

01 June 2017 | 1QFY17 Results Review

## KNM Group Berhad

### *Tough operating environment persists*

**Maintain NEUTRAL**

**Revised Target Price (TP): RM0.27**  
(previously RM0.35)

#### INVESTMENT HIGHLIGHTS

- **KNM Group's 1QFY17 reported earnings climbed back into the black at RM1.9m**
- **Normalised earnings however remained in the red at approximately –RM14m**
- **Losses still recorded from the Americas**
- **Maintain NEUTRAL with revised TP of RM0.27 per share**

**Slow work orders hamper earnings.** KNM's 1QFY17 reported earnings climbed back into the black at RM1.9m. Normalised earnings excluding reversals of impairments of doubtful debts, forex gains, derivative gains and warranty claims however remains in the red at approximately –RM14m. This is admittedly a far cry from our and consensus FY17 earnings estimates. The dismal results rose from low activity levels and earnings recognition.

**Asia & Oceania.** Both 1QFY17 revenue and EBITDA slumped by -40.6%yoy and -57.8%yoy due to slow replenishment of new orders.

**Europe.** The European segment performed slightly better, albeit still registering a decline in revenue and EBITDA at RM249m and RM27.9m respectively due to lower percentage of project completion.

**Americas.** The Americas segment continues to disappoint as revenue sank by -63.8%yoy to RM8.1m while registering an LBITDA of –RM4.3m.

**Impact on earnings.** Due to the continuous earnings stress from low project execution, low order replenishment and depressing profit margins, we are reducing our FY17 and FY18 earnings estimates to RM27m and RM35.4m respectively.

**Maintain NEUTRAL.** We are maintaining our **Neutral** stance on KNM with a revised target price of **RM0.27** per share. We roll forward our valuation base year to FY18 pegging EPS18 of 1.8sen to PER18 multiple of 15x. Our target PER is derived from a 0.5-standard deviation discount to KNM's 5-year historical average PER. We turn bearish on the stock as the company's operating environment remains challenging in all of its key operating markets with low jobs orders, low activity levels and uncertain earnings visibility. A potential rerating catalyst could be its cash generating power assets outside Malaysia.

RETURN STATS	
Price (31 May 2017)	RM0.28
Target Price	RM0.27
Expected Share Price Return	-3.6%
Expected Dividend Yield	-
<b>Expected Total Return</b>	<b>-3.6%</b>

STOCK INFO	
KLCI	1,765.87
Bursa / Bloomberg	7164 / KNMG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	2,132.8
Market cap. (RM'm)	597.2
Price over NA	0.5x
52-wk price Range	RM0.28 – RM0.47
Beta (against KLCI)	1.40
3-mth Avg Daily Vol	15.4m
3-mth Avg Daily Value	RM6.0m
Major Shareholders (%)	
Inter Merger Sdn Bhd	13.76
EPF	3.7

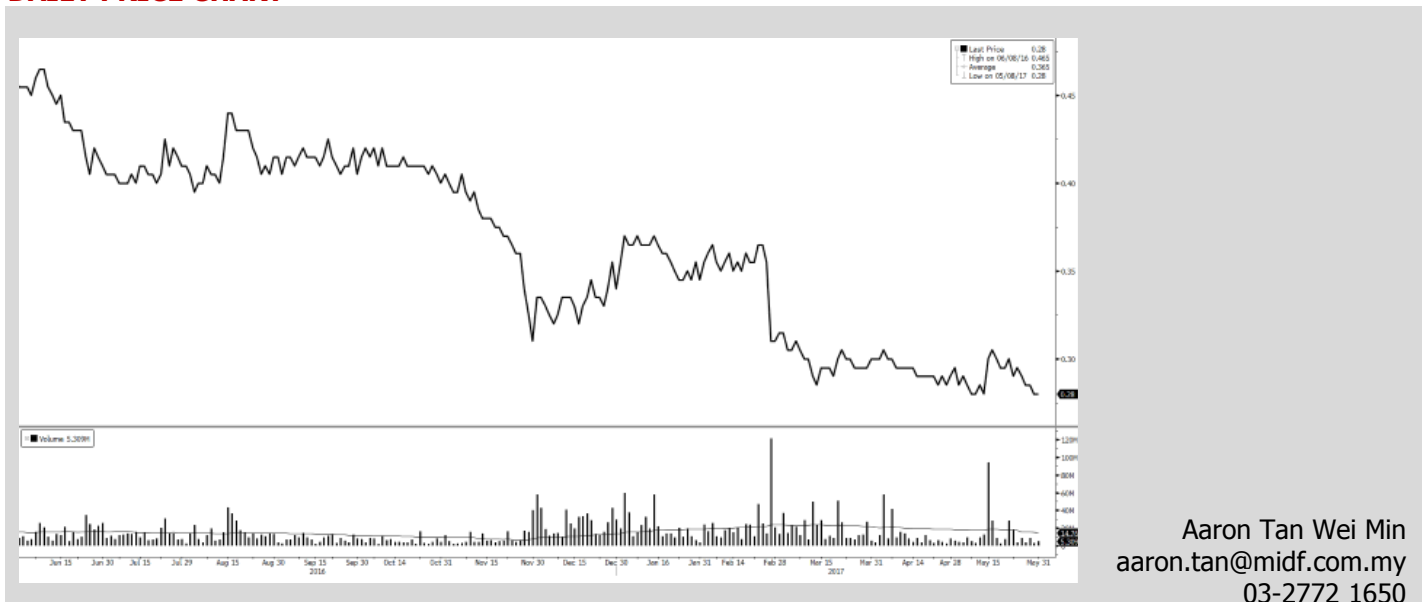


## INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16F	FY17F	FY18F
Revenue (RM'm)	1865.1	1641.3	1646.8	1398.1	1417.0
EBIT (RM'm)	179.4	165.7	-249.5	69.9	86.2
Pretax Profit (RM'm)	123.4	124.1	-290.5	51.9	68.2
Net Profit (RM'm)	45.7	49.5	-311.7	27.0	35.4
EPS (sen)	2.9	2.7	-14.6	1.4	1.8
EPS growth (%)	80.4	-9.9	-651.3	-109.4	31.3
PER(x)	9.5	10.6	nm	20.3	15.5

Source: MIDFR

## DAILY PRICE CHART



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## 1QFY17 Results Review Summary

FYE Dec (RM m)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)
Revenue	397.1	411.1	326.8	-20.5	-17.7
Operating Profit	30.2	-303.7	15.3	-105.0	-49.3
Finance Costs	-10.9	-17.2	-11.1	-35.4	1.9
Interest Income	0.1	0.8	0.2	-75.9	46.5
JCE	0.1	0.5	0.4	-4.8	508.5
PBT	19.5	-319.7	4.8	nm	-75.2
Tax	-8.9	-10.6	-2.3	-77.9	-73.8
PATAMI	10.8	-330.4	2.0	nm	-81.8
Revenue					
- Asia & Oceania	117.2	58.3	69.6	19.4	-40.6
- Europe	257.4	351.3	249.0	-29.1	-3.3
- Americas	22.5	1.4	8.1	462.0	-63.8
Total	397.1	411.1	326.8	-20.5	-17.7
EBITDA					
- Asia & Oceania	36.0	-257.8	15.2	nm	-57.8
- Europe	30.5	-2.7	27.9	nm	-8.4
- Americas	-11.2	-20.2	-4.3	-78.7	-61.5
Total	55.3	-280.7	38.8	-113.8	-29.8

Source: MIDFR, Company

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.