

21 September 2021

Kimlun Corporation

Within Our but Below Street Estimates

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1HFY21 CNP of RM11.4m came within our, but below consensus, estimate, as the street may have underestimated the lockdown impact in Malaysia and Singapore. With c.85% of the group's work-force vaccinated, we foresee productivity and earnings to be stronger in 4QFY21. YTD, Kimlun has replenished RM90m worth of contracts against our target of RM600m which we deem broadly in line as we foresee replenishment prospects from Johor, Sarawak and Singapore. Post results, keep FY21-22E earnings unchanged. Consequently, maintain OP and TP of RM1.15.

Within our but below consensus estimates. 2QFY21 CNP of RM2.3m led 1HFY21 CNP to RM11.4m, accounting for 42%/36% of our/consensus full-year estimates. This is within our estimate but below consensus' as they may have underestimated the impact from Malaysia's numerous MCOs* and Singapore's lockdown. No dividends as expected as dividends are normally dished out in the fourth quarter.

*Malaysia's imposed MCO 3.0 from May 12th to June 7th 2021 (limiting operational workforce to 60%) and a total lockdown from June 1st till mid-July. Meanwhile, Singapore entered lockdown from May 16th to June 13th 2021.

Highlights. 2QFY21 CNP of RM2.3m declined 74% QoQ mainly due to weaker contributions from its construction and manufacturing segment which saw gross profits (GP) coming off 10% and 54%, stemming from the numerous lockdowns and MCOs within the quarter which capped productivity. The group's higher revenue (+2%) was attributable to its property segment which saw finalisation of sales of its Bukit Bayu Bungalows (phase 1). Nonetheless, we note that the sale of these bungalows carries minimal bottom-line contribution after deducting the sales commissions and other related fees from its property segmental GP of RM4.7m.

YoY, 1HFY21 CNP of RM11.4m improved from a RM2.9m loss position as the lockdown situation during the period was less severe (i.e. ~1-month loss of productivity in 1HFY21 vs. ~2 months' loss of productivity in 1HFY20).

Outlook. YTD, Kimlun has replenished RM90m worth of contracts (construction RM20m; manufacturing RM70m) against our target of RM600m (construction RM350m; manufacturing RM250m). For now, we keep our targets unchanged as we see replenishment prospects from: (i) RTS, (ii) Pan Borneo Sarawak Phase 2, (iii) Autonomous Rail Transit Kuching, (iv) Iskandar BRT, and (v) Central Spine Road. Outstanding order-book stands at RM1.1b (construction: RM0.8b, manufacturing: RM0.3b) – providing slightly over 1.0x revenue cover.

In terms of vaccinations, the group's work-force is c.85% fully vaccinated which we believe could lead to a ramp up in productivity in 4QFY21.

Keep FY21E-22E earnings unchanged post results.

Maintain OUTPERFORM with unchanged TP of RM1.15 pegged to 9x FY22E PER. Despite the short-term uncertainties, we continue to like the name for its potential sharp turn-around from a small earnings base. Also, its shares, currently trading at FY22E PER of 6.1x, are attractive given that it is also a name which offers exposure to MRT3 (through the supply of TLS and SBGs) coupled with rising construction activity in Singapore.

OUTPERFORM ↔

Price : RM0.795
Target Price : RM1.15 ↔

Share Price Performance



KLCI 1,527.89
YTD KLCI chg -6.1%
YTD stock price chg -11.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KICB MK EQUITY
Market Cap (RM m)	280.9
Shares Outstanding	353.4
52-week range (H)	1.01
52-week range (L)	0.70
3-mth avg daily vol:	123,297
Free Float	25%
Beta	1.0

Major Shareholders

Phin Sdn Bhd	37.3%
Pang Khang Hau	6.0%
Pang Yon Tin	5.4%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	794.7	845.5	1056.1
EBIT	34.6	57.3	79.1
PBT	15.5	36.5	58.3
Net Profit (NP)	7.9	27.6	44.0
Core NP	15.2	27.6	44.0
Consensus (NP)	11.6	31.9	40.0
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	4.5	8.11	12.95
Core EPS growth (%)	-74%	81%	60%
NDPS (sen)	1.0	1.7	2.4
NTA per Share (RM)	2.0	2.1	2.2
Price to NTA (x)	0.4	0.4	0.4
PER (x)	17.7	9.8	6.1
Debt-to-Equity ratio (x)	0.4	0.2	0.0
Return on Asset (%)	1%	2%	4%
Return on Equity (%)	1%	4%	6%
Net Div. Yield (%)	1.2%	2.1%	3.0%



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

Result Highlights

FYE Dec (RM m)	2Q21	1Q21	QoQ	2Q20	YoY	1H21	1H20	YoY
Turnover	214.3	210.3	2%	94.0	128%	424.6	339.3	25%
EBITDA	17.5	26.5	-34%	-5.8	403%	44.0	18.3	141%
Depreciation	-10.4	-10.3	1%	-0.9	1118%	-20.8	-10.7	93%
EBIT	7.1	16.2	-56%	-6.6	207%	23.3	7.6	208%
Interest inc/(exp)	-3.7	-3.6	3%	-4.8	-21%	-7.4	-9.6	-23%
Associates/JV	-0.1	-0.1	2%	-0.3	-57%	-0.3	-0.3	-13%
Exceptional items	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Forex gain/(loss)	0.0	0.0	n.a.	-0.2	-100%	0.0	-0.2	-100%
Pretax profit	3.2	12.4	-74%	-11.7	128%	15.6	-2.3	782%
Taxation	-0.9	-3.3	-73%	1.9	-146%	-4.2	-0.9	379%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit after tax	2.3	9.1	-74%	-9.8	124%	11.4	-3.2	461%
Minority interest	0.0	0.0	n.a.	0.0	-100%	0.0	0.0	-100%
PATAMI	2.3	9.1	-74%	-9.7	124%	11.4	-3.1	464%
Core PATAMI	2.3	9.1	-74%	-10.0	124%	11.4	-2.9	488%
DPS (sen)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	3%	8%		-7%		5%	2%	
Pretax margin	2%	6%		-12%		4%	-1%	
NP margin	1%	4%		-10%		3%	-1%	
CNP margin	1%	4%		-11%		3%	-1%	
EPS (sen)	0.7	2.6		-2.9		3.2	-0.9	
Core EPS(sen)	0.7	2.6		-2.9		3.2	-0.9	
BV/share (RM)	2.08	2.14		2.11		2.08	2.11	
Net gearing (x)	0.44	0.46		0.48		0.44	0.48	
Effective tax	28%	27%		17%		27%	-38%	

Source: Company, Kenanga Research

Segmental Breakdown

External Revenue	2Q21	1Q21	QoQ	2Q20	YoY	1H21	1H20	YoY
Construction	132.4	153.2	-14%	65.5	102%	285.6	253.8	13%
Manufacturing & Trading	38.1	52.0	-27%	28.5	34%	90.2	83.8	8%
Property Development	43.8	5.0	768%	0.0	n.a.	48.8	1.7	2712%
Investment	0.0	0.0	0%	0.0	104%	0.0	0.0	-50%
	214.3	210.3		94.0		424.6	339.3	
GP Segmentation								
Construction	7.6	8.5	-10%	-1.9	492%	16.1	12.4	30%
Manufacturing & Trading	5.9	12.9	-54%	2.0	188%	18.8	10.7	76%
Property Development	4.7	0.9	443%	0.0	n.a.	5.6	0.3	1528%
GP margins								
Construction	6%	6%		-3%		6%	5%	
Manufacturing & Trading	15%	25%		7%		21%	13%	
Property Development	11%	17%				11%	20%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	2.99	7,515.5	Y	07/2021	14.2	15.9	12.5	0.9	0.8	5.4%	0.0%	3.75	OP	
HOCK SENG LEE BERHAD	0.965	530.3	Y	12/2021	16.6	15.8	10.1	0.6	0.6	4.0%	1.6%	0.950	MP	
IJM CORP BHD	1.83	6,559.2	Y	03/2022	18.1	29.0	22.6	0.7	0.7	10.5%	11.5%	2.05	OP	
KERJAYA PROSPEK GROUP BHD	1.21	1,497.2	Y	12/2021	16.5	15.9	9.5	1.5	1.4	9.1%	2.2%	1.50	OP	
KIMLUN CORP BHD	0.795	280.9	Y	12/2021	17.7	9.8	6.1	0.4	0.4	4.1%	2.1%	1.15	OP	
MUHIBBAH ENGINEERING (M) BHD	0.895	432.7	Y	12/2021	N.A.	N.A.	17.9	0.4	0.4	-1.7%	1.1%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.62	2,088.8	Y	12/2021	25.3	36.0	16.4	3.3	3.1	8.9%	2.5%	1.52	MP	
WCT HOLDINGS BHD	0.560	793.7	Y	12/2021	N.A.	12.2	6.1	0.3	0.2	3.6%	0.0%	0.640	OP	
Simple Average					18.1	19.2	12.6	1.0	0.9	5.5%	2.6%			

Source: Bloomberg, Kenanga Research

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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.**

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Published and printed by:

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