

4QFY10 RESULTS UPDATE

1 March 2011

Kimlun Corporation Berhad

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

Price : RM1.59

Market Capitalization : RM364.1m

Market : Main Market

Sector : Construction

Recommendation : Buy

Kimlun: 4QFY10 results

FYE Dec (RM m)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	Dec 10	Sep 10	% chg	Dec 09	% chg	FY10	FY09	% chg
Turnover	153.0	119.4	28.1%	n/a		527.6	435.4	21.2%
Operating profit	12.9	11.9	8.7%	n/a		50.9	45.2	12.5%
Finance costs	(0.8)	(0.6)		n/a		(2.9)	(2.4)	
Pre-tax profit	12.1	11.3	7.5%	n/a		47.9	42.8	11.9%
Tax	(2.1)	(2.9)		n/a		(11.4)	(11.3)	
Net profit	10.0	8.4	18.9%	n/a		36.6	31.5	16.0%
EPS (sen) - basic	4.4	3.7	18.9%	n/a		16.0	13.8	16.0%
Op. profit margin	8.4%	9.9%				9.6%	10.4%	
Pre-tax margin	7.9%	9.4%				9.1%	9.8%	
Net profit margin	6.5%	7.0%				6.9%	7.2%	
NTA/share (RM)	0.81							

* FY09 figures on proforma basis. No y-o-y quarterly comparison available as Kimlun was listed in June 2010.

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

4QFY10 Results Review

- Kimlun's FY10 results were within our expectations, with the Group registering full-year net profit of RM36.6 mln against our projection of RM36.2 mln.
- 4QFY10 revenue and operating profit were 28.1% and 8.7% higher q-o-q at RM153.0 mln and RM12.9 mln respectively, on higher contributions from both construction and manufacturing divisions. Meanwhile, lower effective tax rate in 4QFY10 (17.5% in 4QFY10 vs. 25.4% in 3QFY10) due to availability of certain incentives to one of its subsidiaries pushed net profit up by 18.9% q-o-q to RM10.0 mln.
- For the year, FY10 turnover increased 21.2% y-o-y to RM527.6 mln mainly on the back of 24.9% y-o-y growth in construction revenue, which was more than compensated for the 12.7% y-o-y drop in sales of concrete products from its manufacturing arm. Construction turnover continued to make up the lion's share of the Group revenue at 92.5%. We attribute the decline in sales of concrete products to the project-based nature of the business where contributions may be lumpy at times.
- Management highlighted that there was a listing expense amounted to RM0.79 mln recognized in the FY10 net profit. Stripping this off, core net profit would have been higher at RM37.4 mln (+18.5% y-o-y) instead of RM36.6 mln (+16.0% y-o-y).
- Kimlun's operations remain supported by its healthy balance sheet, with net cash per share of 35 sen and NTA per share of 81 sen as of December 2010.

- We maintain our FY11 net profit projection of RM42.1 mln, and introduce our FY12 net profit forecast of RM44.3 mln. Earnings going forward will continued to be backed by its existing orderbook in excess of RM800 mln (as of December 2010), as well as orderbook replenishment from its tendered projects worth over RM800 mln (combining both construction and manufacturing divisions).
- Kimlun recommended a final single-tier dividend of 2.8 sen during the quarter under review, subject to shareholders' approval at the upcoming AGM. Inclusive of the interim dividend of 2.0, total net dividend of 4.8 sen for FY10 translates into a net yield of 3.0%.

Recent Development

- Kimlun announced on 25 February 2011 that the Group has proposed to diversify into property development activities. The proposed new business direction is subject to shareholders' approval at an upcoming EGM.
- We are not surprised by the news as we view it as a natural progression for firms in the construction business to venture into property development. The property development activities are expected to be carried out via its subsidiary, Kimlun Land Sdn Bhd (KLLSB) which was newly incorporated in December 2010. On 28 January 2011, KLLSB has subscribed for 51%-equity in Posh Atlantic Sdn Bhd, which in turn has entered into a sale and purchase agreement to acquire 4.95 acres of vacant freehold commercial land in Daerah Sepang, Selangor. Details of proposed development, however, have yet to be finalized at this stage.

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.

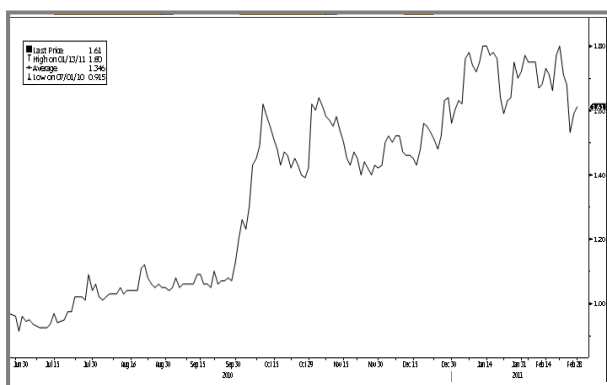
We like Kimlun for its i) promising earnings growth prospects over the next few years, riding high on the back of the booming construction sector both in Malaysia and Singapore; ii) healthy balance sheet and net cash position, enabling the Group to scale up operations with ease to meet the rising demand 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)	11.5	10.0	8.6
P/Cash Flow (x)	10.3	8.7	8.6
P/Book Value (x)	2.4	2.0	1.7
Dividend Yield (%)	-	3.0%	3.5%
ROE (%)	20.5%	19.8%	19.7%
Net gearing	net cash	net cash	net cash

P&L Summary (RM mil)

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%

Kimlun's last 12-month share price chart

Analyst: Nicole Tan Yoke Ping (nicole@zj.com.my)

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.

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 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/website/bm/listed_companies/cmdf_bursa_research_scheme/

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
