HLIB Research
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Kimlun Corporation

Bouncing back

Kimlun's FY20 core earnings of RM15m were above ours and consensus expectations. Beat was driven by leaner than expected cost. Kimlun's outstanding construction orderbook now stands at RM1.1bn lasting two years. Its manufacturing orderbook stands at a decent RM300m. Increase FY21-22 earnings by 2-4% post-imputing higher replenishment assumptions and property launches. Maintain HOLD with higher TP of RM0.91 after earnings adjustment pegging FY21 EPS to 7.0x multiple (near 5 year mean).

HOLD (Maintain)

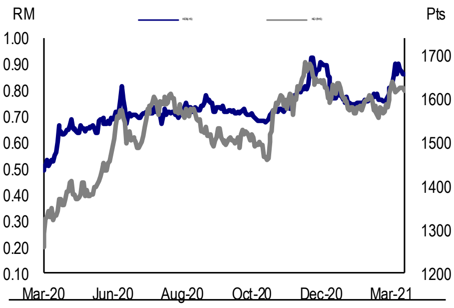
Target Price:	**RM0.91**
Previously:	**RM0.87**
Current Price:	**RM0.895**

Capital upside	1.7%
Dividend yield	2.9%
Expected total return	4.6%

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	11.0	1.8	56.4
Relative	7.7	2.6	25.9

Stock information

Bloomberg ticker	KICB MK
Bursa code	5171
Issued shares (m)	353
Market capitalisation (RM m)	304
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

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	15.2	44.0	44.2
EPS - core (sen)	4.5	12.9	13.0
P/E (x)	20.0	6.9	6.9

Beat expectations. Kimlun reported 4Q20 results with revenue of RM243.6m (15% QoQ, -25% YoY) and core earnings of RM12.0m (90% QoQ, -28% YoY). This brings FY20 performance to core earnings of RM15.2m, decreasing by -74% YoY. Results beat our and consensus expectations coming in at a 127% of our full year forecasts (consensus: 126%). Note that core earnings are adjusted for RM7.2m of impairment.

Deviations. The results beat was mainly due to leaner than expected cost structure.

Dividends. DPS of 1 sen was declared with ex. date to be determined later (FY20: 1 sen; FY19: 3.3 sen).

QoQ. Core earnings rebounded by 90% on the back higher revenue for its manufacturing segment as precast deliveries to Singapore picked up in tandem with construction activities there. Higher contribution of manufacturing also led to higher stronger margin improvement.

YoY/YTD. 4Q20 core earnings declined by -28% and -74% on a YoY and YTD respectively. YTD performance was hampered by various forms of MCO in 2020 with worst being the stop work order period reflected in 2QFY20. Kimlun's weaker performance on a YoY basis can be attributed to: (1) lower construction productivity from SOP measures and worker shortage and (2) supply of precast components for MRT2 approaching tail end.

Construction. Kimlun's outstanding construction orderbook amounts to RM1.1bn which will last the next 2 years. Works are still seeing productivity constraints due to worker shortages since June coupled with ongoing SOP demands. Kimlun has recently obtained a CIDB license allowing it to bid for hospital projects. Nonetheless, we anticipate competitive bidding given the dearth of jobs in the market. Additionally, Kimlun also expects to participate in phase 2 of PBH Sarawak (150km) leveraging on its existing presence there executing phase 1. Management is adopting a replenishment target of RM500m having achieved RM464m in 2020. We raise our orderbook replenishment assumptions for 2021 from RM400m to RM500m having been too conservative previously.

Manufacturing. Kimlun's outstanding manufacturing orderbook stands at RM300m lasting the next two years. Delivery of precast products has recovered buoyed by stronger construction activities in Singapore with Malaysian pace of works expected to rebound further post-MCO2.0. Management anticipates continuing stream of orders from Singapore's sewerage projects. Going forward, we reckon Kimlun should be able to secure materials supply contracts from the Rapid Transit System (RTS).

Forecast. Increase FY21-22 earnings by 4.2% and 2.4% after imputing higher contract replenishment and assumption of new launches.

Maintain HOLD, TP: RM0.91. Maintain HOLD with higher TP of RM0.91 (from RM0.87) after earnings adjustments, pegged to 7.0x target P/E multiple (near 5 year mean). Stock currently trades at a fair FY21-22 P/E multiple of 6.9x considering the lack of any meaningful near term catalysts.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY19	3QFY20	4QFY20	*QoQ (%)*	*YoY (%)*	FY19	FY20	*YoY (%)*
Revenue	323.0	211.8	243.6	*15.0*	*(24.6)*	1,302.8	794.7	*(39.0)*
EBIT	28.7	13.1	14.0	*7.0*	*(51.2)*	96.7	34.6	*(64.2)*
Finance cost	(4.2)	(4.1)	(4.8)	*17.2*	*15.3*	(16.7)	(18.5)	*10.7*
Share of JVs and associates	(1.0)	(0.1)	(0.2)	*90.5*	*(76.8)*	(0.4)	(0.6)	*75.1*
PBT	23.5	8.9	9.0	*1.2*	*(61.9)*	79.7	15.5	*(80.5)*
PAT	16.7	6.3	4.8	*(24.8)*	*(71.4)*	58.4	7.9	*(86.4)*
Core PATMI	16.7	6.3	12.0	*89.6*	*(28.1)*	58.5	15.2	*(74.0)*
Reported PATMI	16.7	6.3	12.0	*89.6*	*(28.1)*	58.5	15.2	*(74.0)*
Core EPS (sen)	4.9	1.9	3.5	*89.6*	*(28.1)*	17.2	4.5	*(74.0)*
EBIT margin (%)	8.9	6.2	5.7			7.4	4.4	
PBT margin (%)	7.3	4.2	3.7			6.1	2.0	
PATMI margin (%)	5.2	3.0	4.9			4.5	1.9	

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Figure #2 Financial forecast summary

FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	1,012.0	1,302.8	794.7	966.0	962.4
EBITDA	133.2	150.6	85.3	103.3	103.7
EBIT	92.7	96.5	41.8	68.4	69.5
PBT	81.7	79.5	22.8	57.9	58.1
PAT	61.1	58.1	15.2	44.0	44.2
PATMI – Core	61.1	58.1	15.2	44.0	44.2
PATMI – Reported	61.1	58.1	7.9	44.0	44.2
Core EPS (sen)	18.0	17.1	4.5	12.9	13.0
P/E (x)	5.0	5.2	20.0	6.9	6.9
EV/EBITDA (x)	4.8	4.3	7.5	6.2	6.2
DPS (sen)	3.7	3.1	1.0	2.6	2.6
Yield (%)	4.1%	3.5%	1.1%	2.9%	2.9%
BVPS (RM/share)	2.0	2.1	2.0	2.1	2.2
P/B (x)	0.5	0.4	0.5	0.4	0.4
ROE (%)	9.2%	8.4%	2.3%	6.4%	6.1%
Net Gearing (%)	36.1%	47.5%	50.0%	30.4%	23.4%

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Stock rating guide

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

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
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.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.