KKB Engineering Berhad

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

***Maintain* BUY**

Sailing into FY23

***Unchanged* Target Price: RM1.50**

KEY INVESTMENT HIGHLIGHTS

- **FY22 core net profit down -46.6% to RM13.8m, due to weaker performance in earlier quarters**
- **PAT from engineering segment down -28.4% to RM19.5m due to lower progress claims**
- **Eroded margins due to higher raw material prices and Covid-19 related costs**
- **Manufacturing segment recorded losses of -RM1.1m but improvement seen in 4QFY22**
- **Maintain BUY with an unchanged target price of RM1.50**

Below expectations. KKB Engineering's 4QFY22 core net profit rose +52.9%yoy to RM7.0m, despite having a weaker revenue of RM81.7m, which was a -26.9%yoy reduction. For the cumulative 12-month period of FY22, the group's core net profit declined -46.6% to RM13.8m due to the weaker performance in earlier quarters. The results were below expectations, making up 79.8% of our full year estimate. It was however, in line with consensus', exceeding estimates by only +4.9%.

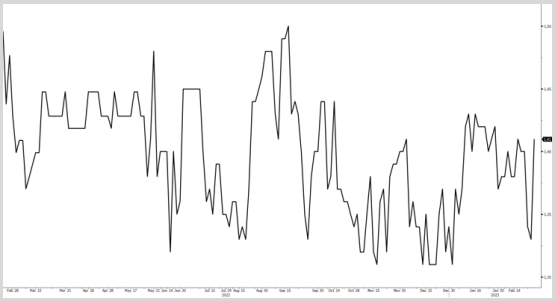
Engineering segment. PAT from the group's engineering segment declined -28.4% in FY22 to RM19.5m, on the back of a lower revenue by -1.9% to RM373.7m. This can be attributable to lower progress claims as most construction projects were nearing completion stage, such as the package of the Pan Borneo Highway it is working on. The performance of the steel fabrication was also weaker due to higher cost of raw materials and Covid-19 testing and quarantine cost for its offshore oil and gas projects. Margins for the segment were at single digits for the first three quarters while 4QFY22 improved to 12.6%.

Manufacturing segment. KKB's manufacturing segment slipped into a loss after tax of -RM1.1m as revenue almost halved to RM13.2m. These were largely due to the losses incurred in the first three quarters as the 4QFY22 performance showed that the segment rebounded into the black with a PAT of RM0.7m on the back of an increase in activities with the new contracts to supply LP gas cylinders.

Brighter prospects in FY23 onwards. KKB has an outstanding order book of about RM600m that gives them earnings visibility up to FY24, Management has been actively tendering for new jobs and it is optimistic on its prospects. In Oct-22, KKB's subsidiary OceanMight Sdn Bhd was named by Sarawak Shell Bhd and Sabah Shell Petroleum Co Ltd as the primary contractor for the price agreement for engineering, procurement and construction (EPC) of standard wellhead platforms, effective until Oct-27. This adds another feather to its hat, on top of it being one of Petronas' licensed yards in Malaysia. This gives OceanMight the credibility to bid for more oil and gas related jobs, especially those from Petronas and those involving the EPC of standard wellhead platforms for Shell.

RETURN STATISTICS	
Price @ 23rd Feb 2023 (RM)	**1.41**
Expected share price return (%)	**+6.38**
Expected dividend yield (%)	**+4.00**
Expected total return (%)	**+10.38**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.7	2.2
3 months	5.2	5.8
12 months	-9.0	-1.0

KEY STATISTICS	
FBM KLCI	1,457.65
Syariah compliant	Yes
F4BGM Index	N.A.
ESG Grading Band (Star Rating)	☆
Issue shares (m)	288.73
Estimated free float (%)	15.23
Market Capitalisation (RM'm)	407.11
52-wk price range	RM1.28 - RM1.55
Beta vs FBM KLCI (x)	0.50
3-mth average daily volume (m)	0.01
3-mth average daily value (RM'm)	0.01
Top Shareholders (%)	
Kho Kak Beng Holding Co Sdn Bhd	38.91
Cahya Mata Sarawak Bhd	17.90
Sarawak Economic Development Corp	10.71

Analyst
Royce Tan Seng Hooi
royce.tan@midf.com.my
03-2173 8461

Earnings estimates. We are maintaining our FY23F expectations despite an overall weaker FY22 performance as margins have started to improve in 4QFY22.

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.

Maintain BUY. We remain optimistic on KKB's prospects moving forward as its margins are showing signs of improvement. The recognition of its oil and gas arm also improves its profile to be able to secure more oil and gas related construction and steel fabrication jobs. The group is also backed by a strong balance sheet which is in a net cash position of RM221.2m. We also like that KKB remains committed in issuing dividends, declaring 6 sen per share for FY22. This translates to a yield of 4.3% and a payout ratio of 93.8%.

INVESTMENT STATISTICS

FYE 31st Dec (All in RM'm unless stated otherwise)	**2020A**	**2021A**	**2022F**	**2023F**	**2024F**
Revenue	407.9	391.6	386.8	437.2	430.4
Gross profit	67.4	71.6	57.8	77.1	74.4
Operating profit	35.0	38.0	24.4	44.0	40.5
Share of results of associates	1.7	1.1	1.5	1.0	1.0
Profit before tax	35.5	34.0	25.1	44.7	40.1
Income tax expense	(13.7)	(5.2)	(6.6)	(10.8)	(10.2)
Profit for the period	21.8	28.9	18.5	33.9	29.9
Basic EPS (sen)	6.9	10.1	6.4	11.7	10.4
Dividend per share (sen)	4.0	5.0	6.0	6.0	6.0
Core net profit	17.5	25.9	13.8	28.0	25.0
Core EPS	6.8	9.0	4.8	4.0	4.0

Source: Company, MIDFR

KKB Engineering: 4QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q422**	**Q322**	**Q421**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Revenue	81.7	102.0	111.8	**-20%**	**-27%**	386.8	391.6	**-1%**
Gross profit	22.4	13.5	14.1	**66%**	**59%**	57.8	71.6	**-19%**
Administrative expenses	-8.2	-7.8	-7.2	**5%**	**15%**	-32.9	-32.9	**0%**
Finance costs	-0.2	-0.1	-0.6	**78%**	**-62%**	-0.4	-3.2	**-87%**
Other expenses	-1.8	-2.5	-4.6	**-29%**	**-61%**	-5.5	-6.8	**-18%**
Other income	1.9	1.0	0.9	**95%**	**>+100%**	4.7	4.3	**11%**
Share of results of associates	0.8	0.4	0.1	**>+100%**	**>+100%**	1.5	1.1	**31%**
Profit before tax	14.6	4.5	2.7	**>+100%**	**>+100%**	25.1	34.0	**-26%**
Tax expense	-4.2	-0.9	1.0	**>+100%**	**>+100%**	-6.6	-5.2	**28%**
Core net profit	7.0	3.0	4.6	**>+100%**	**53%**	13.8	25.9	**-47%**

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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