Similarly, the manufacturing segment wrapped up the delivery of tunnel lining segment (TLS) for Singapore's underground power transmission network as well as MRT project, while the new contract to supply TLS and segmental box girders (SBG) for the Klang Valley MRT Line 2 will only pick up later this year.
- Sequentially, the drop in net profit was steeper at 36.4% q-o-q. Recall that there were some large variation orders recognized in 4QFY16 and the absence of these in 1QFY17, coupled with the lower revenue, contributed to the decline in profitability.
- On a brighter note, net gearing improved further to 0.04x as at end-March 2017 from 0.07x three months earlier, backed by a BV/share of RM1.79. The Group also generated a positive net operating cashflow of RM32.9 mln in 1QFY17.
- Following the 1QFY17 results and having updated our earnings model parameters, we trim our FY17 earnings estimates by 11.9% to RM74.5 mln. We also introduce our FY18 revenue and net profit projections of RM1.12 bln and RM83.7 mln respectively.

- Despite the soft 1QFY17 results, we remain positive on the outlook of Kimlun in the longer term. Earnings are supported by a healthy order book of RM1.59 bln for construction and RM0.33 bln for manufacturing. The combined order book of RM1.92 bln would provide earnings visibility to Kimlun for the next 2 years. We expect earnings to trend upward again in FY18 as the construction billings pick up pace and supply of TLS and SBG to KV MRT Line 2 ramps up.
- On 8 May 2017, Kimlun announced that its newly incorporated 40%-owned joint venture company, JBB Kimlun Sdn Bhd, had clinched a RM263 mln job from Astaka Padu Sdn Bhd to construct 1 block of office complex for the Majlis Bandaraya Johor Bahru. The job is scheduled for completion within 30 months from site possession date.
- No dividend was declared for the quarter under review.

## Recommendation

We maintain our **Buy** recommendation on Kimlun but lower our fair value marginally to **RM2.50** (from RM2.58), as we rolled over our FY18 fully-diluted earnings estimate and peg it to 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	FY16	FY17e	FY18f
Book Value (RM)	1.74	1.92	2.12
Cash Flow (sen)	33.7	31.4	33.4
Earnings (sen)	27.3	24.8	27.0
Net Dividend (sen)	6.5	6.8	6.7
Payout Ratio (%)	25.0%	25.0%	25.0%
PER (x)	8.3	9.1	8.3
P/Cash Flow (x)	6.7	7.2	6.7
P/Book Value (x)	1.3	1.2	1.1
Dividend Yield (%)	2.9%	3.0%	3.0%
ROE (%)	15.7%	12.9%	12.7%
Net gearing	0.1	0.1	0.1

### P&L Summary

FYE Dec (RM mln)	FY15	FY16	FY17e	FY18f
Revenue	1,053.6	940.7	1,156.8	1,156.8
Operating profit	93.6	112.8	114.9	114.9
Net Int Exp	(9.5)	(7.8)	(9.5)	(9.5)
Pre-tax Profit	93.4	109.0	110.4	110.4
Eff. Tax Rate	24.3%	24.5%	24.5%	24.5%
Net Profit	70.7	81.9	84.6	84.6
Op. Profit Margin (%)	8.9%	12.0%	9.9%	9.9%
Pre-tax Margin (%)	8.9%	11.6%	9.5%	9.5%
Net Margin (%)	6.7%	8.7%	7.3%	7.3%

### Kimlun's last 12-month share price chart



Source: Bursa Marketplace

Analyst: Tan Yoke Ping

**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

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