

# KKB Engineering Berhad

(9466 | KKB MK) Main | Construction

## Maintain Buy

### A decent start to FY20

**Adjusted Target Price: RM2.10**  
(from RM1.90)

#### KEY INVESTMENT HIGHLIGHTS

- **Earnings higher by 113.1%yoy to RM6.8m in 1QFY20**
- **Lower topline due to lower progress claims**
- **Manufacturing sector outperformed**
- **No changes to our earnings estimates**
- **Maintain BUY with adjusted target price at RM2.10 (from RM1.90) as we rollover valuation base year to FY21**

**Earnings higher by 113.1%yoy to RM6.8m in 1QFY20.** The group registered earnings of RM6.8m in 1QFY20, higher by +113.1%yoy compared to RM3.2m achieved in the same period last year. The growth in earnings was largely due to improved margin from the Engineering sector, in particular the Group's Civil Construction division. The 1QFY20 earnings were within ours and consensus' expectations at 23.5% of respective annual estimates.

**Lower topline due to lower progress claims.** Total revenue dipped by -8.2%yoy to RM108.2m in 1QFY20. The lower revenue in the current quarter was mainly due to lower progress claims from the Pan Borneo Highway project in the State of Sarawak (Phase 1 Works Package Contract –WPC-09) undertaken by its JV Company, i.e. KKBWCT Joint Venture Sdn Bhd. Nonetheless we still anticipate better topline contribution in the coming quarters on the back of an improvement in the amount of YTD job replenishment in FY20 which amounted to RM338m. Currently, KKB's outstanding order book stands at approximately RM888m.

**Manufacturing sector outperformed.** The Group's topline for the manufacturing sector improved by +165.5%yoy to RM23.1m, compared to RM8.7m registered in the same quarter last year. This improvement was driven by strong performance of the Steel Pipes manufacturing division. KKB's Steel Pipes manufacturing business - under the two subsidiary companies operated in Sarawak and Sabah, posted higher revenue of RM21.6m in 1QFY19 as compared to RM4.9m registered in 1QFY19. Its topline was boosted by the increase in off takes of Steel Pipes required under the Sarawak Water Supply Grid Programme before the MCO imposition in March 2020.

**Maintain forecasts.** We make no changes to our estimates as the quarterly earnings met our expectation.

#### RETURN STATISTICS

|  |               |
|--|---------------|
| Price @ 21 <sup>th</sup> May 2020 (RM) | RM1.89        |
| Expected share price return (%)        | +11.14        |
| Expected dividend yield (%)            | +8.89         |
| <b>Expected total return (%)</b>       | <b>+20.03</b> |

#### SHARE PRICE CHART




| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month                     | 16.0     | 10.3     |
| 3 months                    | 26.0     | -7.3     |
| 12 months                   | 44.3     | 59.3     |

#### KEY STATISTICS

|                                  |                 |
|----------------------------------|-----------------|
| FBM KLCI                         | 1,452.1         |
| Syariah compliant                | Yes             |
| Issue shares (m)                 | 257.8           |
| Estimated free float (%)         | 18.0            |
| Market Capitalisation (RM'm)     | 487.23          |
| 52-wk price range                | RM1.25 - RM2.37 |
| Beta vs FBM KLCI (x)             | 1.3             |
| Monthly velocity (%)             | 8.3             |
| Monthly volatility (%)           | 19.9            |
| 3-mth average daily volume (m)   | 1.0             |
| 3-mth average daily value (RM'm) | 1.70            |
| Top Shareholders (%)             |                 |
| Kho Kak Beng Holding Co Sdn Bhd  | 43.0            |
| Cahaya Mata Sarawak Bhd          | 20.1            |
| Laman Satria Sdn Bhd             | 5.6             |

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**Maintain BUY with adjusted target price at RM2.10 (from RM1.90).** We adjusted our TP to RM2.10 as we roll forward our valuation base year to FY21. The new target price was arrived after pegging a PE multiple of 15x to KKB's FY21EPS of 14.0sen. Moving forward, we consider the prospect of KKB as exciting to be fuelled by the potential rollout of Sarawak infrastructure packages. Having said that, we understand that the COVID-19 pandemic may cause disruptions to the global supply chain and logistics which may impact the supply of materials, equipment as well as resources of KKB's on-going projects. Maintain **BUY**. 

## INVESTMENT STATISTICS

| FYE December             | FY17  | FY18  | FY19 | FY20F | FY21F | FY22F |
|--------------------------|-------|-------|------|-------|-------|-------|
| Revenue (RMm)            | 209.3 | 412.5 | 559  | 590.9 | 607.2 | 632.9 |
| Pretax Profit (RMm)      | 6.4   | 29.5  | 77.7 | 59.1  | 62.9  | 72.3  |
| Profit After Tax (RMm)   | 3.3   | 23.0  | 61.4 | 41.4  | 47.7  | 54.5  |
| Normalized Patanci (RMm) | 1.6   | 17.6  | 48.3 | 29.0  | 36.1  | 41.1  |
| PATANCI margin (%)       | 0.8   | 4.3   | 8.6  | 4.9   | 5.9   | 6.5   |
| EPS (sen)                | 0.6   | 6.8   | 18.7 | 11.2  | 14.0  | 16.0  |
| EPS Growth (%)           | n.a.  | >100  | 174  | -39.8 | 24.5  | 13.9  |
| PER (x)                  | 218.8 | 20.5  | 10.2 | 16.8  | 13.5  | 11.8  |
| Net Dividend (sen)       | 2.0   | 4.0   | 6    | 4.0   | 2.0   | 2.0   |
| Net Dividend Yield (%)   | 1.4   | 2.9   | 3.1  | 2.1   | 1.1   | 1.1   |

Source: Company, MIDFR

## 1QFY20 RESULTS REVIEW

| FYE Dec (RM'm)                 | Quarterly results |             |             |                     |         | Cumulative results |             |                     |
|--------------------------------|-------------------|-------------|-------------|---------------------|---------|--------------------|-------------|---------------------|
|                                | 1QFY20            | 1QFY19      | 4QFY19      | YoY                 | QoQ (%) | 3MFY20             | 3MFY19      | YoY                 |
| Revenue                        | 108.2             | 117.8       | 156.0       | -8.2%               | -30.7%  | 108.2              | 117.8       | -8.2%               |
| Cost of sales                  | (88.1)            | (102.0)     | (114.0)     | -13.6%              | -22.7%  | (88.1)             | (102.0)     | -13.6%              |
| <b>Gross profit</b>            | <b>20.1</b>       | <b>15.8</b> | <b>42.1</b> | 27.0%               | -52.2%  | <b>20.1</b>        | <b>15.8</b> | 27.0%               |
| Other income                   | 0.9               | 1.9         | 0.9         | -55.1%              | 0.1%    | 0.9                | 1.9         | -55.1%              |
| Finance income                 | 0.3               | 0.2         | 0.5         | 87.5%               | -29.7%  | 0.3                | 0.2         | 87.5%               |
| Distribution costs             | (0.0)             | (0.4)       | (0.4)       | -86.5%              | -87.7%  | (0.0)              | (0.4)       | -86.5%              |
| Administrative expenses        | (7.9)             | (8.4)       | (10.6)      | -5.4%               | -25.1%  | (7.9)              | (8.4)       | -5.4%               |
| Other expenses                 | (0.6)             | (0.5)       | (2.5)       | 11.7%               | -78.0%  | (0.6)              | (0.5)       | 11.7%               |
| Finance costs                  | (0.9)             | (1.3)       | (0.9)       | -30.2%              | 2.6%    | (0.9)              | (1.3)       | -30.2%              |
| Share of results of associates | 0.5               | 0.1         | 2.0         | 891.9%              | -74.6%  | 0.5                | 0.1         | 891.9%              |
| <b>PBT</b>                     | <b>12.4</b>       | <b>7.4</b>  | <b>31.0</b> | 66.9%               | -60.2%  | <b>12.4</b>        | <b>7.4</b>  | 66.9%               |
| Taxation                       | (3.1)             | (2.3)       | (5.8)       | 34.9%               | -46.4%  | (3.1)              | (2.3)       | 34.9%               |
| <b>PAT</b>                     | <b>9.2</b>        | <b>5.1</b>  | <b>25.2</b> | 81.4%               | -63.3%  | <b>9.2</b>         | <b>5.1</b>  | 81.4%               |
| Non-controlling interests      | 2.4               | 1.9         | 5.0         | 27.8%               | -51.0%  | 2.4                | 1.9         | 27.8%               |
| <b>PATANCI</b>                 | <b>6.8</b>        | <b>3.2</b>  | <b>20.3</b> | 113.1%              | -66.3%  | <b>6.8</b>         | <b>3.2</b>  | 113.1%              |
| Basic EPS (sen)                | 2.65              | 1.23        | 7.86        | 115.4%              | -66.3%  | 2.65               | 1.23        | 115.4%              |
|                                |                   |             |             | <i>+ / (-) ppts</i> |         |                    |             | <i>+ / (-) ppts</i> |
| Gross profit (%)               | 18.6              | 13.4        | 27.0        | 8.4                 | 13.5    | 18.6               | 13.4        | 5.1                 |
| PBT margin (%)                 | 11.4              | 6.3         | 19.9        | 8.5                 | 13.6    | 11.4               | 6.3         | 5.1                 |
| PAT margin (%)                 | 8.5               | 4.3         | 16.2        | 7.6                 | 11.8    | 8.5                | 4.3         | 4.2                 |
| PATANCI margin (%)             | 6.3               | 2.7         | 13.0        | 6.7                 | 10.3    | 6.3                | 2.7         | 3.6                 |
| Tax rate (%)                   | 25.1              | 31.1        | 18.7        | (6.4)               | (12.4)  | 25.1               | 31.1        | (6.0)               |

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

|                     |  |
|---------------------|--|
| <b>BUY</b>          | Total return is expected to be >10% over the next 12 months.   |
| <b>TRADING BUY</b>  | 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.  |
| <b>NEUTRAL</b>      | Total return is expected to be between -10% and +10% over the next 12 months.  |
| <b>SELL</b>         | Total return is expected to be <10% over the next 12 months.   |
| <b>TRADING SELL</b> | 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

|                 |  |
|-----------------|--|
| <b>POSITIVE</b> | The sector is expected to outperform the overall market over the next 12 months.   |
| <b>NEUTRAL</b>  | The sector is to perform in line with the overall market over the next 12 months.  |
| <b>NEGATIVE</b> | The sector is expected to underperform the overall market over the next 12 months. |