KKB Engineering

(9466 | KKB MK) Main | Industrial Products & Services

Downgrade to NEUTRAL

Small wins for FY23

Unchanged Target Price: RM1.50

KEY INVESTMENT HIGHLIGHTS

- **Two new wins secured for FY23, with a total contract value of RM17m**
- **This involves a sub-contract for structural steel works for a glove factory at SMITH, Sarawak and a purchase order of gas cylinders and compact valves by MyGaz**
- **This would contribute RM1m of earnings over the next 10 months, estimating a conservative margin of 6%**
- **Maintain earnings estimates and target price of RM1.50**
- **Downgrade to NEUTRAL from BUY, as the positives have already been priced in**

One new job, one new order. KKB Engineering has secured two new wins, a sub-contract job for a glove factory and an order to supply gas cylinders and compact valves. Both contracts are worth about RM17m in total.

Job details. The sub-contract requires KKB to supply, fabricate, paint and install structural steel works for the proposed glove factory at the PetChem Industrial Park in Tanjung Kidurong, Bintulu, also known as the Sarawak Medical Innovation and Technology Hub (SMITH), part of the state's aspirations to build a revolutionary healthcare hub. The second win is a purchase order from MyGaz Sdn Bhd for C14 RQ cylinders and C14 compact valve manufactured by KKB.

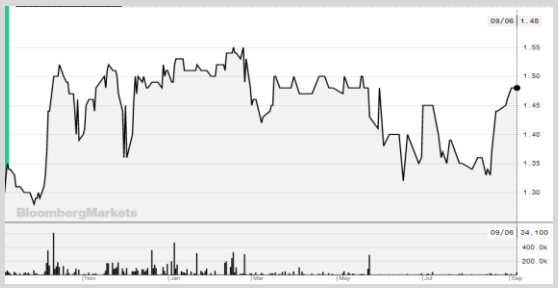
Small win up to 2QFY23. Both the sub-contract and purchase order are expected to be completed by 2QFY23. Pencilling in a conservative margin of 6%, this would contribute about RM1m in earnings to KKB over the next 10 months.

2QFY22 earnings flashback. Recall that KKB posted a core net profit of RM1.6m for the second quarter ended June 30, which declined -34.7%yoy even as its revenue saw a +35.4%yoy jump to RM109.7m. This was attributable to weaker margins during the quarter as the group incurred higher Covid-related costs from its offshore steel fabrication jobs where strict measures had to be complied with, such as quarantine and frequent testing. Higher costs were also incurred due to the hiring of vessels for the jobs due to the unfavourable weather during the quarter. We maintain our earnings forecast as management is confident of recovering the additional costs from their clients by way of variation order in the coming quarters.

Target price. We are maintaining our TP of **RM1.50** by pegging its FY23F core EPS of 9.7 sen to our target PER of 15.5x, which is +0.25 SD above the Group's 4-year mean PER. We believe is justified in view of the Group's normalising earnings after rebounding from its net loss in FY16 and the improved prospects of it securing more infrastructure and oil and gas related jobs in Sarawak.

RETURN STATISTICS	
Price @ 6th Sept 2022 (RM)	**1.48**
Expected share price return (%)	**+1.35**
Expected dividend yield (%)	**+3.33**
Expected total return (%)	**+4.68**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.5	4.9
3 months	2.9	4.3
12 months	7.7	13.9

KEY STATISTICS	
FBM KLCI	1488.27
Syariah compliant	Yes
F4BGM Index	N.A.
ESG Grading Band (Star Rating)	☆
Issue shares (m)	288.73
Estimated free float (%)	15.28
Market Capitalisation (RM'm)	404.22
52-wk price range	RM1.28 - RM1.58
Beta vs FBM KLCI (x)	0.68
Monthly velocity (%)	0.00
Monthly volatility (%)	20.85
3-mth average daily volume (m)	0.00
3-mth average daily value (RM'm)	0.01
Top Shareholders (%)	
Kho Kak Beng Holding Co Sdn Bhd	38.85
Cahya Mata Sarawak Bhd	17.90
Sarawak Economic Development Corp	10.71

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Positives priced in. We remain optimistic on KKB's prospects, but we are downgrading our call to **NEUTRAL** (from BUY), as we believe the positives have been priced in as evident by the recent run-up in its share price. The counter has been observing a steady ascension in its share price after releasing its 2QFY22 results on Aug 18. It has risen 15sen or 11.3% since then to RM1.48 at yesterday's close, in only 12 trading days. Opportunities in securing new jobs remains aplenty in Sarawak with the state government projecting a capital injection of about RM100b by 2030. We expect job flows in the nearer term to come from retendering of delayed or abandoned projects as the administration focuses on fixing sick projects, on top of rolling out new infrastructure works. Management is also optimistic on being awarded that numerous tenders it is currently pursuing will be awarded next year. The state-owned Sarawak Economic Development Corporation (SEDC) holds 10.7% in KKB through a private placement in Dec-21 and KKB aims to leverage on this and make use of the competitive strength of both KKB and SEDC to expand and tap into the vast business opportunities in Sarawak.

INVESTMENT STATISTICS

FYE 31st Dec (All in RM'm unless stated otherwise)	**2020A**	**2021A**	**2022F**	**2023F**	**2024F**
Revenue	407.9	391.6	414.5	437.2	430.4
Gross profit	67.4	71.6	69.2	77.1	74.4
Operating profit	35.0	38.0	38.5	44.0	40.5
Share of results of associates	1.7	1.1	1.1	1.0	1.0
Profit before tax	35.5	34.0	39.8	44.7	40.1
Income tax expense	(13.7)	(5.2)	(9.5)	(10.8)	(10.2)
Profit for the period	21.8	28.9	30.3	33.9	29.9
Basic EPS	6.9	10.1	10.5	11.7	10.4
Dividend per share (sen)	4.0	5.0	5.0	5.0	5.0
Core net profit	17.5	25.9	24.8	28.0	25.0
Core EPS	6.8	9.0	8.6	9.7	8.7

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology