

# KKB Engineering Berhad

(9466 | KKB MK) Main | Construction

## Maintain Buy

### New water supply job in Sarawak

**Unchanged Target Price: RM1.90**

#### KEY INVESTMENT HIGHLIGHTS

- **Bags RM53m water supply job in Kuching, Sarawak**
- **Duration of contract is 16 months**
- **Current outstanding order book approximately RM888m**
- **Job wins YTD totaled RM338m**
- **No changes to our earnings estimates**
- **Maintain BUY with unchanged TP of RM1.90**

**Bags RM53m water supply job in Kuching, Sarawak.** KKB Engineering Berhad has received RM53m contract award by Kuching Water Board (KWB) for the Proposed Construction, Completion and Commissioning of Water Supply from Jalan Batu Kawa/Matang to and fro Matang Mid-Level Reservoir for Sarawak Water Supply Grid Program.

**Duration of contract.** The contract period for the water supply job is sixteen months, commencing from May FY20 and subject to the final approval by the state government.

**Current outstanding order book approximately RM888m.** The Group's order book stood at RM835m as of April FY20. In recognition of this new contract worth RM53m, we arrived to a sum worth RM888m for KKB's outstanding order book. Moreover, it is worth noting that the new water supply job contract will strengthen its water-related infrastructure construction segment.

**Job wins this year.** Year-to-date, KKB has been awarded four contracts (based on Bursa's announcement) worth RM338m, i.e. the contracts from Petronas Carigali Sdn Bhd, PTTEP Sarawak Oil Limited, Sarawak Energy Berhad and Kuching Water Board.

**Earnings estimates.** The new water supply job contract is expected to contribute positively to the earnings and net assets of KKB for the duration of the contract. However, we make no changes to our earnings estimates as the value of the new job secured is within our contract replenishment assumptions.

**Maintain BUY with unchanged target price of RM1.90.** Moving forward, we consider the prospect of KKB business to be exciting, fuelled by the potential roll out of Sarawak infrastructure packages. Downside risks include supply chain disruptions due to the current CMCO implementation. 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 thus a **TP of RM1.90**. 

#### RETURN STATISTICS

Price @ 4 <sup>th</sup> May 2020 (RM)	RM1.62
Expected share price return (%)	+17.28
Expected dividend yield (%)	+10.20
<b>Expected total return (%)</b>	<b>+27.48</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	9.5	5.8
3 months	8.0	-3.3
12 months	17.4	39.6

#### KEY STATISTICS

FBM KLCI	1,376.59
Syariah compliant	Yes
Issue shares (m)	257.79
Estimated free float (%)	19.17
Market Capitalisation (RM'm)	417.62
52-wk price range	RM1.23 - RM2.37
Beta vs FBM KLCI (x)	1.35
Monthly velocity (%)	11.02
Monthly volatility (%)	20.85
3-mth average daily volume (m)	0.91
3-mth average daily value (RM'm)	1.65
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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## INVESTMENT STATISTICS

FYE December	FY17	FY18	FY19	FY20F	FY21F
Revenue (RMm)	209.3	412.5	559.0	590.9	607.2
Pretax Profit (RMm)	6.4	29.5	77.7	59.1	62.9
Profit After Tax (RMm)	3.3	23.0	61.4	41.4	47.7
Normalized Patanci (RMm)	1.6	17.6	48.3	29.0	36.1
PATANCI margin (%)	0.8	4.3	8.6	4.9	5.9
EPS (sen)	0.6	6.8	18.7	11.2	14.0
EPS Growth (%)	n.a.	>100	174.0	-40.0	24.3
PER (x)	218.8	20.5	10.2	15.1	12.2
Net Dividend (sen)	2.0	4.0	6.0	4.0	2.0
Net Dividend Yield (%)	1.4	2.4	3.1	2.4	1.2

Source: Company, MIDFR

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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.