KKB Engineering Berhad

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

Maintain BUY

Improving Margins

***Revised* Target Price: RM1.58**
(previously RM1.50)

KEY INVESTMENT HIGHLIGHTS

- **Core net profit recorded at RM3.07m for 1QFY23, an improvement of +39.8%yoy**
- **PAT from the engineering segment rose +95.0%yoy to RM6.3m**
- **Slight improvement in manufacturing activities with a +34.7%yoyo higher revenue to RM1.8m, though the segment is still in the red**
- **Prospects remain bright from development plans for Sarawak**
- **Maintain BUY with a revised TP of RM1.58**

Below expectations. KKB Engineering Berhad (KKB) recorded a core net profit of RM3.07m for 1Q23. Although this was a +39.8%yoy increase, it was below expectations, making up only 11.7% and 10.8% of house and street's estimates respectively. The stronger bottom line is attributable to the improved margins over the same quarter last year, and lifted further by in terms of other income and the share of associate's profit.

Engineering segment. PAT from the segment rose +95.0%yoy to RM6.3m despite a -36.2%yoy reduction in revenue to RM58.7m, split into RM33.7m from construction, RM24.4m from steel fabrication and RM0.5m from hot dip galvanising. Construction revenue mainly came from the Pan Borneo package it is working on and from water-related construction jobs. Revenue from steel fabrication was mainly from the newly commenced project for Sarawak Shell Berhad and other ongoing projects. PAT margin from the segment saw an improvement from 3.5% to 10.8%.

Manufacturing segment. There was a slight improvement in manufacturing activities with a +34.7%yoy higher revenue to RM1.8m, though the segment is still in the red, with a loss after tax of -RM0.8m, moderating from -RM1.2m a year ago. The bulk of the segment's revenue came from LP gas cylinders manufacturing. fManagement expected the sector to continue to be weighed down in the absence of new major contracts for mild steel pipes supply.

Strong order book. The group's outstanding construction order book stands at about RM710m, with earnings visibility up to FY24. KKB has won two new projects so far this year. Opportunities lie ahead for more jobs in Sarawak in line with the increasing number of development plans for the state.

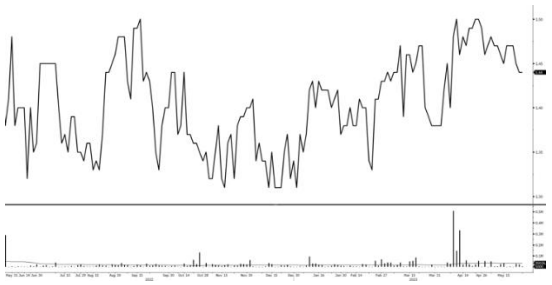
Earnings estimates. We are slashing our FY23E top and bottom line estimates by -11.2% and -9.8% respectively to RM388.4m and RM25.2m.

Target price. We are revising our **TP** to **RM1.58** as we rollover our valuation base year to FY24. The new TP is derived from the group's FY24F EPS of 9.32 sen pegged to a PER of 17x, based on its five-year historical mean.

Maintain BUY. We remain sanguine on KKB's prospects and its improving profit margins. We expect the group to be able to benefit from the development plans that lie ahead for Sarawak as lined out in Budget

RETURN STATISTICS	
Price @ 24th May 2023 (RM)	1.44
Expected share price return (%)	+9.72
Expected dividend yield (%)	+3.80
Expected total return (%)	**+13.52**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.0	-2.9
3 months	4.3	5.5
12 months	0.7	9.7

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	388.4	430.4	451.9
Operating Profit	39.1	40.5	42.5
Profit Before Tax	39.7	40.1	42.1
Core net profit	25.2	26.9	27.1
Core EPS (sen)	8.7	9.3	9.4
DPS (sen)	6.0	6.0	6.0
Dividend Yield	3.8%	3.8%	3.8%

KEY STATISTICS	
FBM KLCI	1,409.62
Issue shares (m)	288.73
Estimated free float (%)	15.20
Market Capitalisation (RM'm)	415.77
52-wk price range	RM1.28-RM1.51
3-mth average daily volume (m)	0.03
3-mth average daily value (RM'm)	0.05
Top Shareholders (%)	
Kho Kak Beng Holding Co Sdn	38.92
Cahva Mata Sarawak Bhd	17.90
Sarawak Economic Development	10.71

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2023 and also from the estimated RM100b of capital injection into the state by 2030. We are also optimistic that the group will be able to make headway in the oil and gas sector through its subsidiary OceanMight Sdn Bhd in major onshore fabrications. OceanMight is one of the few Petronas-licensed yards in the country. All factors considered, we maintain our **BUY** recommendation on KKB.

KKB ENGINEERING: 1Q23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
Income Statement	**Q123**	**Q422**	**Q122**	**QoQ**	**YoY**
Revenue	60.5	81.7	93.4	**-26.0%**	**-35.2%**
Gross profit	12.5	22.4	11.3	**-44.4%**	**10.6%**
Administrative expenses	-9.2	-8.2	-8.5	**12.0%**	**7.8%**
Finance costs	-0.3	-0.2	0.0	**20.1%**	**>+100%**
Other expenses	-0.5	-1.8	-0.6	**-72.5%**	**-15.0%**
Other income	3.1	1.9	1.0	**63.8%**	**>+100%**
Share of results of associates	0.3	0.8	0.0	**-55.4%**	**>+100%**
Profit before tax	5.6	14.6	3.2	**-61.9%**	**76.7%**
Tax expense	-1.0	-4.2	-1.1	**-77.3%**	**-13.1%**
Core net profit	3.1	7.0	2.2	**-56.2%**	**39.8%**

FINANCIAL SUMMARY

Income Statement (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Revenue	391.6	386.8	388.4	430.4	451.9
Gross profit	71.6	57.8	68.5	74.4	78.1
Operating profit	38.0	24.4	39.1	40.5	42.5
Profit before tax	34.0	25.1	39.7	40.1	42.1
Net profit	28.9	18.5	25.2	26.9	27.1
Core net profit	25.9	13.8	25.2	26.9	27.1
Core EPS (sen)	9.0	4.8	8.7	9.3	9.4
DPS (sen)	5.0	5.5	6.0	6.0	6.0

Balance Sheet (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Fixed assets	148.1	135.0	150.8	143.2	140.4
Other investments and assets	9.6	13.0	14.7	15.0	15.0
Non-current assets	**157.7**	**147.3**	**165.5**	**158.2**	**155.4**
Cash	34.7	16.1	54.3	70.0	75.0
Trade debtors	70.0	83.8	97.2	103.0	90.0
Current assets	**360.8**	**403.5**	**386.6**	**410.5**	**400.3**
Trade creditors	71.8	100.3	70.0	105.0	74.2
Short-term debt	0.1	0.0	0.2	0.2	0.2
Current liabilities	**72.8**	**100.6**	**118.2**	**107.4**	**42.6**
Long-term debt	-	-	-	-	-
Non-current liabilities	**5.8**	**7.4**	**5.5**	**6.0**	**6.0**
Share capital	175.3	175.3	180.2	180.2	180.2
Retained earnings	225.8	223.1	248.3	275.2	276.6
Equity	**439.8**	**442.8**	**428.4**	**455.3**	**507.1**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	34.1	25.1	39.7	40.1	42.1
Depreciation & amortisation	11.2	10.7	13.8	14.0	14.0
Changes in working capital	**-17.3**	-13.8	-14.9	14.0	14.0
Operating cash flow	**28.0**	**42.0**	**38.6**	**40.1**	**42.1**
Capital expenditure	-0.7	-10.0	-1.5	-2.0	-2.0
Investing cash flow	**-65.6**	**-44.9**	**-21.5**	**-22.0**	**-22.0**
Dividends paid	-11.7	-15.4	-15.4	-15.4	-15.4
Financing cash flow	**33.6**	**-15.6**	**-15.9**	**-15.8**	**-15.8**
Net cash flow	**-3.9**	**-18.5**	**1.2**	**2.2**	**4.2**
Beginning cash flow	**38.3**	**34.4**	**15.8**	**17.0**	**19.2**
Ending cash flow	**34.4**	**15.8**	**17.0**	**19.2**	**23.4**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	9.7%	6.3%	10.1%	9.4%	9.4%
PBT margin	8.7%	6.5%	10.2%	9.3%	9.3%
PAT margin	7.4%	4.8%	7.8%	6.9%	6.9%
Core PAT margin	4.3%	3.6%	6.5%	6.3%	6.0%

Source: Bloomberg, 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