

08 August 2018 | Corporate Update

KKB Engineering Bhd

KKB's EPC Mettle Shown

Maintain BUY

Target Price (TP): RM1.13

INVESTMENT HIGHLIGHTS

- **Petronas project award proves KKB's mettle**
- **Experience and track record counts**
- **Earnings supported by healthy orderbook**
- **Altogether, we maintain our BUY recommendation on a target price of 1.13 per share**

Petronas project award proves KKB's mettle. KKB Engineering Bhd's 61.8% subsidiary OceanMight Sdn Bhd (OMSB) has secured a combined contract of RM226 million from Petronas Carigali Sdn Bhd for the provision of engineering, procurement, construction, commissioning of Wellhead Platforms for D18 Phase Two project. The contract is expected to run for duration of 27-months. However, the construction of the wellhead platforms will take only 15-months followed by 12-months of warranty period.

Experience and track record counts. KKB's forte is in steel fabrication apart from construction. Its past experience includes commissioning services for the Tanjong Baram Wellhead Platform, the Engineering, Procurement and Construction (EPC) of the Wellhead Platform for Kinabalu Redevelopment Project and the EPC for Bunga Pakma Wellhead Riser Platform. In 2015, Talisman Malaysia Ltd. has awarded KKB with the Kinabalu Redevelopment Project. The project was completed on schedule in June 2017 with a meritable safety record of 1.3m man hours and zero lost time injury. Construction of the wellhead platform will take in-house at OceanMight's 70 acres yard located less than 5km from Sarawak River Mouth with loadout capacity of up to 30,000mt of fabricated structure.


Earnings supported by healthy orderbook. We are assured that KKB's healthy orderbook will support a stable outlook for FYE18/FYE19. Together with its construction orderbook of RM900m (70% of KKB-WCT JV) for Pan Borneo Highway in clinched late July 2016 we are convinced that KKB will be able to meet our estimated FYE19 revenue of RM224.2m and potential PATANCI of RM3.0m. KKB could possibly experience an improvement of revenue between the ranges +3.0% to +5.0% if the wellhead platform construction hits full-swing. But, due to warranty period of 12-months, revenue accretion from the Petronas's award will not prompt an upward re-rating.

RETURN STATS

Price (7 th August 2018)	RM0.925
Target Price	RM1.13
Expected Share Price Return	+18.14%
Expected Dividend Yield	+2.1%
Expected Total Return	+20.24%

STOCK INFO

KLCI	1,791.09
Bursa / Bloomberg	9466 / KKB MK
Board / Sector	Main/ Industrial
Syariah Compliant	No
Issued shares (mil)	257.8
Market cap. (RMm)	238.9
Price over NA	0.83x
52-wk price Range	RM0.78–RM1.08
Beta (against KLCI)	0.93
3-mth Avg Daily Vol	0.06m
3-mth Avg Daily Value	RM0.05m
Major Shareholders (%)	
Kho Kak Beng Hldg Co.	42.93
CMS Berhad	20.05
Laman Satria Sdn Bhd	5.59

Recommendation. We maintain our BUY recommendation for KKB with BUY and TP of RM1.13 per share. Our target price is based on a forward PBR19 of 1x, representing the average PBR over the past two years. 

INVESTMENT STATISTICS

FYE Dec	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue (RMm)	127.9	103.1	209.3	215.5	224.2
Pretax Profit (RMm)	37.6	(9.1)	6.4	8.9	10.0
Profit After Tax (RMm)	29.1	(5.7)	3.3	4.9	5.5
Profit After Tax and Non-controlling Interests (RMm)	26.0	(5.8)	1.6	2.7	3.0
PATANCI margin (%)	20.4	(5.6)	0.8	1.2	1.4
EPS (sen)	10.1	(2.2)	0.6	1.0	1.2
EPS Growth (%)	24.1	n.a.	n.a.	63.1	12.8
PER (x)	9.4	(42.4)	148.4	91.0	80.6
Net Dividend (sen)	4.0	0.0	2.0	2.0	2.0
Dividend yield (%)	4.2	0.0	2.1	2.1	2.1
Debt to equity ratio (x)	0.1	0.1	0.2	0.2	0.2
ROA (%)	7.8	(1.7)	0.5	0.8	0.9
ROE (%)	8.6	(2.0)	0.6	0.9	1.1
NTA per share (RM)	1.2	1.1	1.2	1.1	1.2
Price to NTA (x)	0.8	0.8	0.8	0.8	0.8

Source: MIDFR, Company

DAILY PRICE CHART



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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.