

1QFY11 RESULTS UPDATE**1 June 2011**

Kimlun Corporation Berhad

Bursa / Bloomberg Code: 5171 / KICB MK
Stock is Shariah-compliant.**Price : RM1.80****Market Capitalization : RM412.2m****Market : Main Market****Sector : Construction****Recommendation : Buy****Kimlun: 1QFY11 results**

FYE Dec	Quarter-on-Quarter			Year-on-Year	
(RM mln)	Mar 11	Dec 10	% chg	Mar 10	% chg
Turnover	134.6	153.0	-12.0%	115.8	16.2%
Operating profit	13.6	12.9	5.5%	13.7	-0.7%
Finance costs	(0.6)	(0.8)		(0.7)	
Pre-tax profit	13.0	12.1	7.2%	13.0	-0.1%
Tax	(3.4)	(2.1)		(3.2)	
Net profit	9.6	10.0	-4.3%	9.8	-2.1%
EPS (sen) - basic*	4.2	4.4	-4.3%	4.3	-2.1%
Op. profit margin	10.1%	8.4%		11.8%	
Pre-tax margin	9.6%	7.9%		11.2%	
Net profit margin	7.1%	6.5%		8.4%	
NTA/share (RM)	0.85				

* For comparison purposes, EPS was calculated based on enlarged share based on 229 mln shares post listing.

1QFY11 Results Review

- Kimlun's 1QFY11 net profit of RM9.6 mln was within our expectations, accounting for 23% of our FY11 projection of RM42.1 mln.
- Revenue for the quarter under review increased 16.2% y-o-y to RM134.6 mln, boosted by higher contributions from both construction (+13.8% y-o-y) as well as manufacturing and trading (+43.9% y-o-y) divisions. Construction business remains the anchor segment, contributing in excess of 90% and 80% to Group turnover and operating profit respectively in 1QFY11.
- Notwithstanding the improved turnover, 1QFY11 net profit declined marginally by 2% y-o-y to RM9.6 mln, hampered by the increase in marketing and payroll expenses as the Group steps up its efforts to procure new projects and hire additional resources in anticipation of more jobs. As a result, net profit margin eased to 7.1% compared to 8.4% in 1QFY10.
- On balance sheet strength, operations remain supported by net cash per share of 38 sen and NTA per share of 85 sen as at end-March 2011.
- With 1QFY11 results in line with our expectations, we maintain our FY11 and FY12 net profit projections of RM42.1 mln and RM44.3 mln respectively. Kimlun's existing orderbook of RM980 mln as of March 2011 (increased from approximately RM800 mln in December 2010) provides earnings visibility over the next 12 to 18 months. Meanwhile, it has also tendered for projects worth in excess of RM650 mln (combining both construction and manufacturing divisions).
- Looking ahead, Kimlun's prospects remain positive with the anticipated rollout of new projects both in Malaysia and Singapore. Nevertheless, the rising opex environment poses threat to its profit margins. We believe management is continuously looking at initiatives to keep cost in check. Additionally, we take comfort that the Group's contracts, particularly those using Industrialised Building Methods (IBS), are shorter in nature (less than 2 years) and correspondingly, provide shorter exposures to fluctuations in building materials prices.

Recommendation

We maintain our **Buy** recommendation on Kimlun with an unchanged fair value of **RM2.02**. Our fair value is derived from ascribing a peer-benchmarked PER multiple of 11x against the Group's FY11 net profit of RM42.1 mln.

We continue to like Kimlun for its i) promising earnings growth prospects which tracks the booming construction sector both in Malaysia and Singapore; ii) healthy balance sheet and net cash position, enabling the Group to scale up operations with ease to meet the rising demand for construction services; iii) proven delivery track record; and iv) reputable and diversified clientele from both the private and public sectors.

Per Share Data

FYE Dec	FY09	FY10	FY11f
Book Value (RM)	0.67	0.81	0.93
Cash Flow (sen)	15.5	18.2	18.4
Earnings (sen)	13.8	16.0	18.4
Net Dividend (sen)	-	4.8	5.5
Payout Ratio (%)	-	30.1%	30.0%
PER (x)	13.1	11.3	9.8
P/Cash Flow (x)	11.6	9.9	9.8
P/Book Value (x)	2.7	2.2	1.9
Dividend Yield (%)	-	2.7%	3.1%
ROE (%)	20.5%	19.8%	19.7%
Net gearing	cash	cash	cash

P&L Summary

FYE Dec (RM mln)	FY09	FY10	FY11f	FY12f
Revenue	435.4	527.6	578.8	629.1
Operating profit	45.2	50.9	58.5	62.3
Net Int Exp	(2.4)	(2.9)	(3.0)	(3.2)
Pre-tax Profit	42.8	47.9	55.4	59.1
Eff. Tax Rate	26.4%	23.7%	24.0%	25.0%
Net Profit	31.5	36.6	42.1	44.3
(%)	10.4%	9.6%	10.1%	9.9%
Pre-tax Margin (%)	9.8%	9.1%	9.6%	9.4%
Net Margin (%)	7.2%	6.9%	7.3%	7.0%

Note: FY09 figures are on proforma basis.

Kimlun's last 12-month share price chart



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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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