

21 December 2018 | Corporate Update

KKB Engineering Berhad

Award of contract for the piping segment

Maintain BUY

Unchanged Target Price (TP): RM1.13

INVESTMENT HIGHLIGHTS

- **Award of contract to KKB for the supply and delivery of Concrete-Lined Mild Steel Pipes and Mechanical Couplings**
- **Outstanding order book currently stood at RM0.9b, giving 4x revenue cover**
- **The group's prospect is heavily centred on the pending implementation of Sarawak Water Grid plan**
- **Maintain BUY with unchanged TP of RM1.13**

Award of contract. Harum Bidang, a 90% owned subsidiary of KKB, has secured a supplemental contract from CMS Infra Trading (a unit of Cahya Mata Sarawak Berhad) with an estimated value of RM46.7m. The job scope is for the supply and delivery of Concrete-Lined Mild Steel Pipes and Mechanical Couplings to JKR Central Unallocated Store at Tanah Puteh, Kuching. The work order will be procured on "As and When Required Basis" with an expiry date on 31 August 2020.

Outstanding order book at RM0.9b. We estimate that KKB's outstanding order book is currently at RM0.9b, providing 4x earnings visibility to FY17 earnings. Accordingly, the new addition of supplementary contract will strengthen its piping segment, which has been a key component to its business.

Financial results have been on positive trend. KKB has shown improvement in earnings results supported by its Pan Borneo Highway "PBH" and Wellhead Platform projects. In 3QFY18, we recall that PBH captured the largest share of revenue contribution at 88.9%. Accordingly, management expects the momentum to continue uninterrupted, which signals a positive trend in progress billings.

On Sarawak Water Grid plan. Moving forward, the group's prospect is heavily centred on the pending implementation of Sarawak Water Grid plan, which will likely take its course soon. We recall that a sum of RM2.8b was allocated to fund a total of 247 water and water-related projects for implementation in the next two years.

No change to estimates. At this juncture, we make no changes to our estimates as the new contract value falls within our replenishment assumption. To date, the group has managed to clinch approximately RM285.4mil of new projects.

Maintain BUY. We maintain our **BUY** recommendation with an unchanged **TP of RM1.13** as we think the risk-reward return embedded in KKB's prospect is attractive. In the near term, KKB is expected to enter into open tenders worth approximately RM350m. The total sum is primarily a combination of Oil & Gas, water projects, and pipe supplies.

RETURN STATS	
Price (20 December 2018)	RM0.87
Target Price	RM1.13
Expected Share Price Return	+29.8%
Expected Dividend Yield	+2.3%
Expected Total Return	+32.1%

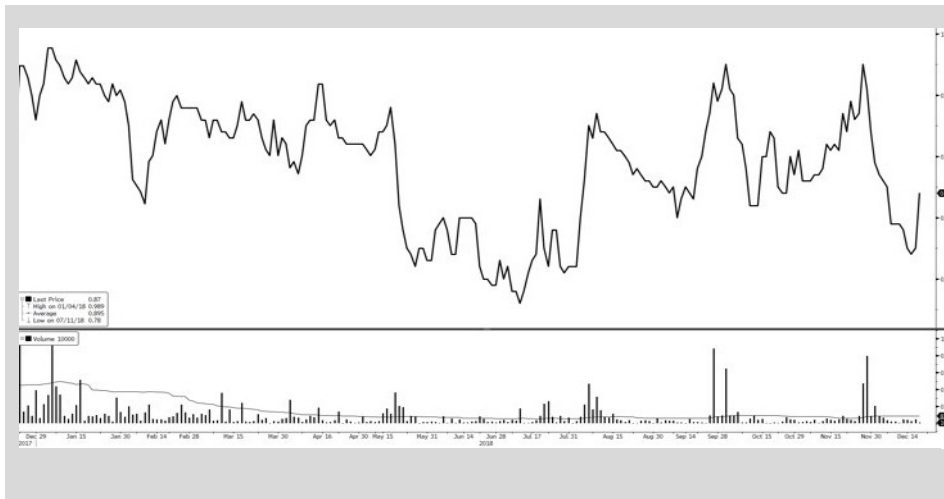
STOCK INFO	
KLCI	1,650.56
Bursa / Bloomberg	9466 / KKB MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	257.8
Market cap. (RMm)	224.3
Price over NA	0.66x
52-wk price Range	RM0.78–RM1.05
Beta (against KLCI)	1.04
3-mth Avg Daily Vol	0.08m
3-mth Avg Daily Value	RM0.07m
Major Shareholders (%)	
Kho Kak Beng Holding	42.93
Cahaya Mata Sarawak B	20.05
Laman Satria Sdn Bhd	5.59

INVESTMENT STATISTICS

FYE Dec	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue (RMm)	127.9	103.1	209.3	350.2	224.2
Pretax Profit (RMm)	37.6	(9.1)	6.4	17.5	10.0
Profit After Tax (RMm)	29.1	(5.7)	3.3	15.8	5.5
Profit After Tax and Non-controlling Interests (RMm)	26.0	(5.8)	1.6	14.0	3.0
PATANCI margin (%)	20.4	(5.6)	0.8	4.0	1.4
EPS (sen)	10.1	(2.2)	0.6	1.6	1.2
EPS Growth (%)	24.1	n.a.	n.a.	142.4	12.8
PER (x)	8.6	(38.8)	135.9	56.1	73.8
Net Dividend (sen)	4.0	0.0	2.0	2.0	2.0
Dividend yield (%)	4.6	0.0	2.3	2.3	2.3
ROA (%)	7.8	(1.7)	0.5	3.9	0.9
ROE (%)	8.6	(2.0)	0.6	4.7	1.1

Source: Company, MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

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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.