

2QFY11 RESULTS UPDATE

2 September 2011

Kimlun Corporation Berhad

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

Price : RM1.47

Market Capitalization : RM336.6m

Market : Main Market

Sector : Construction

Recommendation : Buy

Kimlun: 2QFY11 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	Jun 11	Mar 11	% chg	Jun 10	% chg	1HFY11	1HFY10	% chg
Turnover	165.5	134.6	23.0%	139.4	18.8%	300.2	255.2	17.6%
Operating profit	16.4	13.6	20.4%	12.4	32.2%	30.0	26.1	14.9%
Finance costs	(0.5)	(0.6)		(0.8)		(1.1)	(1.5)	
Pre-tax profit	15.9	13.0	22.3%	11.6	37.4%	28.9	24.6	17.5%
Tax	(4.2)	(3.4)		(3.1)		(7.6)	(6.4)	
Net profit	11.7	9.6	22.4%	8.4	39.0%	21.3	18.2	17.0%
EPS (sen)	5.1	4.2	22.4%	3.7	39.0%	9.3	7.9	17.0%
Op. profit margin	9.9%	10.1%		8.9%		10.0%	10.2%	
Pre-tax margin	9.6%	9.6%		8.3%		9.6%	9.6%	
Net profit margin	7.1%	7.1%		6.0%		7.1%	7.1%	
NTA/share (RM)	0.87							

2QFY11 Results Review

- Kimlun registered a net profit of RM11.7 mln in 2QFY11, bringing 1HFY11 net profit to RM21.3 mln. The results were within our expectations, reaching 51% of our full year profit projection.
- 1HFY11 revenue and net profit were 17.6% and 17.0% higher y-o-y at RM300.2 mln and RM21.3 mln respectively, on improved turnover contributions from both constructions (+15.6% y-o-y) and manufacturing (+42.4% y-o-y) divisions. Operating profit margin for constructions was stable at 11.6% in 1HFY11 vs. 11.5% in 1HFY10, while manufacturing division saw a slight decline in operating margin to 23.7% from 25.6% a year ago.
- Sequentially, 2QFY11 turnover and net profit rose 23.0% and 22.4% respectively, attributed to increase in construction activities compared to 1QFY11 which had lower number of working days due to the Chinese New Year celebrations.
- To recap, the Group's ongoing construction activities comprise both building and infrastructure projects, and are mainly located in Johor. Its notable current construction projects are the elevated interchanges at the Johor Bahru Inner Ring Road, a condominium project in Mukim Plentong, and the Marlborough College in Iskandar Malaysia, to name just a few. Meanwhile, Kimlun's manufacturing sales consist of chiefly precast concrete tunnel segment lining (PCTSL) for the Singapore MRT project, and the NEWater Infrastructure Plan Extension, which is also in Singapore.
- On balance sheet strength, operations remain firmly supported by net cash per share of 36 sen and NTA per share of 87 sen as at end-June 2011.
- With 1HFY11 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 rising orderbook, which stands at approximately RM1.0 bln as at August 2011, provides earnings visibility over the next 18 months. Of its outstanding orderbook, RM930 mln are construction projects with the remaining from manufacturing sales. On 26 August 2011, the Group announced it has secured

another three construction contracts worth a total of RM106.5 mln for projects in Selangor and Johor.

- Looking ahead, we remain upbeat on Kimlun's prospects, underpinned by the numerous potential projects both in Malaysia and Singapore. Locally, we believe Kimlun stands a high chance in securing jobs for the PCTSL under the Malaysia MRT project given its vast experience supplying for the Singapore MRT. Prospects in Singapore are positive too with the continued investment by the Singapore Government to expand its MRT and LRT rail network from 147.7 km as at end-2009 to 278 km by 2020. We understand from management that Kimlun historically has an average success rate of 70% for its PCTSL tenders.
- In the meantime, activities are also picking up pace in Iskandar Malaysia, following the participation of the Singapore Government via Temasek Holdings. Recall that Temasek Holdings and Khazanah Malaysia had in June 2011 announced to jointly undertake two major development projects in Iskandar Malaysia - the Urban Wellness development in Medini North and the Resort Wellness development in Medini Central. This certainly augurs well for Johor-based Kimlun. Presently, the Group has a number of projects in the Iskandar Malaysia such as the Marlborough College, public and private housing in Nusajaya, as well as some infrastructure jobs.
- Additionally, Kimlun's expertise in Industrialized Building System (IBS) is expected to serve the Group well going forward, in tandem with the Malaysia Government's rising efforts to emphasize on using IBS method for construction. Since 2009, the Group has secured numerous IBS projects with a combined value of RM400 mln. Most recently, it bagged another IBS contract worth RM31 mln to construct residential houses in Selangor (this job forms one of three contracts announced on 26 August 2011).

Recommendation

We maintain our **Buy** recommendation on Kimlun, but lower our fair value to **RM1.84** (from RM2.02). Our fair value is derived from ascribing a peer-benchmarked PER multiple of 10x (from 11x) against the Group's FY11 net profit of RM42.1 mln. The lower benchmark reflects the reduced average PER of the Group's peers following the recent sell-down in the equity market. We view the recent decline in Kimlun's share price as reflective of weak investor sentiment in the broader equity market, as fundamentals of the company remain intact and prospects remain bright.

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.

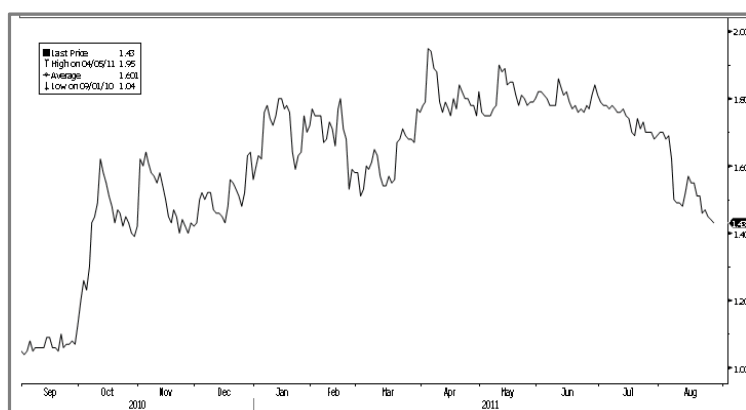
Per Share Data

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)	10.7	9.2	8.0
P/Cash Flow (x)	9.5	8.1	8.0
P/Book Value (x)	2.2	1.8	1.6
Dividend Yield (%)	-	3.3%	3.8%
ROE (%)	20.5%	19.8%	19.7%
Net gearing	net cash	net cash	net cash

P&L Summary

FYE Dec (RM m ln)	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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