

KKB Engineering Berhad

(9466 | KKB MK) Main | Construction

Upgrade to Buy
(from Neutral)

Unchanged Target Price: RM1.90

Secured a RM15m tender from Sarawak Energy Berhad

KEY INVESTMENT HIGHLIGHTS

- Received a LOA for Annual Supply and Delivery of Steel Poles
- KKB's contract replenishment YTD stands at RM285m
- Duration of the contract is approximately 1 year
- No changes to our earnings estimates
- Upgrade to BUY from NEUTRAL due to recent price weakness with unchanged TP of RM1.90

Based on Bursa Announcement dated 20th April 2020, KKB has received a Letter of Award (LOA) for Annual Supply and Delivery of Steel Poles from Sarawak Energy Berhad. The contract carries a value worth RM15m. This is the third contract clinched by KKB this year - after the two contracts from Petronas Carigali Sdn Bhd and PTTEP Sarawak Oil Limited earlier this year amounted to RM270m.

KKB's contract replenishment year-to-date (TYD) stands at RM285m. This is an improvement from 2019 as KKB's YTD replenishment amounted to only RM110.8m until mid-April last year. Moreover, we note that the Group's order and tender books stood at RM820m and RM240m respectively as of end of February this year. The new RM15m contract award expands its order book to RM835m.

Duration of contract. The contract duration for the supply and delivery of steel poles is approximately 1 year.

Downside risk. Among the risks that can affect the contract are (1) Covid-19's Movement Control Order, (2) availability of skilled manpower and materials, and (3) change in pricing, weather conditions and/or political, economic and regulatory conditions.

Earnings estimates. The contract is expected to contribute positively to the earnings and net assets of the KKB in FY20. However, we make no changes to our earnings estimates as the value of the new job secured is within our contract replenishment assumptions.

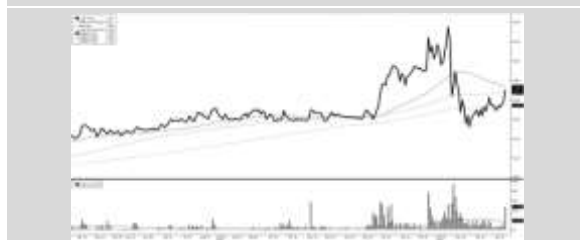
Upgrade to BUY from NEUTRAL with unchanged target price at RM1.90. We pegged our valuation to 17x, or +1SD of 1-year historical PER of FY20 EPS, to reflect the group's growth prospect in the Engineering segment thus a **TP** of **RM1.90**. We upgrade our recommendation from NEUTRAL to **BUY** due to recent price weakness.



RETURN STATISTICS

Price @ 20 th April 2020 (RM)	RM1.70
Expected share price return (%)	+11.76
Expected dividend yield (%)	+8.86
Expected total return (%)	+20.62

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	18.1	8.9
3 months	13.3	0.6
12 months	31.8	51.3

KEY STATISTICS

FBM KLCI	1413.12
Syariah compliant	Yes
Issue shares (m)	257.792
Estimated free float (%)	19.17259
Market Capitalisation (RM'm)	438.2464
52-wk price range	RM1.23 - RM2.37
Beta vs FBM KLCI (x)	1.418271
Monthly velocity (%)	11.02314046
Monthly volatility (%)	20.84637202
3-mth average daily volume (m)	0.9190877
3-mth average daily value (RM'm)	1.687838
Top Shareholders (%)	
Kho Kak Beng Holding Co Sdn Bhd	42.97
Cahaya Mata Sarawak Bhd	20.05
Laman Satria Sdn Bhd	5.59

Kifni Kamaruddin
Head, Strategy
smkifni@midf.com.my
03 -2173 8383

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

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.