



KIMLUN CORP

(KICB MK EQUITY, KICB.KL)

29 Jun 2020

1QFY20 net profit plunges 59% YoY

Company report

HOLD

(Downgraded)

Joshua Ng

ng-chin-yuing@ambankgroup.com

03-2036 2293

Rationale for report: Company results

Price	RM0.73
Fair Value	RM0.76
52-week High/Low	RM1.46/RM0.51

Key Changes

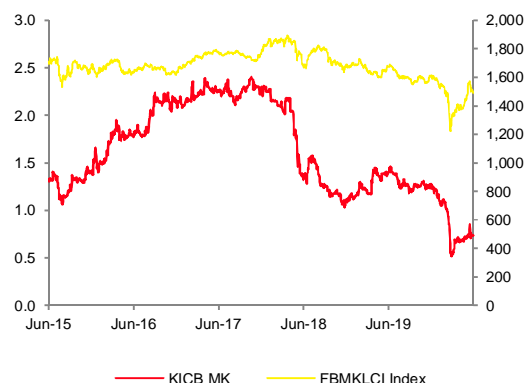
Fair value	⬇️
EPS	⬇️

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	1,302.8	935.0	920.0	925.0
Core net profit (RM mil)	58.4	24.1	33.8	34.4
FD Core EPS (sen)	16.0	7.0	9.5	9.7
FD Core EPS growth (%)	(4.4)	(56.3)	36.6	1.8
Consensus Net Profit (RM mil)	-	44.9	49.4	35.6
DPS (sen)	3.3	3.3	3.3	3.3
PE (x)	4.5	10.4	7.6	7.5
EV/EBITDA (x)	3.8	5.7	5.0	4.9
Div yield (%)	4.5	4.5	4.5	4.5
ROE (%)	8.4	3.3	4.5	4.5
Net Gearing (%)	47.5	47.0	44.5	42.2

Stock and Financial Data

Shares Outstanding (million)	320.6
Market Cap (RM mil)	232.5
Book Value (RM/share)	2.25
P/BV (x)	0.3
ROE (%)	8.4
Net Gearing (%)	47.5
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)	0.8

Price performance	3mth	6mth	12mth
Absolute (%)	29.5	(43.4)	(48.2)
Relative (%)	15.5	(39.0)	(41.7)



Investment Highlights

- We cut our FY20–22F net profit forecasts by 39%, 2% and 2% respectively, and reduce our FV by 3% to RM0.76 (from RM0.78) based on 8x revised FD FY21F EPS, in line with our benchmark forward target PE of 8x for small-cap construction stocks. Downgrade to HOLD from BUY.
- Kimlun's 1QFY20 net profit missed expectations at only 17% and 15% of our full-year forecast and the full-year consensus estimates respectively. The main culprit was the 2-week impact from the movement control order (MCO) during 1Q which turned out to be much more damaging than expected (and shall continue to wreak havoc at least until 2Q, while the export of its precast concrete products to Singapore shall also be affected by the city state's circuit breaker measures from 7 Apr to 1 June 2020). We have reflected this in our earnings downgrade.
- Kimlun's 1QFY20 net profit plunged 59% YoY as despite construction and manufacturing activities were halted from 18 Mar 2020, Kimlun had to continue incurring fixed overheads.
- Our forecasts assume construction job wins of RM450mil annually in FY20–22F, which represent a slight improvement over RM413mil achieved during a relatively drought year in FY19. So far in FY20F, the company has secured new jobs worth about RM250mil, boosting its outstanding construction order book to RM1.4bil (vs. its annual construction churn rate of RM800mil to RM1bil). Meanwhile, its precast concrete product division has an order backlog of about RM280mil that should also keep it busy over the next two years.
- Given the still elevated national debt and reduced petroleum revenues, we believe the government has very limited room for fiscal manoeuvre which means that it is unlikely to roll out new public infrastructure projects in a major way over the short term. Acknowledging that the local construction and building material sectors are bracing for a very challenging time ahead (particularly, in terms of cash flow management), Kimlun is prioritising credit risk management over growing its earnings.
- After a significant recovery in its share price from the lows in March 2020, Kimlun's valuations as a small-cap construction stock at 8–10x forward earnings are no longer at bargain levels on muted growth prospects.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY19 4Q	FY20 1Q	QoQ Chg	FY19 3M	FY20 3M	YoY Chg
Turnover	323.0	245.3	(24%)	318.6	245.3	(23%)
Construction	251.3	188.3	(25%)	241.2	188.3	(22%)
Manufacturing	67.0	55.3	(17%)	76.5	55.3	(28%)
Others	4.7	1.7	(63%)	0.8	1.7	105%
Gross profit	38.9	23.4	(40%)	34.6	23.4	(32%)
Construction	24.5	14.3	(42%)	20.1	14.3	(29%)
Manufacturing	13.3	8.6	(35%)	14.3	8.6	(40%)
Others	1.1	0.4	(59%)	0.2	0.4	163%
EBIT	32.9	14.2	(57%)	25.9	14.2	(45%)
Net inc/(exp)	(8.7)	(4.8)	(45%)	(4.5)	(4.8)	7%
Associates	(0.7)	0.0	(101%)	0.3	0.0	(97%)
Pretax profit	23.5	9.4	(60%)	21.7	9.4	(57%)
Taxation	(6.8)	(2.8)	(59%)	(5.8)	(2.8)	(51%)
Minority interest	0.0	0.0	nm	0.0	0.0	nm
Net profit	16.7	6.6	(61%)	15.9	6.6	(59%)
EPS (sen)	4.9	1.9	(61%)	4.8	1.9	(60%)
Gross construction margin	10%	8%	(2%)	8%	8%	(1%)
EBIT margin	10%	6%	(4%)	8%	6%	(2%)
Pretax margin	7%	4%	(3%)	7%	4%	(3%)
Effective tax rate	29%	30%	1%	27%	30%	3%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,012.0	1,302.8	935.0	920.0	925.0
EBITDA	133.2	150.2	101.4	113.4	113.8
Depreciation/Amortisation	(40.4)	(54.1)	(54.1)	(54.1)	(54.1)
Operating income (EBIT)	92.7	96.0	47.3	59.3	59.7
Other income & associates	0.8	0.4	-	-	-
Net interest	(11.9)	(16.7)	(17.2)	(17.0)	(16.7)
Exceptional items	-	-	-	-	-
Pretax profit	81.7	79.7	30.1	42.2	43.0
Taxation	(20.6)	(21.3)	(6.0)	(8.4)	(8.6)
Minorities/pref dividends	0.1	-	-	-	-
Net profit	61.1	58.4	24.1	33.8	34.4
Core net profit	61.1	58.4	24.1	33.8	34.4
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	229.5	203.0	178.9	154.7	130.6
Intangible assets	-	-	-	-	-
Other long-term assets	96.0	186.6	186.6	186.6	186.6
Total non-current assets	325.5	389.6	365.5	341.3	317.2
Cash & equivalent	35.6	64.7	42.3	29.6	17.6
Stock	122.2	80.0	80.0	80.0	80.0
Trade debtors	801.3	894.2	894.2	894.2	894.2
Other current assets	112.6	138.2	138.2	138.2	138.2
Total current assets	1,071.7	1,177.0	1,154.7	1,142.0	1,130.0
Trade creditors	447.5	420.8	380.8	340.8	300.8
Short-term borrowings	193.1	242.0	232.0	222.0	212.0
Other current liabilities	7.9	14.2	14.2	14.2	14.2
Total current liabilities	648.6	677.1	627.1	577.1	527.1
Long-term borrowings	80.0	165.0	155.0	145.0	135.0
Other long-term liabilities	3.8	4.0	4.0	4.0	4.0
Total long-term liabilities	83.8	169.0	159.0	149.0	139.0
Shareholders' funds	664.7	720.5	734.0	757.2	781.0
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	2.07	2.25	2.29	2.36	2.44
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	81.7	79.7	30.1	42.2	43.0
Depreciation/Amortisation	40.4	54.1	54.1	54.1	54.1
Net change in working capital	(236.9)	(105.6)	(40.0)	(40.0)	(40.0)
Others	(19.0)	(68.6)	(23.2)	(25.5)	(25.3)
Cash flow from operations	(133.8)	(40.4)	21.1	30.9	31.9
Capital expenditure	(21.8)	(13.4)	(30.0)	(30.0)	(30.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	0.6	(80.2)	-	-	-
Cash flow from investing	(21.1)	(93.6)	(30.0)	(30.0)	(30.0)
Debt raised/(repaid)	107.2	142.6	-	-	-
Equity raised/(repaid)	13.6	9.8	-	-	-
Dividends paid	(17.6)	(12.3)	(10.6)	(10.6)	(10.6)
Others	(10.1)	(34.1)	(17.2)	(17.0)	(16.7)
Cash flow from financing	93.0	106.1	(27.8)	(27.6)	(27.2)
Net cash flow	(61.9)	(28.0)	(36.7)	(26.8)	(25.3)
Net cash/(debt) b/f	76.1	10.5	32.6	30.3	37.6
Net cash/(debt) c/f	14.2	(17.5)	(4.1)	3.5	12.2
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	2.7	28.7	(28.2)	(1.6)	0.5
EBITDA growth (%)	8.0	12.7	(32.5)	11.8	0.4
Pretax margin (%)	8.1	6.1	3.2	4.6	4.7
Net profit margin (%)	6.0	4.5	2.6	3.7	3.7
Interest cover (x)	7.8	5.8	2.8	3.5	3.6
Effective tax rate (%)	25.2	26.7	20.0	20.0	20.0
Dividend payout (%)	19.4	18.1	43.9	31.3	30.7
Debtors turnover (days)	219	238	349	355	353
Stock turnover (days)	35	28	31	32	32
Creditors turnover (days)	147	122	156	143	127

Source: Company, AmInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.