

3QFY11 RESULTS UPDATE

30 November 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: 3QFY11 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	Sep 11	Jun 11	% chg	Sep 10	% chg	9MFY11	9MFY10	% chg
Turnover	159.9	165.5	-3.4%	119.4	33.9%	460.1	374.6	22.8%
Operating profit	14.1	16.4	-14.0%	11.9	18.7%	44.1	38.0	16.1%
Finance costs	(0.8)	(0.5)		(0.6)		(1.9)	(2.1)	
Pre-tax profit	13.3	15.9	-16.4%	11.3	17.8%	42.1	35.8	17.6%
Tax	(3.5)	(4.2)		(2.9)		(11.1)	(9.3)	
Net profit	9.8	11.7	-16.4%	8.4	16.5%	31.0	26.6	16.8%
Reported EPS (sen)	4.3	5.1	-16.4%	4.5	-4.7%	13.6	14.2	-4.5%
Op. profit margin	8.8%	9.9%		9.9%		9.6%	10.1%	
Pre-tax margin	8.3%	9.6%		9.4%		9.2%	9.6%	
Net profit margin	6.1%	7.1%		7.0%		6.7%	7.1%	
NTA/share (RM)	0.87							

*EPS for 3QFY10 & 9MFY10 were based on share base of 187.3 mln prior to listing.

3QFY11 Results Review

- Kimlun's 3QFY11 results were in line with our expectation, having registered a 9MFY11 net profit of RM31.0 mln, which accounted for 74% of our FY11 estimate.
- Higher contributions from both constructions (+20.8% y-o-y) and manufacturing (+51.3% y-o-y) divisions pushed 9MFY11 revenue 22.8% higher y-o-y to RM460.1 mln. The rise in construction revenue was due to higher progress billings for several large ongoing projects. Meanwhile, the substantial turnover increase in manufacturing and trading business was a result of commencement of 2 new contracts for the supply of tunnel lining segment (TLS) to the Singapore MRT Downtown Line 2 (DTL2), in addition to the existing 2 other TLS contracts for DTL2.
- In terms of profitability, construction operating margin remained stable at 11%-level but manufacturing and trading segment's operating margin had weakened to 22.0% from 29.3% in 9MFH10, in which management attributed the decline to rising material, fuel and labor costs. We note that construction continues to contribute the lion's share of the Group revenue and operating profit at 92.1% and 84.7% respectively.
- Sequentially, 3QFY11 turnover fell 3.4% to RM159.9 mln due to fewer working days arising from the Hari Raya festive season. Net profit declined by a more substantial magnitude owing to higher finance costs, foreign exchange loss (weaker RM against SGD) and higher plant and equipment repair and maintenance expenses incurred.
- On balance sheet strength, operations continued to be supported by a NTA/share as at end-September 2011. We observed that its net cash/share had declined to 24 sen in September 2011 from 36 sen a quarter earlier, as net operating cashflow (NOCF) turned negative RM11.8 mln in 9MFY11 from a positive of RM7.7 mln in 6MFY10.

- According to management, the negative NOCF arose as the Group incurred higher upfront cost for its contracts which comprise mobilization cost and mould fabrication costs. Adding further burden to NOCF is the rise in receivables to RM173.6 mln in September 2011 from RM140.2 mln in June 2011. Management clarified that the reasons behind the jump include the 10% retention sum incurred for its projects as well as completed precast concrete products that have yet to be billed as they have not reached the specified delivery milestone (by volume) stated by customers. NOCF is likely to remain negative in the next several quarters as Kimlun ramps up production for its manufacturing contracts.
- With 9MFY11 results in line with our expectations, we maintain our FY11 net profit projection of RM42.1 mln. Kimlun's current orderbook of approximately RM1.0 bln 2011 would provide earnings visibility over the next 18 months. Of the outstanding orderbook, approximately 90% are construction projects with the remaining from manufacturing contracts. Most recently, the Group clinched another contract worth RM68 mln in November 2011 for the construction of a service apartment in the Iskandar Malaysia, Johor.
- Going forward, we continue to be positive on Kimlun's prospects. Its construction arm is kept busy with its ongoing projects in Johor, particularly in the Iskandar Malaysia. Meanwhile, the manufacturing segment is running almost at full capacity producing chiefly the TLS for the Singapore MRT project. In fact, we understand demand for Kimlun's TLS is exceeding supply and the Group is currently re-looking at its existing plant setup and layout in order to increase efficiency and eke out additional capacity where possible. It is also scouting for a suitable piece of land to construct a new plant for a longer term solution to its capacity issue. On the local front, we expect Kimlun to clinch some contracts for the supply of TLS under the Malaysia MRT project considering its proven track record. However, we have yet to factor this in as the project is still at preliminary phase.
- On its venture into property development, Kimlun has on 2 November 2011 entered into sale and purchase agreements to acquire a total of 17.3 hectares of land in Nilai, Negeri Sembilan for a cash consideration of RM27.4 mln. It intends to build factory units but the GDV and other details are still not available at this juncture, pending a comprehensive development planning exercise.

Recommendation

We maintain our **Buy** recommendation on Kimlun with an unchanged fair value of **RM1.84**, derived from ascribing a peer-benchmarked PER multiple of 10x against our Group's FY11 net profit estimate. 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.

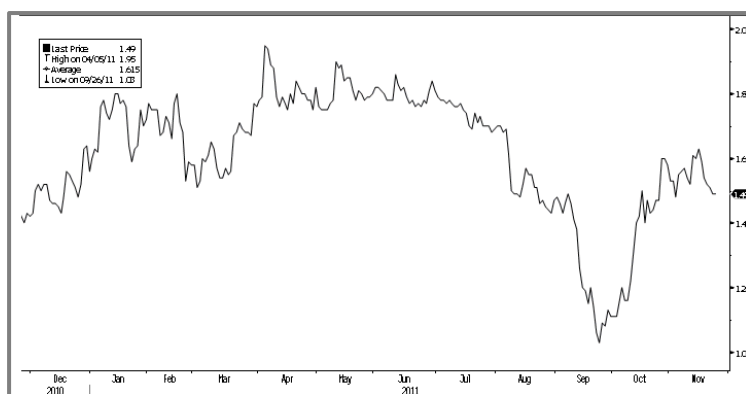
Per Share Data

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 mln)	FY09	FY10	FY11f	FY12f
Revenue	435.4	527.6	578.8	638.4
Operating profit	45.2	50.9	58.5	65.1
Net Int Exp	(2.4)	(2.9)	(3.0)	(3.7)
Pre-tax Profit	42.8	47.9	55.4	61.4
Eff. Tax Rate	26.4%	23.7%	24.0%	25.0%
Net Profit	31.5	36.6	42.1	46.1
Op. Profit Margin (%)	10.4%	9.6%	10.1%	10.2%
Pre-tax Margin (%)	9.8%	9.1%	9.6%	9.6%
Net Margin (%)	7.2%	6.9%	7.3%	7.2%

Note: FY09 figures are on proforma basis.

Kimlun's last 12-month share price chart

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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