



KIMLUN CORP

(KICB MK EQUITY, KICB.KL)

21 Sep 2021

Adapts better to operating under new norms in 1HFY21
HOLD

(Maintained)

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Rationale for report: Company results

Price RM0.80
Fair Value RM0.78
 52-week High/Low RM1.01/RM0.70

Key Changes

Fair value
 EPS

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	794.7	900.0	990.0	1,075.0
Core net profit (RM mil)	14.3	25.8	30.7	38.2
FD Core EPS (sen)	4.2	7.4	8.7	10.7
FD Core EPS growth (%)	(74.8)	77.8	17.6	22.6
Consensus Net Profit (RM mil)	-	31.9	40.0	41.6
DPS (sen)	1.0	3.3	3.3	3.3
PE (x)	19.0	10.7	9.1	7.4
EV/EBITDA (x)	7.2	6.2	5.5	4.8
Div yield (%)	1.3	4.2	4.2	4.2
ROE (%)	1.1	3.5	4.1	4.9
Net Gearing (%)	48.3	43.3	37.7	31.1

Stock and Financial Data

Shares Outstanding (million)	320.6
Market Cap (RM mil)	254.9
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)	0.1

Price performance	3mth	6mth	12mth
Absolute (%)	(7.6)	(8.1)	2.6
Relative (%)	(3.9)	(2.2)	1.2

**Investment Highlights**

- We cut our FY21–23F net profit forecasts by 27%, 14% and 12% respectively and reduce our fair value (FV) by 14% to RM0.78 (from RM0.91) based on 9x revised FD FY22F EPS, in line with our benchmark forward target PE of 9x for small-cap construction stocks. There is no FV adjustment for ESG based on a 3-star rating as appraised by us (Exhibit 4). Maintain HOLD.
- Kimlun's 1HFY21 core net profit of RM9.3mil came in below expectations at only 26% and 29% of our full-year forecast and the full-year consensus estimates respectively. We believe the variance against our forecast came largely from sub-optimal construction activities and the disruption in building material supply on tightened pandemic restrictions as Covid-19 infections surged.
- Nonetheless, its 1HFY21 was a return to the black at the net level vs. in the red a year ago, as both construction activities and precast concrete product deliveries (including exports to Singapore) adjusted better to operating under the new norms vs. a year ago.
- Our earnings downgrade is to reflect a more prolonged and challenging path to normalisation of operations.
- During a recent analyst briefing, Kimlun reiterated its guidance for RM500mil construction job wins in FY21F (vs. our assumption that is slightly higher at RM550mil). So far in FY21F, it has yet to secure any significant contract while its outstanding construction order book currently stands at RM0.8bil.
- It is currently pursuing new jobs in Sarawak such as the Pan Borneo Highway (PBH) Sarawak Phase 2 project (that stretches from Miri to Limbang and Lawas at the northern tip of Sarawak) and a RM6bil non-rail/bus rapid transit system called Autonomous Rapid Transit Sarawak. In Peninsular Malaysia, it is eyeing work packages from Central Spine Road, the Johor Bahru–Singapore Rapid Transit System (RTS), Iskandar Malaysia bus rapid transit and private-sector building jobs.
- Meanwhile, at present, the order backlog at its precast concrete product segment stands at RM300mil. For FY21F, it reiterated its guidance for new orders of RM150mil to RM180mil, largely coming from Singapore (vs. our assumption that is slightly higher at RM200mil). Typically, the division contributes to 35–40% of group gross profit.

- We remain cautious on the local construction sector. On one hand, the trading sentiment on construction stocks may be buoyed by the impending announcement of the 12th Malaysia Plan and Budget 2022. On the other hand, macro and operational challenges remain aplenty in the sector, including high national debt weighing on the government's ability to roll out public projects in a major way, mega projects that have lost their shine (less impactful as they are not fast-tracked and implementation models that gravitate towards a public-private partnership where the main contractor may be required to take on certain operating/commercial risk and/or participate in the funding of the project), intensifying competition (amidst growing presence of foreign contractors especially large state-owned Chinese contractors), and higher operating cost and risk, lower efficiency and supply-chain disruptions as the pandemic rages on.
- We believe Kimlun's valuations as a small-cap construction stock at 7–11x forward earnings are fair on muted growth prospects.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY21 1Q	FY21 2Q	QoQ Chg	FY20 6M	FY21 6M	YoY Chg
Turnover	210.3	214.3	2%	339.3	424.6	25%
Construction	153.2	132.4	(14%)	253.8	285.6	13%
Manufacturing	52.0	38.1	(27%)	83.8	90.2	8%
Others	5.0	43.8	>100%	1.7	48.8	>100%
Gross profit	22.5	18.6	(17%)	23.5	41.1	75%
Construction	8.5	7.6	(10%)	12.4	16.1	30%
Manufacturing	12.9	5.9	(54%)	10.7	18.8	76%
Others	1.1	5.1	>100%	0.4	6.2	>100%
EBIT	14.8	6.4	(57%)	7.6	23.3	>100%
Net inc/(exp)	(3.6)	(3.7)	3%	(9.6)	(7.4)	(23%)
Associates	(0.1)	(0.1)	2%	(0.3)	(0.3)	(13%)
EI	1.4	0.8	(46%)	(0.1)	2.2	nm
Pretax profit	12.4	3.2	(74%)	(2.3)	15.6	nm
Taxation	(3.3)	(0.9)	(73%)	(0.9)	(4.2)	>100%
Minority interest	0.0	0.1	nm	0.0	0.1	>100%
Net profit	9.1	2.4	(74%)	(3.1)	11.5	nm
EPS (sen)	2.6	0.7	(74%)	(0.9)	3.3	nm
Net profit ex-EI	7.7	1.6	(79%)	(3.1)	9.3	nm
Gross construction margin	6%	6%	(6%)	5%	6%	0%
EBIT margin	7%	3%	1%	2%	5%	0%
Pretax margin	6%	2%	0%	(1%)	4%	0%
Effective tax rate	27%	28%	1%	(38%)	27%	0%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

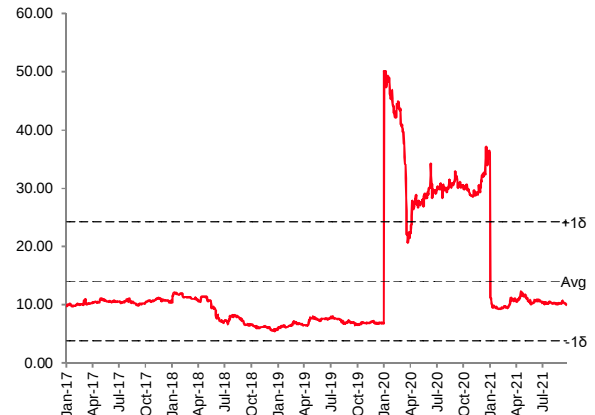


EXHIBIT 4: ESG RATING

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	900.0	990.0	1,075.0
EBITDA	153.3	84.4	93.1	97.7	105.1
Depreciation/Amortisation	(54.1)	(43.4)	(43.4)	(43.4)	(43.4)
Operating income (EBIT)	99.2	40.9	49.7	54.3	61.7
Other income & associates	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
Net interest	(16.7)	(18.5)	(16.8)	(15.2)	(13.3)
Exceptional items	(2.4)	(6.3)	-	-	-
Pretax profit	79.7	15.5	32.2	38.4	47.8
Taxation	(21.3)	(7.6)	(6.4)	(7.7)	(9.6)
Minorities/pref dividends	-	-	-	-	-
Net profit	58.4	8.0	25.8	30.7	38.2
Core net profit	60.8	14.3	25.8	30.7	38.2
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	76.6	100.8	132.5
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	1,160.4	1,184.6	1,216.2
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	741.1	761.3	788.9
Minority interests	0.1	25.4	25.4	25.4	25.4
BV/share (RM)	2.25	2.26	2.31	2.37	2.46
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	79.7	15.5	32.2	38.4	47.8
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)	(23.9)	(23.5)	(23.5)
Cash flow from operations	(43.1)	(24.4)	51.8	58.3	67.7
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)	(16.8)	(15.2)	(13.3)
Cash flow from financing	104.0	4.2	(27.4)	(25.8)	(23.9)
Net cash flow	(30.9)	(37.2)	(5.6)	2.5	13.8
Net cash/(debt) b/f	10.5	33.2	47.7	77.0	111.2
Net cash/(debt) c/f	(20.4)	(4.0)	42.1	79.5	125.0
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	28.7	(39.0)	13.2	10.0	8.6
EBITDA growth (%)	15.1	(45.0)	10.3	4.9	7.6
Pretax margin (%)	6.1	2.0	3.6	3.9	4.4
Net profit margin (%)	4.5	1.0	2.9	3.1	3.6
Interest cover (x)	5.9	2.2	3.0	3.6	4.6
Effective tax rate (%)	26.8	48.8	20.0	20.0	20.0
Dividend payout (%)	18.1	40.2	41.0	34.4	27.7
Debtors turnover (days)	235	395	344	312	288
Stock turnover (days)	28	48	53	48	44
Creditors turnover (days)	116	161	129	117	108

Source: Company, AmInvestment Bank Bhd estimates

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