

4QFY16 RESULTS UPDATE

30 March 2017

# 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

## Kimlun: 4QFY16 results

| FYE Dec<br>(RM mln)   | Quarter-on-Quarter |        |       | Year-on-Year |       | Cumulative |         |        |
|-----------------------|--------------------|--------|-------|--------------|-------|------------|---------|--------|
|                       | 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%  |
| Tax                   | (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  | Operating profit      | 67.1    | 93.6    | 112.8 | 114.9   |
| Earnings (sen)     | 23.5  | 27.3  | 24.5  | Net Int Exp           | (12.0)  | (9.5)   | (7.8) | (9.5)   |
| Net Dividend (sen) | 5.8   | 6.5   | 6.8   | Pre-tax Profit        | 59.8    | 93.4    | 109.0 | 110.4   |
| Payout Ratio (%)   | 24.7% | 25.0% | 25.0% | Eff. Tax Rate         | 25.5%   | 24.3%   | 24.5% | 24.5%   |
| PER (x)            | 9.1   | 7.9   | 8.7   | Net Profit            | 44.6    | 70.7    | 81.9  | 84.6    |
| P/Cash Flow (x)    | 7.0   | 10.3  | 8.7   | Op. Profit Margin (%) | 5.6%    | 8.9%    | 12.0% | 9.9%    |
| P/Book Value (x)   | 1.4   | 1.2   | 1.1   | Pre-tax Margin (%)    | 5.0%    | 8.9%    | 11.6% | 9.5%    |
| Dividend Yield (%) | 2.7%  | 3.0%  | 3.2%  | Net Margin (%)        | 3.7%    | 6.7%    | 8.7%  | 7.3%    |
| ROE (%)            | 15.4% | 15.7% | 12.8% |                       |         |         |       |         |
| Net gearing        | 0.2   | 0.1   | 0.1   |                       |         |         |       |         |

### 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 |

**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

---