

25 August 2017 | 2QFY17 Results Review

## KNM Group Berhad

*Managed to stay in the black*

### INVESTMENT HIGHLIGHTS

- **KNM Group's 2QFY17 reported earnings managed to stay in the black at RM0.6m**
- **Normalised losses excluding forex gains at –RM6.9m**
- **Heavy losses were recorded from the Americas segment**
- **Maintain NEUTRAL with a revised TP of RM0.21**


**Tail-end projects.** KNM's 2QFY17 reported earnings maintained in the black at RM0.6m despite recording a -14.7%yoy decline in revenue. Excluding forex and derivative gains, the company's 6MFY17 cumulative normalised losses is at –RM15.316m. The lower revenue and earnings are a result of lower project percentage of completion recognised as the projects related to the Pengerang Integrated Petroleum Complex are either delivered or nearing completion.

**Asia & Oceania.** Both segment revenue and EBITDA declined by -46.2%yoy and -47.9%yoy due to slower replenishment of new orders.

**Europe.** Although segment revenue maintained at RM561m, segment EBITDA declined by -10.6%yoy due to higher operating costs.

**Americas.** The Americas segment continues to disappoint as revenue sank by more than -83%yoy while registering an LBITDA of –RM6.5m.

**Impact on earnings.** Given the tail-end nature of its major jobs locally, the continuous bleeding at its Americas operations coupled with low margin jobs globally, we are revising our FY17 and FY18 earnings forecasts down to RM5.2m and RM28.1m respectively.

**Maintain NEUTRAL.** We are maintaining our **Neutral** stance on KNM with a revised target price of **RM0.21** per share. Our valuation is based on EPS18 of 1.4sen pegged 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 reiterate our bearish outlook 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. 

**Maintain NEUTRAL**

**Revised Target Price (TP): RM0.21**  
(previously RM0.27)

RETURN STATS	
Price (24 August 2017)	RM0.23
Target Price	RM0.21
Expected Share Price Return	-8.7%
Expected Dividend Yield	-
<b>Expected Total Return</b>	<b>-8.7%</b>

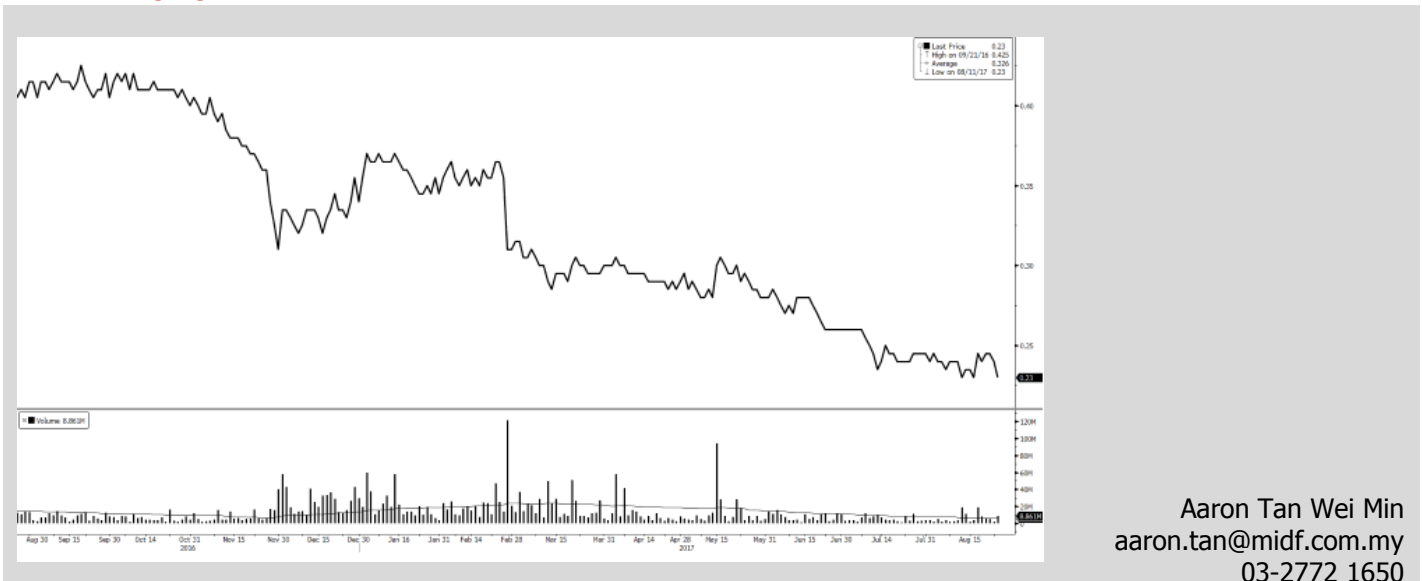
STOCK INFO	
KLCI	1,775.50
Bursa / Bloomberg	7164 / KNMG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	2,132.8
Market cap. (RM'm)	490.5
Price over NA	0.5x
52-wk price Range	RM0.23 – RM0.43
Beta (against KLCI)	1.44
3-mth Avg Daily Vol	6.4m
3-mth Avg Daily Value	RM1.6m
Major Shareholders (%)	
Inter Merger Sdn Bhd	13.22
EPF	3.70

## INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16F	FY17F	FY18F
Revenue (RM'm)	1,865.1	1,641.3	1,646.8	1,398.1	1,417.0
EBIT (RM'm)	179.4	165.7	-249.5	28.0	72.0
Pretax Profit (RM'm)	123.4	124.1	-290.5	10.0	54.0
Net Profit (RM'm)	45.7	49.5	-311.7	5.2	28.1
EPS (sen)	2.9	2.7	-14.6	0.3	1.4
EPS growth (%)	80.4	-9.9	-651.3	-101.8	442.1
PER(x)	7.8	8.7	nm	87.0	16.1

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

## 2QFY17 Results Review Summary

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	2Q17	QoQ (%)	YoY (%)	6M16	6M17	YoY (%)	
Revenue	364.9	11.7	-14.7	825.1	691.6	-16.2	
Operating Profit	9.6	-37.3	-37.1	45.5	24.9	-45.2	
Finance Costs	-7.6	-31.8	-16.7	-20.0	-18.6	-6.5	
Interest Income	0.4	117.7	-0.5	0.5	0.6	10.7	
JCE	1.0	139.1	234.3	0.4	1.5	285.5	
PBT	3.5	-28.3	-49.6	26.4	8.3	-68.5	
Tax	-2.9	23.9	390.2	-9.5	-5.2	-44.9	
PATAMI	0.6	-71.2	-91.0	16.9	3.1	-81.8	
<i>Revenue</i>							
- Asia & Oceania	52.2	-25.0	-52.3	226.7	121.8	-46.2	Tail-end projects
- Europe	312.9	25.6	6.5	551.2	561.9	1.9	High operating costs
- Americas	-0.2	-102.2	-100.7	47.2	8.0	-83.1	
Total	364.8	11.6	-14.8	825.1	691.6	-16.2	
<i>EBITDA</i>							
- Asia & Oceania	9.3	-38.7	4.5	47.0	24.5	-47.9	
- Europe	25.4	-9.1	-64.9	59.6	53.3	-10.6	
- Americas	-2.2	-47.6	-1191.7	-12.3	-6.5	-46.8	
Total	32.4	-16.4	-158.6	94.3	71.2	-24.5	

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.