

03 September 2018 | 2QFY18 Results Review

## KNM Group Berhad

*Operating environment remains challenging*

### INVESTMENT HIGHLIGHTS

- **KNM Group's (KNM) 2QFY18 reported losses of –RM33.6m**
- **Normalised losses -RM25.9m**
- **Earnings supported by new bio-ethanol plant in Thailand**
- **Diversification into renewable energy bearing fruit**
- **EBITDA positive on key geographic segments**
- **Maintain TRADING BUY with unchanged TP of RM0.22 per share**

**Earnings supported by bio-ethanol plant.** KNM's reported net loss of –RM33.6m in 2QFY18 due to: (i) unrealised losses on foreign exchange and; (ii) tough overseas operation during the quarter. Excluding unrealised losses on foreign exchange and derivative losses, KNM's normalised losses amounted to -RM25.9m for the quarter. This brings its 6MFY18 losses to -RM31.9m. Revenue grew by +5.2% supported by the bio-ethanol plant in Thailand that began operation in September 2017.

**Asia and Oceania.** Segment revenue increased by +35.5%yoy largely attributable to the sales of bio-ethanol plant in Thailand. However, segment EBITDA dipped due to unrealised loss on forex, lower profit margins and slow replenishment of new orders in the current period.

**Europe and Americas.** Segment revenue and EBITDA showed signs of recovery with increased orders secure as well as higher revenue contribution with a higher profit margin. That said, the condition in America remains difficult despite the narrowing losses due to lower operating expenses.

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

**Maintain TRADING BUY.** Despite the losses, we are positive on the upbeat global crude price, lower operating expenses and the increasing contribution from its bio-ethanol plant in Thailand. Hence, we are maintaining our **TRADING BUY** stance on KNM with an unchanged target price of **RM0.22** per share. Our TP is premised on PER18 of 17x pegged to EPS18 of 1.3sen. Our target PER is derived from a 0.25-standard deviation discount to KNM's 5-year historical average PER. Additionally, the outlook of the company is improving slightly with the construction of the Peterborough Green Energy Project in the UK.



**Maintain TRADING BUY**  
**Unchanged Target Price : RM0.22**

RETURN STATS	
Price (30 <sup>th</sup> August 2018)	RM0.18
Target Price	RM0.22
Expected Share Price Return	+22.0%
Expected Dividend Yield	-
<b>Expected Total Return</b>	<b>+22.0%</b>

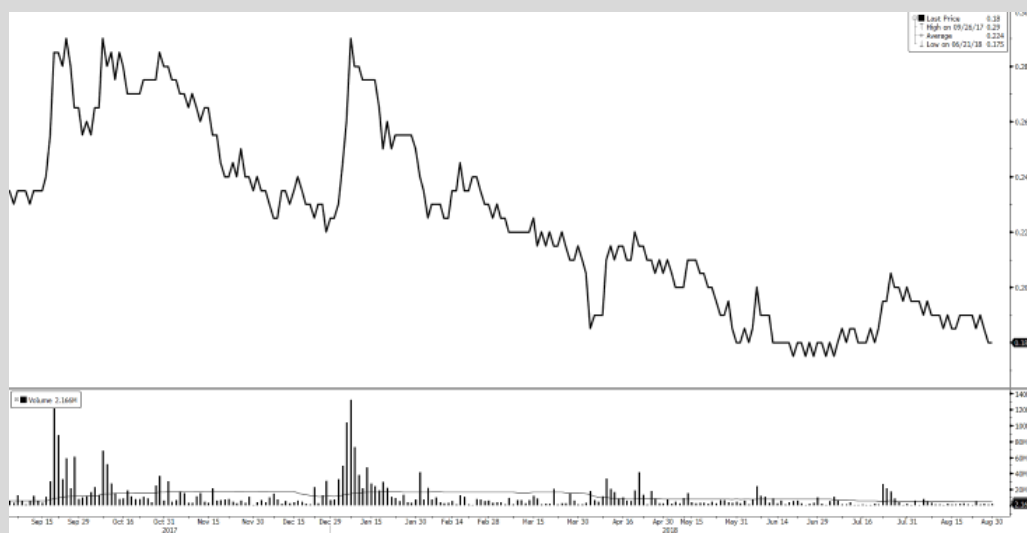
STOCK INFO	
KLCI	1,819.66
Bursa / Bloomberg	7164 / KNMG MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	2,346.11
Market cap. (RM'm)	422.30
Price over NA	0.19x
52-wk price Range	RM0.17 – RM0.30
Beta (against KLCI)	1.14
3-mth Avg Daily Vol	4.60m
3-mth Avg Daily Value	RM0.86m
Major Shareholders (%)	
Inter Merger Sdn Bhd	10.45
EPF	3.36

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM'm)	1,641.3	1,646.8	1,390.3	1,417.0	1,564.9
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 (%)	-9.9	nm	nm	442.1	11.6
PER (x)	7.4	nm	nm	13.8	12.0

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

## 2QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative Results		
	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	6MFY17	6MFY18	YoY (%)
Revenue	358.0	337.8	376.8	11.5	5.2	677.9	714.5	5.4
Operating profit	7.6	0.2	(21.1)	nm	nm	20.9	(20.9)	(200.3)
Finance cost	(7.6)	(14.5)	(14.7)	1.5	94.4	(18.6)	(29.2)	56.4
Interest income	0.4	0.5	0.4	(4.5)	9.1	0.6	0.9	53.1
JCE	1.0	(0.7)	3.3	nm	218.0	1.5	2.6	76.3
PBT	1.5	(14.6)	(32.1)	120.4	nm	4.3	(46.6)	nm
Tax expense	(2.3)	(4.3)	(2.6)	(40.9)	10.8	(4.0)	(6.9)	70.1
PATAMI	(0.9)	(18.4)	(33.6)	82.6	nm	(0.4)	(52.1)	nm
Revenue								
Asia & Oceania	52.2	85.4	70.7	(17.2)	35.5	121.8	156.1	28.1
Europe	306.0	251.5	304.8	21.2	(0.4)	548.1	556.3	1.5
Americas	(0.2)	0.9	1.2	33.1	nm	8.0	2.2	(72.6)
EBITDA								
Asia & Oceania	9.3	1.9	(29.3)	(31.2)	(38.6)	24.5	(27.4)	(51.9)
Europe	22.7	26.1	32.8	6.7	10.1	49.2	58.9	9.7
Americas	(2.2)	(2.3)	(0.7)	1.6	1.5	(6.5)	(3.0)	3.5

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.