

24 May 2018 | 1QFY18 Results Review

KNM Group Berhad

Contribution from bio-ethanol plant seen

Upgrade to *TRADING BUY*
(previously *NEUTRAL*)

Unchanged Target Price (TP): RM0.22

INVESTMENT HIGHLIGHTS

- **KNM Group's 1QFY18 reported losses narrowed**
- **Normalised losses at –RM5.9m**
- **Contribution from bio-ethanol plant in Thailand seen**
- **Recurring income from power asset to gain traction**
- **EBITDA positive on key geographic segments**
- **Upgrade to *TRADING BUY* with a unchanged TP of RM0.22**

Earnings support from bio-ethanol plant. KNM's reported earnings of –RM18.4m is still under strain from: (i) high finance costs and; (ii) tough overseas operations. Excluding unrealised forex and derivative losses, KNM's normalised losses amounted to only –RM5.9m. Revenue increase year-over-year by +3.4% supported by the bio-ethanol plant in Thailand that began operation in September 2017.

Asia & Oceania. Segment revenue increased +22.6%yoy largely attributable to the sales of bio-ethanol plant in Thailand. Segment EBITDA however dipped due to high unrealised foreign exchange losses.


Europe and Americas. Revenue and EBITDA from Europe is holding up but the condition in the Americas is still difficult.

Impact on earnings. As the EBITDA is still promising, we are maintaining our earnings estimates at this juncture.

Upgrade to *TRADING BUY*. Given the narrowing losses, lower operating expenses, upbeat global crude oil prices and traction achieved from its bio-ethanol plant, we believe that KNM is poised to perform better this financial year. As such, we are upgrading KNM to ***TRADING BUY*** with and unchanged TP of **RM0.22** per share. Our valuation is based on EPS18 of 1.3sen pegged to PER18 multiple of 17x. Our target PER is derived from a 0.25-standard deviation discount to KNM's 5-year historical average PER. In addition to that, the outlook of the company is improving slightly with the construction of the Peterborough Green Energy Project in the UK.

RETURN STATS	
Price (23 Mayr 2018)	RM0.195
Target Price	RM0.220
Expected Share Price Return	+12.8%
Expected Dividend Yield	-
Expected Total Return	+12.8%

STOCK INFO	
KLCI	1,804.25
Bursa / Bloomberg	7164 / KNMG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	2340.1
Market cap. (RM'm)	457.5
Price over NA	0.5x
52-wk price Range	RM0.185 – RM0.295
Beta (against KLCI)	1.39
3-mth Avg Daily Vol	7.8m
3-mth Avg Daily Value	RM1.7m
Major Shareholders (%)	
Inter Merger Sdn Bhd	10.67
EPF	3.36

Despite this, the larger operating environment 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. 

INVESTMENT STATISTICS

FYE Dec	FY15	FY16F	FY17F	FY18F	FY19F
Revenue (RM'm)	1641.3	1646.8	1390.3	1417.0	1564.9
EBIT (RM'm)	165.7	-249.5	17.7	72.0	78.2
Pretax Profit (RM'm)	124.1	-290.5	-27.1	54.0	60.2
Net Profit (RM'm)	49.5	-311.7	-42.4	28.1	31.3
EPS (sen)	2.7	-14.6	-2.0	1.3	1.5
EPS growth (%)	-9.9	nm	nm	442.1	11.6
PER(x)	7.4	nm	nm	14.8	13.3

Source: MIDFR

DAILY PRICE CHART



Aaron Tan Wei Min
aaron.tan@midf.com.my
 03-2772 1650

Source: MIDFR, Company

1QFY18 Results Review Summary

FYE Dec (RM m)	Quarterly Results				
	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Revenue	326.77	351.08	337.80	-3.8	3.4
Operating Profit	15.31	-28.68	0.20	-100.6	-98.9
Finance Costs	-11.09	-16.42	-14.5	-11.8	30.6
Interest Income	0.19	0.17	0.50	175.6	148.9
JCE	0.43	-0.61	-0.70	14.7	-262.5
PBT	4.84	-45.54	-14.6	-68	-400.6
Tax	-2.34	-0.66	-4.30	550.8	84.2
PATAMI	1.96	-46.22	-18.4	-60.1	-1039
Revenue					
- Asia & Oceania	69.63	65.45	85.4	30.4	22.6
- Europe	249.01	285.21	251.5	-11.8	1
- Americas	8.13	0.42	0.90	121.8	-88.5
EBITDA					
- Asia & Oceania	15.17	5.39	1.90	-64.3	-87.3
- Europe	27.90	-45.41	26.10	-157.5	-6.5
- Americas	-4.29	-2.83	-2.30	-17.4	-45.6

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.