

30 August 2019

# Kimlun Corporation

## Within Expectations

By Adrian Ng | [adrian.ng@kenanga.com.my](mailto:adrian.ng@kenanga.com.my)

**1H19 CNP of RM29.4m came within our/consensus expectations, at 49%/48% of estimates, and as expected, no dividend was declared. FY19-20E earnings of RM60.4-61.9m kept unchanged. Maintain MARKET PERFORM with an unchanged Target Price of RM1.35.**

**Within expectations.** 1H19 core net profit (CNP) of RM29.4m came within at 49%/48% of our/consensus estimates. No dividend was declared, as expected.

**Results' highlights. YoY,** 1H19 CNP grew 31% due mainly to surge in revenue (+47%) driven by manufacturing (+121%) and construction (+34%) divisions. This is mainly attributed to: (i) higher precast sales from KVMRT2, and (ii) higher progress billings from Pan Borneo Highway. **QoQ,** 2Q19 revenue grew marginally by 2% but its CNP fell 16% due to weaker GP margins from its manufacturing division, which saw GP declining to 16% (-3ppt) as bulk of its orders consisted of lower margin products.

**Beneficiary of affordable housing and pre-cast play.** Moving forward, KIMLUN's outlook should be buoyed by the affordable housing segment which we estimate should yield high single-digit to low-teens GP margins. Its manufacturing division should continue to see steady delivery of precast concrete products with higher sales mix from lower margin KVMRT2's Segmental Box Girders. All in, while we anticipate higher construction billings from Pan Borneo Highway (progress c.55%), FY19 should see slight margin compression, premised on the reasons above. KIMLUN's outstanding order-book stands at c.RM2.0b (construction RM1.7b; manufacturing RM0.3b) which should provide 2-year's visibility.

**No changes to our FY19-20E earnings** of RM60.4-61.9m.

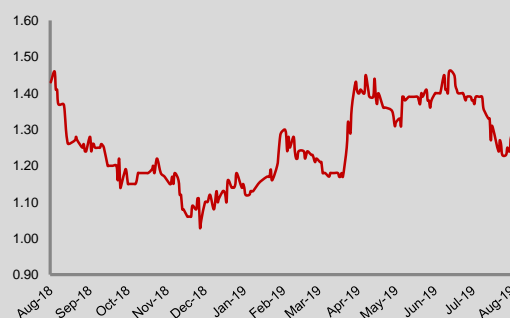
**Maintain MARKET PERFORM with an unchanged Target Price of RM1.35** based on the unchanged valuation of 7.0x FY19E PER which is at the lower-end of the 6-11x range that we ascribed to small-mid cap players. We pegged KIMLUN to the lower-end of our valuation range in line with the smaller contractors and also due to their lower-margins project mix.

**Key risks for our call are:** (i) higher/lower-than-expected margins, and (ii) acceleration/delay in construction works.

## MARKET PERFORM ↔

Price : RM1.26  
Target Price : RM1.35 ↔

### Share Price Performance



KLCI 1,595.18  
YTD KLCI chg -5.6%  
YTD stock price chg 16.7%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker KICB MK EQUITY  
Market Cap (RM m) 428.1  
Shares Outstanding 339.8  
52-week range (H) 1.49  
52-week range (L) 1.00  
3-mth avg daily vol: 75,657  
Free Float 52%  
Beta 1.2

### Major Shareholders

Phin Sdn Bhd 36.9%  
Pang Khang Hau 6.0%  
Pang Yon Tin 5.4%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	1012.0	1072.8	1017.3
EBIT	92.7	84.5	86.5
PBT	81.7	79.9	81.9
<b>Net Profit</b>	<b>61.1</b>	<b>60.4</b>	<b>61.9</b>
<b>Core PATAMI</b>	<b>61.1</b>	<b>60.4</b>	<b>61.9</b>
Consensus (NP)	N.A.	61.4	62.2
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	18.8	18.6	19.0
Core EPS growth (%)	-11%	-1%	3%
NDPS (sen)	4.4	4.3	4.4
NTA per Share (RM)	2.0	2.1	2.3
Price to NTA (x)	0.6	0.6	0.6
PER (x)	6.7	6.8	6.6
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	5%	5%	5%
Return on Equity (%)	9%	9%	8%
Net Div. Yield (%)	3.5%	3.4%	3.5%



30 August 2019

<b>Result Highlight</b>								
	<b>2Q19</b>	<b>1Q19</b>	<b>QoQ</b>	<b>2Q18</b>	<b>YoY</b>	<b>1H19</b>	<b>1H18</b>	<b>YoY</b>
<b>FYE Dec (RM'm)</b>								
<b>Turnover</b>	<b>325.2</b>	<b>318.6</b>	<b>2%</b>	<b>218.0</b>	<b>49%</b>	<b>643.7</b>	<b>438.9</b>	<b>47%</b>
EBITDA	36.8	39.7	-7%	25.4	45%	76.5	53.4	43%
Depreciation	-14.1	-13.8	2%	-9.3	52%	-27.9	-17.9	56%
<b>EBIT</b>	<b>22.7</b>	<b>25.9</b>	<b>-12%</b>	<b>16.1</b>	<b>41%</b>	<b>48.6</b>	<b>35.5</b>	<b>37%</b>
Interest inc/(exp)	-4.2	-4.5	-7%	-2.5	64%	-8.6	-4.9	76%
Associates/JV	0.2	0.3	-34%	0.1	27%	0.5	0.3	47%
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Pretax profit</b>	<b>18.8</b>	<b>21.7</b>	<b>-13%</b>	<b>13.7</b>	<b>37%</b>	<b>40.4</b>	<b>30.9</b>	<b>31%</b>
Taxation	-5.3	-5.8	-7%	-3.9	37%	-11.1	-8.5	31%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Profit after tax</b>	<b>13.4</b>	<b>15.9</b>	<b>-16%</b>	<b>9.8</b>	<b>37%</b>	<b>29.3</b>	<b>22.4</b>	<b>31%</b>
Minority interest	0.0	0.0	-32%	0.0	21%	0.0	0.1	-41%
<b>PATAMI</b>	<b>13.4</b>	<b>15.9</b>	<b>-16%</b>	<b>9.8</b>	<b>37%</b>	<b>29.4</b>	<b>22.5</b>	<b>31%</b>
<b>Core PATAMI</b>	<b>13.4</b>	<b>15.9</b>	<b>-16%</b>	<b>9.8</b>	<b>37%</b>	<b>29.4</b>	<b>22.5</b>	<b>31%</b>
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	7%	8%		7%		8%	8%	
Pretax margin	6%	7%		6%		6%	7%	
NP margin	4%	5%		5%		5%	5%	
CNP margin	4%	5%		5%		5%	5%	
EPS (sen)	4.1	4.8		3.1		8.9	7.0	
Core EPS(sen)	4.1	4.8		3.1		8.9	7.0	
BV/share (RM)	2.1	2.1		1.9		2.1	1.9	
Net gearing (x)	0.4	0.4		0.2		0.4	0.2	
Effective tax	28%	27%		28%		27%	27%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
	<b>2Q19</b>	<b>1Q19</b>	<b>QoQ</b>	<b>2Q18</b>	<b>YoY</b>	<b>1H19</b>	<b>1H18</b>	<b>YoY</b>
<b>External Revenue</b>								
Construction	255.6	241.2	6%	176.3	45%	496.8	370.4	34%
Manufacturing & Trading	69.7	76.5	-9%	41.1	70%	146.2	66.2	121%
Property Development	-0.1	0.8	n.m.	0.6	n.m.	0.8	2.3	-66%
<b>GP Segmentation</b>								
Construction	20.7	20.1	3%	16.1	29%	40.9	40.5	1%
Manufacturing & Trading	11.4	14.3	-20%	7.6	50%	25.7	9.9	161%
Property Development	0.0	0.1	n.m.	0.1	n.m.	0.1	0.5	-69%
<b>GP margins</b>								
Construction	8%	8%		9%		8%	11%	
Manufacturing & Trading	16%	19%		19%		18%	15%	
Property Development	0%	17%		20%		19%	20%	

Source: Company, Kenanga Research

30 August 2019

### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>																	
GAMUDA BHD	3.55	8,778.5	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	10.7	12.9	15.0	1.2	1.1	8.7%	3.4%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.04	560.2	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.4	9.7	7.0	1.2	1.1	11.9%	3.5%	1.15	MP
HOCK SENG LEE BERHAD	1.35	741.8	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.8	11.2	9.5	1.0	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.22	8,057.4	Y	03/2020	22.8%	2.0%	11.0%	2.2%	19.3	17.4	17.0	0.8	0.8	4.7%	2.2%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.41	1,738.4	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.7	11.3	11.1	1.8	1.6	14.9%	2.1%	1.20	UP
KIMLUN CORP BHD	1.26	428.1	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.7	6.8	6.6	0.6	0.6	9.0%	3.4%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.280	249.1	Y	12/2019	-14.7%	-9.7%	-94.7%	210.5%	5.6	106.6	34.3	0.3	0.3	0.3%	0.0%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.47	1,193.9	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.3	7.5	7.2	1.1	1.0	13.4%	2.9%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.00	2,578.7	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	18.5	21.1	16.5	4.3	3.9	19.4%	2.7%	1.45	UP
WCT HOLDINGS BHD	1.00	1,409.9	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	11.0	12.8	10.7	0.4	0.4	3.4%	0.0%	0.815	UP
<b>Simple Average</b>					<b>4.9%</b>	<b>4.3%</b>	<b>-11.9%</b>	<b>31.1%</b>	<b>11.3</b>	<b>21.7</b>	<b>13.5</b>	<b>1.3</b>	<b>1.2</b>	<b>9.4%</b>	<b>2.2%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.380	227.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	15.5	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.120	45.7	Y	06/2019	N.A.	N.A.	N.A.	N.A.	88.0	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.21	597.0	Y	12/2019	19.3%	37.9%	15.5%	36.2%	9.8	8.4	0.0	1.2	1.2	15.1%	4.8%	1.80	BUY
GADANG HOLDINGS BHD	0.695	506.0	Y	05/2020	7.4%	11.6%	45.5%	12.3%	11.6	8.0	0.0	0.6	N.A.	9.5%	2.2%	0.783	SELL
JAKS RESOURCES BHD	0.755	485.6	Y	12/2019	68.9%	-47.0%	655.6%	-21.2%	32.1	4.2	0.0	0.5	0.5	13.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.275	162.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.1	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.98	494.3	Y	06/2020	-3.5%	4.5%	31.1%	4.3%	18.9	14.4	0.1	1.6	1.5	10.7%	6.0%	2.86	NEUTRAL
PESONA METRO HOLDINGS	0.220	152.9	Y	12/2019	12.1%	9.5%	165.4%	13.7%	18.5	7.0	0.0	0.8	N.A.	11.7%	4.5%	0.310	BUY
PROTASCO BHD	0.260	126.6	Y	12/2019	-4.5%	3.4%	381.8%	6.0%	N.A.	10.0	0.0	0.4	0.4	3.8%	4.6%	0.225	SELL
TRC SYNERGY BHD	0.500	240.2	Y	12/2019	15.8%	23.6%	70.8%	29.9%	11.5	6.7	0.0	0.6	0.6	8.5%	6.4%	0.750	BUY

Source: Bloomberg, Kenanga Research

30 August 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

