



AmInvestment Bank

Company report

KIMLUN CORP

(KICB MK EQUITY, KICB.KL)

29 Mar 2021

A washout in FY20

HOLD

(Maintained)

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Rationale for report: Company results

Price RM0.90
Fair Value RM0.79
52-week High/Low RM0.96/RM0.54

Key Changes

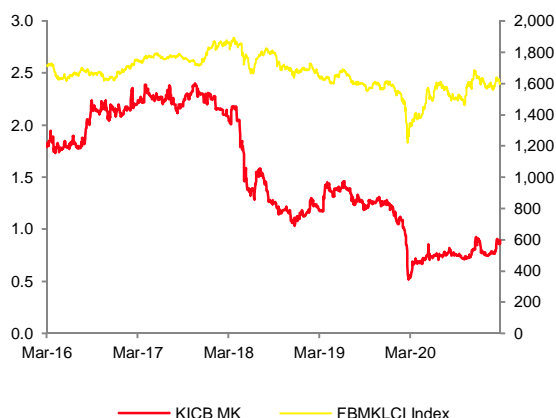
Fair value ⇌
EPS ⇌

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	794.7	1,030.0	1,055.0	1,140.0
Core net profit (RM mil)	14.3	35.3	35.9	43.6
FD Core EPS (sen)	4.2	9.9	10.1	12.1
FD Core EPS growth (%)	(74.8)	138.0	1.5	20.1
Consensus Net Profit (RM mil)	-	39.7	40.9	-
DPS (sen)	1.0	3.3	3.3	3.3
PE (x)	21.4	9.0	8.9	7.4
EV/EBITDA (x)	7.6	5.7	5.4	4.6
Div yield (%)	1.1	3.7	3.7	3.7
ROE (%)	1.1	4.8	4.7	5.5
Net Gearing (%)	48.3	41.5	35.1	27.9

Stock and Financial Data

Shares Outstanding (million)	320.6
Market Cap (RM mil)	287.0
Book Value (RM/share)	2.26
P/BV (x)	0.4
ROE (%)	1.1
Net Gearing (%)	48.3
Major Shareholders	Phin Sdn Bhd (36.2%) Phang Khang Hau (5.8%) Pang Tin (5.2%)
Free Float	31.0
Avg Daily Value (RM mil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	1.7	17.8	67.3
Relative (%)	3.8	10.6	40.3



Investment Highlights

- We are keeping relatively unchanged our FY21–22F forecasts and maintain our fair value of RM0.79 based on 8x FD FY21F EPS, in line with our benchmark forward target PE of 8x for small-cap construction stocks. There is no adjustment for ESG based on a 3-star rating as appraised by us (Exhibit 4). Maintain HOLD.
- Kimlun's FY20 core net profit of RM14.3mil (excluding one-off items particularly impairment on development land) beat our forecast and consensus estimates by 17% and 23% respectively. The variance against our forecast came largely from better-than-expected profits from precast products as deliveries were skewed towards higher-margin products. We are keeping our more moderate margin assumption for precast products in our forecasts from FY21F.
- Its FY20 core net profit plunged 76% YoY as both construction activities and precast concrete product deliveries (including exports to Singapore) came to a halt during the peak of the pandemic in Mar–May 2020, and had struggled to return to pre-pandemic levels thereafter.
- In FY20, Kimlun secured construction and precast product orders worth RM464mil and RM230mil respectively. At present, its construction and precast product order backlogs stand at RM1.1bil and RM300mil respectively.
- It guided for new construction and precast product new order targets of RM500mil and RM150–180mil respectively in FY21F. Our assumptions are slightly above these at RM550mil and RM200mil for new construction and precast product orders respectively.
- During a recent engagement with analysts, Kimlun expressed reservation about the outlook for the local building construction market. This is because most of its clients (i.e. property developers) remain very cautious with new launches, particularly, in the high-rise segment (due to the oversupply situation) and in Johor (a majority of Johoreans working in Singapore, an important group of property buyers, are not physically present in Johor to do the property viewing and execute the S&P agreement).

- In the public project space, Kimlun said that it is eyeing work packages from the Central Spine Road project, an interchange job along the Senai-Desaru highway, some building extension work in Universiti Malaya as well as subcontracting jobs from the Coastal Highway in Sarawak. Closer to home with regards to the Johor Bahru–Singapore Rapid Transit System (RTS), Kimlun believes that it is better positioned to bid for supply contracts of precast concrete products (vs. civil work packages).
- We maintain our view that the government will have very limited room for fiscal manoeuvre in 2021 given the elevated national debt, even before the pandemic. The government's fiscal position has been weighed down further by the economic impact of the pandemic (including reduced tax and petroleum revenues), as well as the massive relief spending to cushion the economic impact of the pandemic. All these have culminated in Fitch Ratings' Dec 2020 downgrade of Malaysia's long-term foreign-currency issuer default rating to 'BBB+' from 'A-', on the heels of S&P Global Ratings' June 2020 downgrade of Malaysia's outlook to negative from stable).
- Under these circumstances, we believe the government is unlikely to roll out new public infrastructure projects in a major way over the short term. Also, given the suspension of parliament following the declaration of a state of emergency until 1 Aug 2021, the tabling of the 12th Malaysia Plan (which, among others, will earmark mega public infrastructure projects to be implemented in 2021–2025) could now be put on the back burner.
- We believe Kimlun's valuations as a small-cap construction stock at 7–9x forward earnings are fair on muted growth prospects.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY20 1Q	FY20 2Q	FY20 3Q	FY20 4Q	QoQ Chg	FY19 12M	FY20 12M	YoY Chg
Turnover	245.3	94.0	211.8	243.6	15%	1,302.8	794.7	(39%)
Construction	188.3	65.5	182.0	188.0	3%	1,022.2	623.8	(39%)
Manufacturing	55.3	28.5	29.8	55.0	84%	272.1	168.6	(38%)
Others	1.7	0.0	0.0	0.6	nm	8.6	2.3	(73%)
Gross profit	23.4	0.1	21.9	29.2	34%	134.1	74.5	(44%)
Construction	14.3	(1.9)	15.5	14.1	(9%)	80.9	41.9	(48%)
Manufacturing	8.6	2.0	6.3	14.8	136%	51.3	31.8	(38%)
Others	0.4	(0.0)	0.1	0.4	448%	1.9	0.8	(56%)
EBIT	14.7	(6.9)	12.2	21.0	72%	99.1	40.9	(59%)
Net inc/(exp)	(4.8)	(4.8)	(4.1)	(4.8)	17%	(16.7)	(18.5)	11%
Associates	0.0	(0.3)	(0.1)	(0.2)	91%	(0.4)	(0.6)	75%
EI	(0.5)	0.3	0.8	(7.0)	nm	(2.4)	(6.3)	163%
Pretax profit	9.4	(11.7)	8.9	9.0	1%	79.7	15.5	(81%)
Taxation	(2.8)	1.9	(2.5)	(4.2)	67%	(21.3)	(7.6)	(64%)
Minority interest	0.0	0.0	0.0	0.0	43%	0.0	0.0	91%
Net profit	6.6	(9.7)	6.4	4.8	(25%)	58.4	8.0	(86%)
EPS (sen)	1.9	(2.9)	1.9	1.4	(26%)	17.4	2.3	(87%)
Net profit ex-EI	7.1	(10.0)	5.5	11.8	114%	60.8	14.3	(76%)
Gross construction margin	8%	(3%)	9%	7%	(9%)	8%	7%	(3%)
EBIT margin	6%	(7%)	6%	9%	2%	8%	5%	(5%)
Pretax margin	4%	(12%)	4%	4%	2%	6%	2%	(7%)
Effective tax rate	30%	17%	28%	47%	(1%)	27%	49%	(65%)

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

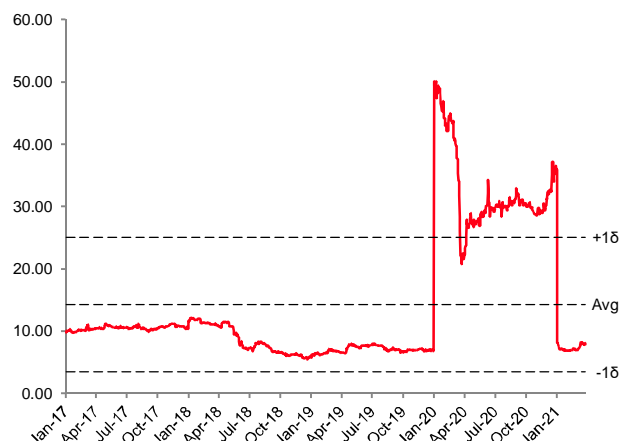


EXHIBIT 4: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★				
Work site safety	★	★	★		
Migrant worker welfare	★	★	★		
Corporate social responsibility	★	★	★	★	
Pollution control	★				
Supply chain auditing	★	★			
Corruption-free pledge	★	★	★		
Gender diversity	★	★			
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,302.8	794.7	1,030.0	1,055.0	1,140.0
EBITDA	153.3	84.4	104.8	103.5	111.0
Depreciation/Amortisation	(54.1)	(43.4)	(43.4)	(43.4)	(43.4)
Operating income (EBIT)	99.2	40.9	61.4	60.1	67.6
Other income & associates	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
Net interest	(16.7)	(18.5)	(16.6)	(14.6)	(12.4)
Exceptional items	(2.4)	(6.3)	-	-	-
Pretax profit	79.7	15.5	44.2	44.9	54.5
Taxation	(21.3)	(7.6)	(8.8)	(9.0)	(10.9)
Minorities/pref dividends	-	-	-	-	-
Net profit	58.4	8.0	35.3	35.9	43.6
Core net profit	60.8	14.3	35.3	35.9	43.6
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	203.0	172.9	159.5	146.1	132.7
Intangible assets	-	-	-	-	-
Other long-term assets	186.6	191.7	191.1	190.5	189.9
Total non-current assets	389.6	364.7	350.6	336.6	322.5
Cash & equivalent	64.9	57.4	86.1	115.5	152.5
Stock	80.0	130.7	130.7	130.7	130.7
Trade debtors	872.8	847.5	847.5	847.5	847.5
Other current assets	138.8	105.5	105.5	105.5	105.5
Total current assets	1,156.6	1,141.1	1,169.9	1,199.3	1,236.3
Trade creditors	383.6	318.3	318.3	318.3	318.3
Short-term borrowings	252.4	275.7	275.7	275.7	275.7
Other current liabilities	31.5	25.3	25.3	25.3	25.3
Total current liabilities	667.4	619.2	619.2	619.2	619.2
Long-term borrowings	154.2	132.2	122.2	112.2	102.2
Other long-term liabilities	4.0	3.1	3.1	3.1	3.1
Total long-term liabilities	158.2	135.3	125.3	115.3	105.3
Shareholders' funds	720.5	725.9	750.7	776.0	809.0
Minority interests	0.1	25.4	25.4	25.4	25.4
BV/share (RM)	2.25	2.26	2.34	2.42	2.52
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	79.7	15.5	44.2	44.9	54.5
Depreciation/Amortisation	54.1	43.4	43.4	43.4	43.4
Net change in working capital	(105.4)	(25.4)	-	-	-
Others	(71.5)	(58.0)	(26.0)	(24.2)	(24.0)
Cash flow from operations	(43.1)	(24.4)	61.6	64.1	73.9
Capital expenditure	(97.7)	(20.8)	(30.0)	(30.0)	(30.0)
Net investments & sale of fixed assets	5.8	7.7	-	-	-
Others	-	(3.8)	-	-	-
Cash flow from investing	(91.9)	(17.0)	(30.0)	(30.0)	(30.0)
Debt raised/(repaid)	142.6	38.8	-	-	-
Equity raised/(repaid)	9.8	8.7	-	-	-
Dividends paid	(12.3)	(11.2)	(10.6)	(10.6)	(10.6)
Others	(36.1)	(32.0)	(16.6)	(14.6)	(12.4)
Cash flow from financing	104.0	4.2	(27.1)	(25.2)	(23.0)
Net cash flow	(30.9)	(37.2)	4.4	8.9	20.9
Net cash/(debt) b/f	10.5	33.2	47.7	86.5	125.9
Net cash/(debt) c/f	(20.4)	(4.0)	52.2	95.4	146.8
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	28.7	(39.0)	29.6	2.4	8.1
EBITDA growth (%)	15.1	(45.0)	24.2	(1.2)	7.2
Pretax margin (%)	6.1	2.0	4.3	4.3	4.8
Net profit margin (%)	4.5	1.0	3.4	3.4	3.8
Interest cover (x)	5.9	2.2	3.7	4.1	5.4
Effective tax rate (%)	26.8	48.8	20.0	20.0	20.0
Dividend payout (%)	18.1	40.2	29.9	29.5	24.3
Debtors turnover (days)	235	395	300	293	271
Stock turnover (days)	28	48	46	45	42
Creditors turnover (days)	116	161	113	110	102

Source: Company, AmInvestment Bank Bhd estimates

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