

HLIB Research

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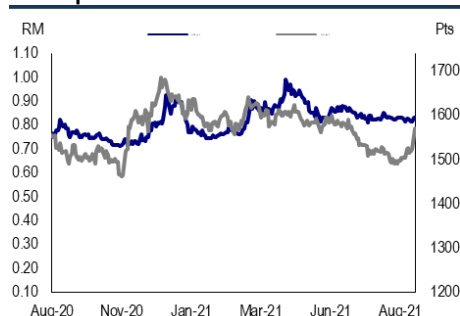
HOLD (Maintain)

Target Price: **RM0.84**
Previously: **RM0.86**
Current Price: **RM0.795**

Capital upside	5.7%
Dividend yield	2.1%
Expected total return	7.8%

Sector coverage: Construction

Company description: Kimlun is primarily involved in construction (with a niche in IBS) and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	-2.5	-7.6	4.6
Relative	-6.6	-6.3	1.2

Stock information

Bloomberg ticker	KICB MK
Bursa code	5171
Issued shares (m)	353
Market capitalisation (RM m)	281
3-mth average volume ('000)	472
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

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

Earnings summary

	FY20	FY21f	FY22f
FYE (Dec)			
PATMI - core (RM m)	15.2	27.8	40.7
EPS - core (sen)	4.5	8.2	12.0
P/E (x)	17.8	9.7	6.6

Kimlun Corporation

Another weak quarter

Kimlun's 1HFY21 core earnings of RM11.5m were below our and consensus expectations at 38%/36% of forecasts. The quarter was plagued by disruptions from Phase 1 and steep margin decline. Construction order book is dwindling at RM800m with no notable contracts secured in FY21. Company's RM500m target this year looks a tough ask. Its hospital construction license is comforting as we expect higher budget allocation going forward. Manufacturing remains steady with order book unchanged but offtake is hampered by labour crunch in Singapore. Cut FY21-23 earnings by -3% to -7%. Maintain HOLD with lower TP of RM0.84 after earnings adjustment pegging FY22 EPS to 7.0x multiple.

Below expectations. Kimlun reported 2QFY21 results with revenue of RM214.3m (2% QoQ, 128% YoY) and core PATAMI of RM2.4m (-74% QoQ, vs core loss of -RM9.8m in 2QFY20). This brings 1HFY21 core PATAMI to RM11.5m (vs core LATAMI of -RM3.2m in 1HFY20) falling below our/consensus expectations at 38%/36% of full year forecasts.

Deviations. Results shortfall is attributed to weaker-than-expected profit margins resulting from material costs pressure and low operational productivity.

Dividends. No dividends were declared. Dividends are typically declared in 4Q.

QoQ. Core PATAMI declined by -74% as its construction and manufacturing business were significantly disrupted by imposition of Phase 1 restrictions in June-21. The decline was partially mitigated by increased sales of its Bukit Bayu project resulting in flattish revenue (2%).

YoY/YTD. Kimlun returned to the black YoY and YTD on the back of higher revenue (128% YoY, 25% YTD) as all of its business segments rebounded. The rebound was aided by the low base effect given MCO1.0's impact on 2QFY20 and 1HFY20.

Construction. Kimlun's outstanding construction orderbook amounts to a dwindling RM800m lasting the next 2 years. Replenishment has been challenging in 2021 with no contract of note secured thus far. The company's replenishment target of RM500m for FY21 looks to be beyond reach, in our view. However, we do expect a pick-up in tender opportunities next year. Kimlun's CIDB certification obtained in late 2020 which enables the group's participation in hospital projects is comforting as we anticipate higher allocation from the upcoming Budget-22 and 12MP. Other opportunities for the company are RTS, PBH Sarawak (Phase 1) and affordable housing projects.

Manufacturing. Kimlun's outstanding manufacturing orderbook stands unchanged at RM300m. Offtake has suffered in tandem with slower construction activities across the causeway due to various supply chain issues. We reckon current labour supply challenges will be slow to subside as mitigation is tricky amidst the ongoing virus spread. In terms of contract opportunities, we do expect Kimlun to continue securing various project orders from Singapore and could also secure work from the upcoming RTS.

Forecast. Cut FY21/22/23 earnings by -7.0%/-3.0%/-5.7% after slashing contract win and margin assumptions.

Maintain HOLD, TP: RM0.84. Maintain HOLD with lower TP of RM0.84 (from RM0.86) after earnings adjustments, pegged to 7.0x target P/E multiple (near 5 year mean). Upside risks: speedy project rollout in My and SG; Downside risks: 1) high material prices 2) slow job rollout and 3) political fluidity.

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)
Revenue	94.0	210.3	214.3	1.9	128.0	339.3	424.6	25.1
EBIT	(6.6)	16.2	7.1	(55.9)	(207.2)	7.6	23.3	207.9
Finance cost	(4.8)	(3.6)	(3.7)	2.8	(21.4)	(9.6)	(7.4)	(22.7)
Share of JVs and associates	(0.3)	(0.1)	(0.1)	2.4	(57.2)	(0.3)	(0.3)	(12.8)
PBT	(11.7)	12.4	3.2	(73.8)	(127.7)	(2.3)	15.6	(781.9)
PAT	(9.8)	9.1	2.3	(74.2)	(124.0)	(3.2)	11.4	(460.7)
Core PATMI	(9.8)	9.1	2.4	(74.0)	(124.3)	(3.2)	11.5	(462.2)
Reported PATMI	(9.8)	9.1	2.4	(74.0)	(124.3)	(3.2)	11.5	(462.2)
Core EPS (sen)	(2.9)	2.7	0.7	(74.0)	(124.3)	(0.9)	3.4	(462.2)
EBIT margin (%)	(7.1)	7.7	3.3			2.2	5.5	
PBT margin (%)	(12.4)	5.9	1.5			(0.7)	3.7	
PATMI margin (%)	(10.4)	4.3	1.1			(0.9)	2.7	

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Cash	64.7	57.4	169.0	119.6	220.8
Receivables	901.0	875.5	718.4	770.1	618.5
Inventories	80.0	130.7	102.0	109.4	86.2
PPE	209.1	178.8	169.1	161.3	154.9
Others	311.9	263.5	263.5	263.5	263.5
Assets	1,566.6	1,505.8	1,421.9	1,423.9	1,343.9
Debits	407.0	426.1	376.1	326.1	276.1
Payables	427.2	321.2	265.1	284.5	224.1
Others	11.9	7.2	7.2	7.2	7.2
Liabilities	846.1	754.5	648.4	617.8	507.4
Shareholder's equity	720.5	725.9	748.2	780.7	811.1
Minority interest	0.1	25.4	25.4	25.4	25.4
Equity	720.5	751.3	773.6	806.1	836.5

Cash Flow Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Profit before taxation	79.7	15.5	36.6	53.5	50.0
Depreciation & amortisation	54.1	43.4	39.7	37.8	36.3
Changes in working capital	(75.5)	(128.1)	129.7	(39.8)	114.5
Taxation	(21.3)	(7.6)	(8.8)	(12.8)	(12.0)
Others	(27.4)	104.1	-	-	-
CFO	9.7	27.3	197.3	38.7	188.8
Net capex	(33.7)	(13.1)	(30.0)	(30.0)	(30.0)
Others	-	(3.9)	-	-	-
CFI	(33.7)	(17.0)	(30.0)	(30.0)	(30.0)
Changes in borrowings	133.8	19.1	(50.0)	(50.0)	(50.0)
Issuance of shares	9.8	8.7	-	-	-
Dividends paid	(10.6)	(3.4)	(5.6)	(8.1)	(7.6)
Others	-	(20.1)	-	-	-
CFF	133.0	4.2	(55.6)	(58.1)	(57.6)
Net cash flow	29.1	(7.3)	111.7	(49.4)	101.2
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	35.6	64.7	57.4	169.0	119.6
Ending cash	64.7	57.4	169.0	119.6	220.8

Income Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,302.8	794.7	874.0	937.0	752.5
EBITDA	150.9	78.0	94.0	108.6	101.1
EBIT	96.7	34.6	54.3	70.7	64.8
Finance cost	(16.7)	(18.5)	(19.7)	(17.2)	(14.8)
Associates & JV	(0.4)	(0.6)	2.0	-	-
Profit before tax	79.7	15.5	36.6	53.5	50.0
Tax	(21.3)	(7.6)	(8.8)	(12.8)	(12.0)
Net profit	58.4	7.9	27.8	40.7	38.0
Minority interest	-	(0.0)	-	-	-
PATMI (reported)	58.4	7.9	27.8	40.7	38.0
Less: Exceptionals	-	(7.2)	-	-	-
PATMI (core)	58.4	15.2	27.8	40.7	38.0

Valuation & Ratios

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Core EPS (sen)	17.2	4.5	8.2	12.0	11.2
P/E (x)	4.6	17.8	9.7	6.6	7.1
EV/EBITDA (x)	4.1	8.0	6.6	5.7	6.1
DPS (sen)	3.1	1.0	1.6	2.4	2.2
Dividend yield	3.9%	1.3%	2.1%	3.0%	2.8%
BVPS (RM)	2.1	2.1	2.2	2.3	2.4
P/B (x)	0.4	0.4	0.4	0.3	0.3
EBITDA margin	11.6%	9.8%	10.8%	11.6%	13.4%
EBIT margin	7.4%	4.4%	6.2%	7.5%	8.6%
PBT margin	6.1%	2.0%	4.2%	5.7%	6.6%
Net margin	4.5%	1.0%	3.2%	4.3%	5.1%
ROE	8.4%	1.1%	3.8%	5.3%	4.8%
ROA	3.8%	0.5%	1.9%	2.9%	2.7%
Net gearing	47.5%	49.1%	26.8%	25.6%	6.6%

Assumptions

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Contracts secured	413	464	250	500	500

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

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NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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