

27 November 2014 | 3QFY14 Results Review

KNM Group Berhad

Fundamentals intact – opportunistic BUY on price weakness

Upgrade to BUY

(previously Neutral)

Unchanged Target Price (TP): RM1.15

INVESTMENT HIGHLIGHTS

- **KNM Group's 3Q14 reported earnings more than doubled to RM16.4m compared with the same period a year ago**
- **Earning growth was underpinned by stellar performances from Europe and the Americas**
- **Overall EBITDA margin and individual margins for Asia, Europe and the Americas registered growth**
- **Share price weakness presents buying opportunity to ride on job opportunities in Pengerang, Johor**
- **Upgrade to BUY with an unchanged TP of RM1.15**

On track to meet full year estimate. KNM's 3Q14 earnings grew by over +100%yoy to RM16.4m. Cumulative 9M14 earnings of RM41.7m broadly kept pace with our full year forecast of RM60m, but lagged consensus forecast by a variance of more than 10%. EBITDA margin expanded by more than +3.6ppts to 13.2%, supported by margin expansion from all of its geographical operating markets.


Asia and Oceanic. Segment revenue and EBITDA for the quarter shrank by -33.4%yoy and -56.1%yoy to RM94.7m and RM11.8m respectively. Management noted that this was due to lower job progress recognition. However, this should not be a cause for concern as profitability margin expanded by +0.2ppts to 9.2%. Moving forward, management remains optimistic that the segment orderbook will continue to grow, especially with the sub-contracting works secured from Sinopec for the refinery plant at the Pengerang Integrated Complex.

Europe is still the key earnings driver. Contribution from Europe continues to be a key earnings driver for the group as it currently contributes more than 75% of EBITDA. Despite 3Q14 revenue contracting by -9.4%yoy to RM300m, earnings grew by +26.7%yoy to RM44.7m supported by higher margin works executed. With its stable orderbook, management expects the European business to continue to support group earnings.

Americas. Due to the improving orderbook, 3Q14 revenue and EBITDA grew to RM35.2m and RM6.8m respectively. Management is confident that the profitability of this segment will continue to grow.

RETURN STATS	
Price (26 Nov 2014)	RM0.59
Target Price	RM1.15
Expected Share Price Return	+95.0%
Expected Dividend Yield	0.0%
Expected Total Return	+95.0%

STOCK INFO	
KLCI	1,842.17
Bursa / Bloomberg	7164/ KNMG MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	1,615.8
Par Value (RM)	0.50
Market cap. (RM'm)	953.3
Price over NA	0.60x
52-wk price Range	RM0.41 – RM1.10
Beta (against KLCI)	1.05
3-mth Avg Daily Vol	22.99m
3-mth Avg Daily Value	RM17.93m
Major Shareholders (%)	
Inter merger	16.19
Aveda Assets Capital	5.56
Employees Provident Fund (via external fund managers)	4.84

Upgrade to BUY. We are upgrading KNM Group to **BUY** from Neutral previously with an unchanged target price of **RM1.15** as we believe that the decline in share price presents a strong buying opportunity. We acknowledge that it is unfortunate that the share price tumbled in line with other local oil and gas stocks. At current price level, KNM is trading at a current PER of only 15.7x and a FY15 expected PER of 8.2x. Our TP is based on EPS15 of 7.2sen and PER15 of 16x. Our target PER of 16x is based on KNM's 10-year historical average PER as well as our house PER target for small-mid cap oil and gas service providers. We continue to remain positive on the prospects of the Peterborough project and are optimistic that KNM could be winning more Pengerang-related jobs. 

INVESTMENT STATISTICS

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	1,982.3	2,377.3	1,985.2	1,818.8	2,806.5
EBIT (RM'm)	-98.4	107.3	100.7	127.3	196.5
Pretax Profit (RM'm)	-147.5	21.0	45.8	75.1	144.2
Net Profit (RM'm)	-83.4	82.0	20.3	60.0	115.4
EPS (sen)	-5.2	7.9	1.6	3.8	7.2
EPS growth (%)	-1.7	251.5	-79.4	130.2	92.1
PER(x)	-11.3	7.5	36.2	15.7	8.2

Source: MIDFR Estimates

DAILY PRICE CHART

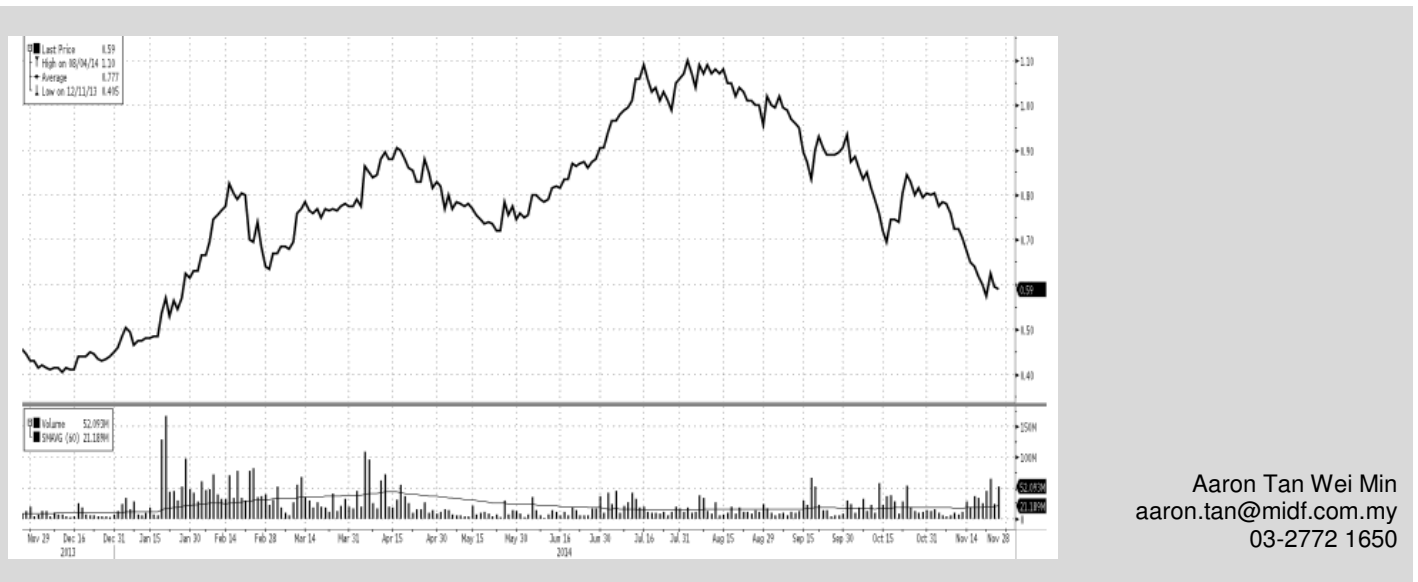
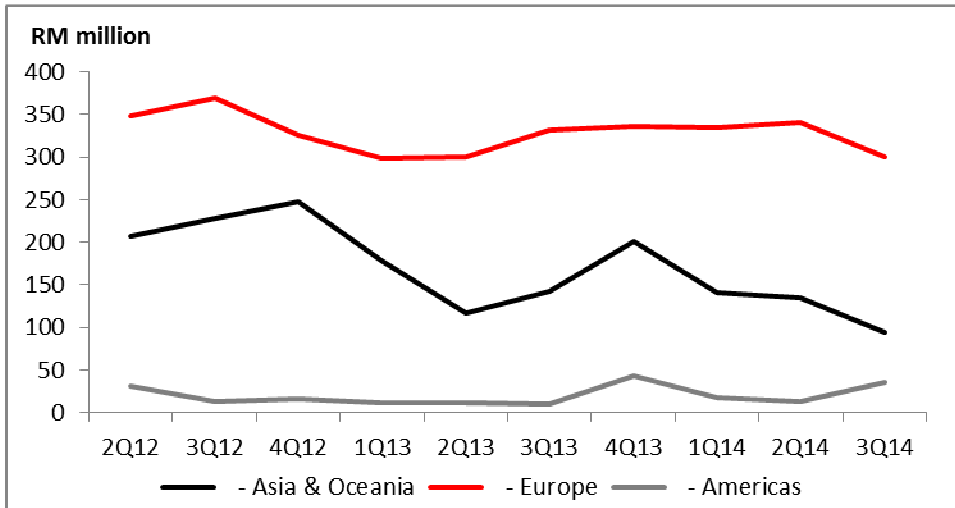


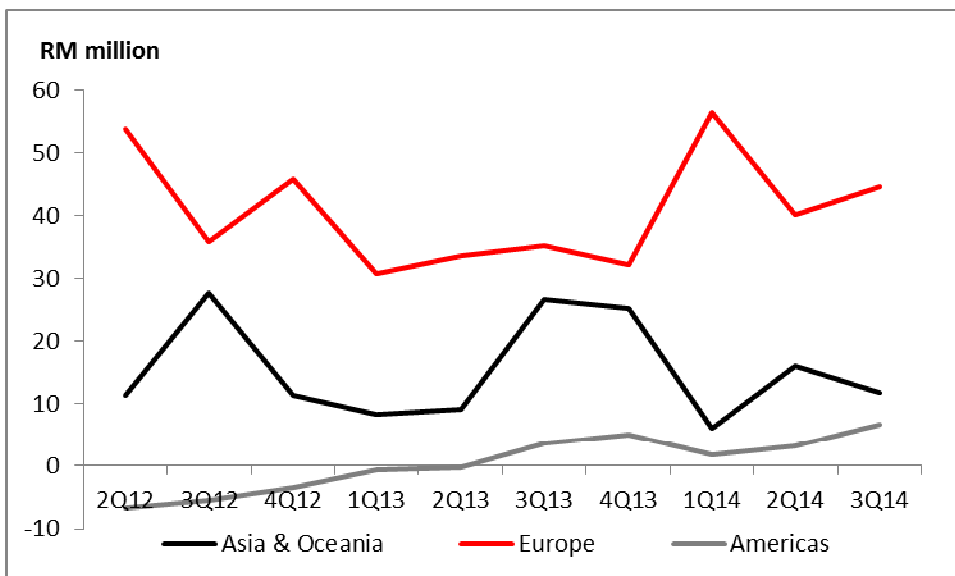
Figure 1: Revenue contributions by geographic segment



Europe is still a key earnings driver while Americas is showing signs of growth

Source: Company, MIDFR

Figure 2: EBITDA contributions by geographic segment



Asia and Oceania remains stable while the Americas has been successfully recording profits the past six quarters

Source: Company, MIDFR

KNM Group: 3QFY14 Results Summary

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	3Q14	QoQ (%)	YoY (%)	9M13	9M14	YoY (%)	
Revenue	430.7	-12.0	-11.4	1411.3	1413.9	0.2	
Operating Profit	38.4	13.4	17.2	59.6	110.9	86.2	
Finance Costs	-11.6	-19.7	-11.8	-34.6	-40.8	18.1	
Interest Income	0.7	8.1	-0.4	2.1	2.0	-1.5	
JCE	2.9	-866.4	132.1	-0.5	1.4	-408.4	
PBT	30.5	54.2	40.8	26.6	73.5	176.6	
Tax	-14.7	57.9	-3.7	-12.7	-33.7	nm	
PATAMI	16.4	-35.0	130.3	15.9	41.7	161.8	
<i>Revenue</i>							
- Asia & Oceania	94.7	-29.7	-33.4	443.4	370.2	-16.5	
- Europe	300.8	-11.7	-9.4	931.4	976.4	4.8	
- Americas	35.2	152.9	272.8	34.1	67.3	97.5	
Discontinued Ops	-	-	-	2.4	-	nm	
Total	430.7	-12.0	-11.4	1411.3	1413.9	0.2	
<i>EBITDA</i>							
- Asia & Oceania	11.8	-27.2	-56.1	39.6	34.0	-14.0	Expect growth from PIC
- Europe	44.7	11.4	26.7	99.8	141.4	41.7	Stable orderbook
- Americas	6.8	108.8	84.0	3.0	11.9	297.4	Improving orderbook
Discontinued Ops	-	-	-	-7.1	-	nm	
Total	63.3	6.2	7.7	135.3	187.3	38.5	

Source: MIDF, 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	<i>Negative</i> total return is expected, by -15% or more, 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.