

29 November 2018 | 3QFY18 Results Review

## KNM Group Berhad

*Contribution from Bio-Ethanol plant cushioned earnings*

### INVESTMENT HIGHLIGHTS


- **KNM Group's (KNM) 3QFY18 reported losses of –RM18.7m**
- **Normalised losses -RM15.8m**
- **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 a revised TP of RM0.19 per share**

**Earnings supported by bio-ethanol plant.** KNM's reported net loss of –RM18.7m in 3QFY18 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 -RM15.8m for the quarter. This brings its 9MFY18 losses to -RM47.673m. Revenue grew by +3.0%yoy supported by the bio-ethanol plant in Thailand that began operation in September 2017.

**Asia and Oceania.** Segment revenue surged by +214.0%yoy largely attributable to the sales of bio-ethanol plant in Thailand. However, segment EBITDA dipped due to additional depreciation arising from the bio-ethanol plant in Thailand, lower gross profit margin and; lower foreign exchange gain contribution due to weaker Ringgit.

**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.** We are revising our FY18-19F earnings to –RM1.4m and RM23.2m respectively as we are expecting operating environment to remain challenging for KNM.

**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 a revised target price of **RM0.19** per share. Our TP is premised on PER19 of 17x pegged to EPS19 of 1.1sen. 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**

**Revised Target Price (TP): RM0.19**  
(previously RM0.22)

#### RETURN STATS

Price (28 November 2018)	RM0.13
Target Price	RM0.19
Expected Share Price Return	+46.2%
Expected Dividend Yield	-
<b>Expected Total Return</b>	<b>+46.2%</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)	304.99
Price over NA	0.13x
52-wk price Range	RM0.13 – RM0.30
Beta (against KLCI)	1.18
3-mth Avg Daily Vol	4.97m
3-mth Avg Daily Value	RM0.74m
Major Shareholders (%)	
Inter Merger Sdn Bhd	10.45
EPF	3.36

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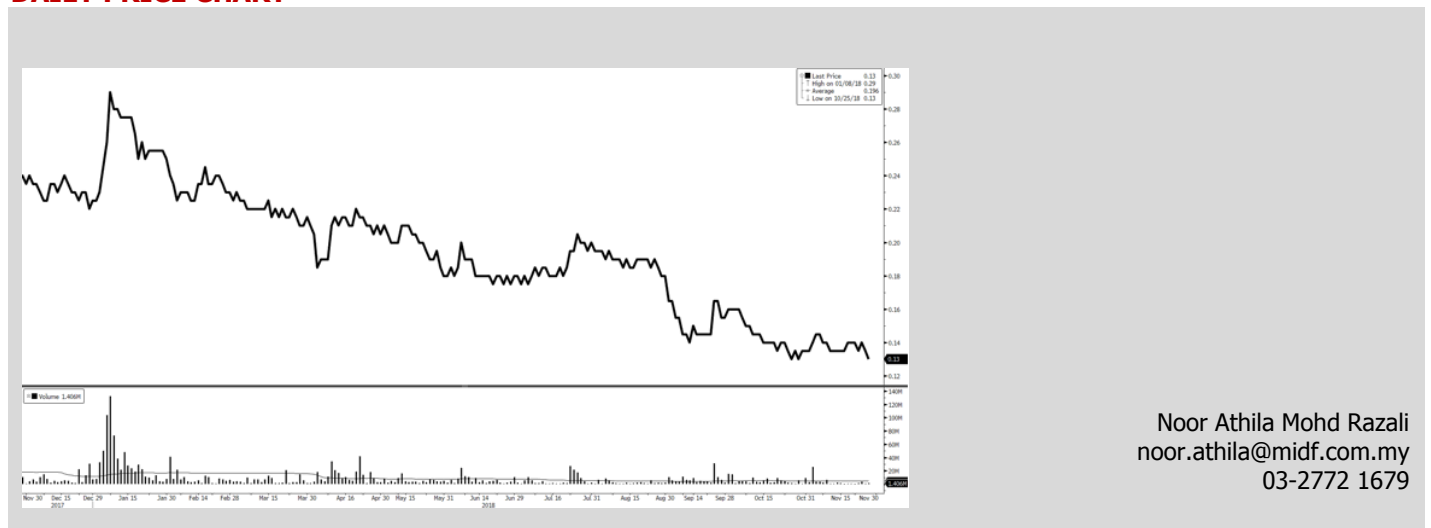
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## INVESTMENT STATISTICS

FYE Dec	FY15	FY16F	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	15.3	62.6
Pretax Profit (RM'm)	124.1	-290.5	-27.1	-2.7	44.6
Net Profit (RM'm)	49.5	-311.7	-42.4	-1.4	23.2
EPS (sen)	2.7	-14.6	-2.0	-0.1	1.1
EPS growth (%)	-9.9	-651.3	-86.5	-96.7	-1,764.4
PER(x)	4.9	nm	nm	-199.0	12.0
Net Dividend (sen)	0.0	0.0	0.0	0.0	0.0
Net Dividend Yield (%)	0.00%	0.00%	0.00%	0.00%	0.00%

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

**Table 1: KNM's quarterly earnings review**

FYE Dec (RM'm)	Quarterly Results					Cumulative Results		
	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
Revenue	340.6	376.8	350.7	(6.9)	3.0	1,018.5	1,065.3	4.6
Operating profit	19.5	(21.1)	(1.8)	(91.2)	>-100	40.3	(22.8)	>-100
Finance cost	(12.8)	(14.7)	(9.8)	(33.6)	(23.7)	(31.4)	(38.9)	23.9
Interest income	0.3	0.4	0.2	(52.5)	(30.7)	0.9	1.1	24.7
JCE	1.1	3.3	(0.2)	>-100	>-100	2.6	2.4	(7.2)
PBT	8.1	(32.1)	(11.6)	(63.9)	>-100	12.4	(58.2)	>-100
Tax expense	(7.6)	(2.6)	(7.2)	182.5	(4.8)	(11.6)	(14.1)	21.2
PATAMI	(0.1)	(33.6)	(17.1)	(49.3)	>100	(0.5)	(69.1)	>100
Revenue								
Asia & Oceania	14.8	70.7	46.4	(34.3)	214.0	136.6	202.5	48.2
Europe	325.8	304.8	303.5	(0.4)	(6.8)	873.8	859.8	(1.6)
Americas	0.1	1.2	0.8	(37.8)	761.1	8.0	3.0	(63.2)
EBITDA								
Asia & Oceania	(0.6)	(29.3)	(4.0)	25.3	(3.5)	23.9	(31.4)	(55.3)
Europe	47.3	32.8	26.5	(6.3)	(20.8)	96.5	85.5	(11.1)
Americas	0.6	(0.7)	6.2	6.9	5.6	(5.9)	(3.2)	2.8

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.