

KKB Engineering Berhad

(9466 | KKB MK) Main | Construction

FY19 Ended on A high

KEY INVESTMENT HIGHLIGHTS

- **KKB Engineering registered revenue of RM156m (+9.5%yoy) in 4QFY19 with cumulative FY19 quantum of RM559m (+35.5%yoy)**
- **KKB's engineering segment outperformed in 4QFY19**
- **Manufacturing sector reported +76.6%yoy growth in revenue to RM22.6m**
- **Downgrade to Neutral from BUY due to recent price rally with revised TP of RM1.90**

KKB Engineering registered revenue of RM156m (+9.5%yoy) in 4QFY19. The growth in revenue was attributable to higher revenue recognition from the Civil Construction and Steel Pipes manufacturing divisions within the Engineering and Manufacturing sector. As for FY19 revenue, the group booked RM559m, higher by +35.5% compared to RM412.5 million achieved in the previous year. KKB's 4QFY19 PATANCI came in strong at RM20.3m (+>100%yoy). As a result, FY19 earnings came in ahead of ours and consensus' expectations at 189.5% and 203.0% respectively.

KKB's engineering segment outperformed in 4QFY19 due to higher gross profit margin and progress billings from ongoing projects. We note that the contribution came from (1) on-going Pan Borneo Highway project (Phase 1 Works Package Contract-WPC-09), (2) two Construction projects secured in FY19 from Jabatan Bekalan Air Luar Bandar Sarawak and (3) all associated works from Summer Mall Junction to existing Tambirat BPS, Samarahan Division (Package 1C) implemented under the Sarawak Water Supply Grid Programme. The revenue under this sector increased by +2.9% to RM133.4m compared to RM129.7m in 4QFY18 while gross profit jumped 80.2% from RM21.2m to RM38.2m on the back of higher profit margin from the Steel Fabrication and Civil Construction divisions.

Manufacturing sector reported a growth in revenue of RM22.6m, representing a +76.6%yoy hike on the back of massive improvement in steel pipes manufacturing division under the two subsidiary companies operated in Sarawak and Sabah. It is worth noting that, the supply of Steel Pipes to Jabatan Bekalan Air Luar Bandar Sarawak for the Sarawak Water Supply Grid Program and other ad-hoc customers in Kota Kinabalu, Sabah has enabled the Group to booked a revenue of RM20.3m in 4QFY19 compared to RM9.2m in 4QFY18 under steel pipes manufacturing division.

Downgrade to Neutral (from BUY)

Revised Target Price: RM1.90 (from RM1.52)

RETURN STATISTICS

Price @ 18 th Jan 2020 (RM)	RM1.91
Expected share price return (%)	-0.52
Expected dividend yield (%)	+8.65
Expected total return (%)	+8.13

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.24	7.19
3 months	28.19	35.70
12 months	83.65	103.90


KEY STATISTICS

FBM KLCI	1537.08
Syariah compliant	Yes
Issue shares (m)	257.79
Estimated free float (%)	19.16
Market Capitalisation (RM'm)	492.38
52-wk price range	RM1.03 - RM1.96
Beta vs FBM KLCI (x)	0.99
Monthly velocity (%)	11.02
Monthly volatility (%)	20.85
3-mth average daily volume (m)	0.48
3-mth average daily value (RM'm)	0.80
Top Shareholders (%)	
Kho Kak Beng Holding Co Sdn Bhd	42.97
Cahaya Mata Sarawak Bhd	20.05
Laman Satria Sdn Bhd	5.59

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Revised earnings. We have revised our FY20 earnings higher due to (1) improvement in margin, and (2) faster progress rate of ongoing jobs. The table below summarizes our latest core net profit estimates for KKB Engineering.

We downgrade to NEUTRAL from BUY with revised target price at RM1.90. We changed our valuation method from PBV to PER basis in view of the improvement in KKB's profitability. We pegged our valuation to 17x or +1SD of 1-year historical PER of FY20 EPS, to reflect the group's growth prospect in the Engineering segment and improvement in earnings margin, thus arriving at a higher TP of RM1.90 (from RM1.52). However, due to recent price rally, we downgrade our recommendation from Buy to Neutral.

Prospects and challenges. We understand that KKB Engineering is actively participating in new business opportunities in the Major Onshore Fabrication in order to increase its revenue base and earnings. As at January, the group's order book was at RM820m and its tender book stood at RM240m. On the other hand, in light of the on-going COVID-19 outbreak, the group faced a few challenges that may impact KKB's performance namely (1) escalation of costs due to inflationary pressure, (2) volatility of global raw material steel prices, and (3) fluctuation of exchange rates are amongst factors that may impact the Group's performance. 

INVESTMENT STATISTICS

FYE December	FY16	FY17	FY18	FY19	FY20F
Revenue (RMm)	103.1	209.3	412.5	559.0	590.9
Pretax Profit (RMm)	-9.1	6.4	29.5	77.7	59.1
Profit After Tax (RMm)	-5.7	3.3	23.0	61.4	41.4
Normalized Patanci (RMm)	-5.8	1.6	17.6	48.3	29.0
PATANCI margin (%)	-5.6	0.8	4.3	8.6	4.9
EPS (sen)	-2.2	0.6	6.8	18.7	11.2
EPS Growth (%)	n.a.	n.a.	>100	174.0	97.1
PER (x)	-64.7	218.8	20.5	10.2	17.1
Net Dividend (sen)	0.0	2.0	4.0	6.0	4.0
Net Dividend Yield (%)	0.0	1.4	2.9	3.1	2.1

Source: Company, MIDFR

4QFY19 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY19	4QFY18	3QFY19	YoY (%)	QoQ (%)	12MFY19	12MFY18	YoY (%)
Revenue	156.0	142.5	165.5	9.5%	-5.7%	559.0	412.5	35.5%
Cost of sales	(114.0)	(119.8)	(134.6)	-4.8%	-15.3%	(452.7)	(359.2)	26.0%
Gross profit	42.1	22.8	30.9	84.7%	36.1%	106.3	53.3	99.5%
Other income	0.9	1.3	7.2	-34.7%	-88.2%	11.7	7.0	68.5%
Finance income	0.5	0.4	0.3	33.7%	55.1%	1.1	0.8	29.9%
Distribution costs	(0.4)	(0.3)	(0.4)	47.9%	4.4%	(1.4)	(1.0)	42.5%
Administrative expenses	(10.6)	(9.1)	(7.8)	16.8%	36.5%	(34.0)	(26.8)	27.0%
Other expenses	(2.5)	(0.7)	(0.5)	242.2%	408.3%	(4.1)	(2.1)	94.4%
Finance costs	(0.9)	(1.2)	(1.1)	-27.2%	-21.0%	(4.2)	(1.5)	177.2%
Share of results of associates	2.0	(0.0)	0.1	-8178.8%	1421.3%	2.3	(0.2)	-1145.1%
PBT	31.0	13.1	28.8	136.1%	7.6%	77.7	29.5	163.5%
Taxation	(5.8)	(2.7)	(5.4)	118.3%	7.2%	(16.3)	(6.5)	152.1%
PAT	25.2	10.5	23.4	140.7%	7.6%	61.4	23.0	166.6%
Non-controlling interests	5.0	2.9	4.1	72.8%	20.9%	13.1	5.4	143.2%
PATANCI	20.3	7.6	19.3	166.2%	4.8%	48.3	17.6	173.8%
Basic EPS (sen)	7.86	2.95	7.50	166.4%	4.8%	18.74	6.84	174.0%
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit (%)	27.0	16.0	18.7	(8.3)	2.7	19.0	12.9	6.1
PBT margin (%)	19.9	9.2	17.4	(2.5)	8.2	13.9	7.1	6.7
PAT margin (%)	16.2	7.4	14.2	(2.0)	6.8	11.0	5.6	5.4
PATANCI margin (%)	13.0	5.3	11.7	(1.3)	6.3	8.6	4.3	4.4
Tax rate (%)	18.7	20.2	18.7	0.0	(1.5)	21.0	21.9	(0.9)

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.