

27 February 2018 | 4QFY17 Results Review

KNM Group Berhad

Earnings back in the red

Maintain NEUTRAL

Unchanged Target Price (TP): RM0.22

INVESTMENT HIGHLIGHTS

- **KNM Group's 4QFY17 reported earnings slipped into the red at –RM46.2m**
- **Fourth quarter losses after three promising quarters of profitability**
- **Registered EBITDA of RM118.4m compared with LBITDA of –RM181.3m in 4QFY16**
- **Maintain NEUTRAL with a unchanged TP of RM0.22**

Earnings slipped into the red. After three promising quarters, KNM's 4QFY17 results slipped into the red at –RM46.2m. Despite the dismal results, the group's FY17 EBITDA staged a massive rebound to RM118.4m from a FY16 LBITDA of –RM181.3m. The company's FY17 losses stands at –RM42.4m. The losses were also partly attributable to higher depreciation charges and operational costs related with the bio-ethanol plant in Thailand which commenced in September 2017.

Asia & Oceania. Segment revenue declined by -49.9%yoy to RM202.1m due to lower works recognition as projects related to Pengerang Integrated Petroleum Complex which is at its tail-end and nearing completion. However, the lower revenue was partially offset by higher contribution from the bio-ethanol plant.

Europe. The European front continues to perform, with revenue increasing to RM1.18b while EBITDA stood at RM117.9m. The commendable results were premised on lower operating costs.

Americas. Losses from the Americas are declining, in line with the decline in revenue.

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

Maintain NEUTRAL. We are maintaining our **Neutral** stance on KNM with an unchanged target price 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. The outlook of the company is improving slightly with the construction of the Peterborough Green Energy Project in the UK.

RETURN STATS	
Price (26 February 2018)	RM0.235
Target Price	RM0.220
Expected Share Price Return	-6.4%
Expected Dividend Yield	-
Expected Total Return	-6.4%

STOCK INFO	
KLCI	1,860.08
Bursa / Bloomberg	7164 / KNMG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	2132.8
Market cap. (RM'm)	551.3
Price over NA	0.5x
52-wk price Range	RM0.22 – RM0.32
Beta (against KLCI)	1.02
3-mth Avg Daily Vol	16.1m
3-mth Avg Daily Value	RM3.9m
Major Shareholders (%)	
Inter Merger Sdn Bhd	11.68
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)	8.9	nm	nm	17.8	16.0

Source: MIDFR

DAILY PRICE CHART



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

Source: MIDFR, Company

4QFY17 Results Review Summary

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	4Q17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)	
Revenue	351.1	1.0	-14.6	1646.8	1390.3	-15.6	
Operating Profit	-28.7	-233.5	-90.6	-275.5	17.7	-106.4	
Finance Costs	-16.4	28.5	-4.3	-44.4	-47.8	7.7	
Interest Income	0.2	-44.6	-78.2	2.1	1.1	-50.2	
JCE	-0.6	-154.4	-234.8	1.1	2.0	73.6	
PBT	-45.5	-549.0	-85.8	-316.6	-27.1	-91.4	
Tax	-0.7	-91.9	-93.7	-16.5	-14.1	-14.5	
PATAMI	-46.2	-3620.5	-86.0	-333.0	-42.4	-87.3	
<i>Revenue</i>							
- Asia & Oceania	65.5	342.6	12.2	403.1	202.1	-49.9	Tail end works in Pengerang
- Europe	285.2	-14.3	-18.8	1159.3	1179.7	1.8	
- Americas	0.4	368.9	-70.8	84.3	8.5	-90.0	
Total	351.1	1.0	-14.6	1646.8	1390.3	-15.6	
<i>EBITDA</i>							
- Asia & Oceania	5.4	-126.4	-102.1	-220.0	9.5	-104.3	
- Europe	-45.4	-141.3	1555.4	81.1	117.9	45.4	
- Americas	-2.8	-789.3	-86.0	-42.3	-9.0	-78.8	
Total	-42.8	-147.6	-84.7	-181.3	118.4	-165.3	

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.