

KKB Engineering Berhad

(9466 | KKB MK) Main | Industrial Products & Services

A Quarter of Stronger Margins

KEY INVESTMENT HIGHLIGHTS

- Core earnings of RM9.9m in 2QFY23; 1HFY23 core earnings at RM13.0m) which was within expectations
- Stronger bottom line lifted by improving margins from steel fabrication
- Outstanding order book stands at over RM700m with earnings visibility up to FY24. Tender book target of RM400m
- Maintain BUY with a TP of RM1.58

Within expectations. KKB Engineering Berhad (KKB) registered a core net profit of RM9.9m for the 2QFY23, a significant improvement over RM1.6m recorded in the same quarter last year. For the 1HFY23, the group's core net profit more than tripled to RM13.0m, which came in within ours and consensus expectations, making up 51.6% and 51.8% of full year targets respectively.

Engineering segment. Revenue from the segment declined -9.9%yoy in 2QFY23 mainly due to lower civil construction revenue by -45.2%yoy to RM38.9m but this was cushioned by stronger steel fabrication revenue by +60.9%yoy to RM57.6m. Despite the lower revenue, gross profit rose 2.2x to RM22.6m, mainly due to improved margins from steel fabrication.

Manufacturing segment. The segment's revenue jumped 3.3x to RM7.5m in 2QFY23, contributed mainly by the rise in the steel pipes manufacturing division by 5.4x to RM4.9m for the supply of mild steel water pipes to Brunei and also from the higher off-take of reconditioning and requalification of LPG cylinders, which saw a +107.7% growth to RM2.7m. Gross profit for the segment was RM1.2m, an improvement over a loss of -RM0.3m in the previous year corresponding quarter.

Order book remains healthy. With over RM700m of outstanding order book, KKB has earnings visibility up to FY24. It is targeting a tender book of RM400m annually for FY23 and FY24, with a success rate of 30% - 40%.

Earnings estimates. We are keeping our earnings estimates intact as the results were within expectations.

Target price. We maintain our **TP** at **RM1.58** by pegging a PER of 17x, based on its five-year historical mean to the group's FY24F EPS of 9.3 sen.

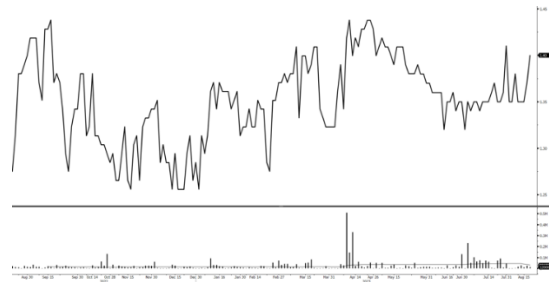
Maintain BUY. We reiterate our **BUY** recommendation on KKB, premised on its strong order book and expectations that it would be able to ride on its momentum of improving margins. We expect the group to be able to benefit from the development plans that lie ahead for Sarawak as the group intensifies its efforts to take on more infrastructure construction projects.

Maintain BUY
Unchanged Target Price: RM1.58

RETURN STATISTICS

Price @ 18 th Aug 2023 (RM)	1.40
Expected share price return (%)	+12.9
Expected dividend yield (%)	+3.8
Expected total return (%)	+16.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.9	0.6
3 months	3.7	-5.9
12 months	5.3	9.5

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	388.4	430.4	451.9
Operating Profit	39.1	40.5	42.5
Profit Before Tax	39.7	40.1	42.1
Core Net Profit	25.2	26.9	27.1
Core EPS	8.7	9.3	9.4
DPS (sen)	6.0	6.0	6.0
Dividend Yield	4.4%	3.8%	3.8%

KEY STATISTICS

FBM KLCI	1,446.09
Issue shares (m)	288.73
Estimated free float (%)	16.73
Market Capitalisation (RM'm)	404.22
52-wk price range	RM1.28-RM1.51
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.03
Top Shareholders (%)	
Kho Kak Beng Holding Co	38.92
Cahva Mata Sarawak Bhd	17.90
Sarawak Economic Development	10.71

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KKB ENGINEERING BERHAD: 2QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	Q223	Q123	Q222	QoQ	YoY	1H23	1H22	YoY
Income Statement								
Revenue	104.4	60.5	109.7	72.6%	-4.9%	164.9	203.1	-18.8%
Gross profit	25.2	12.5	10.6	>+100%	138.0%	37.6	21.9	72.3%
Administrative expenses	-9.7	-9.2	-8.3	5.8%	16.9%	-18.9	-16.9	12.3%
Finance costs	-0.4	-0.3	-0.1	66.2%	698.3%	-0.7	-0.1	>+100%
Other expenses	-0.4	-0.5	-0.6	-10.9%	-23.6%	-0.9	-1.2	-19.3%
Other income	1.8	3.1	0.8	-41.5%	118.9%	4.9	1.9	>+100%
Share of results of associates	0.5	0.3	0.3	51.7%	74.2%	0.9	0.3	>+100%
Profit before tax	16.4	5.6	2.8	>+100%	478.2%	21.9	6.0	>+100%
Tax expense	-3.7	-1.0	-0.4	>+100%	824.4%	-4.7	-1.5	>+100%
Core net profit	9.9	3.1	1.6	>+100%	512.8%	13.0	3.8	>+100%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	391.6	386.8	388.4	430.4	451.9
Gross profit	71.6	57.8	68.5	74.4	78.1
Operating profit	38.0	24.4	39.1	40.5	42.5
Profit before tax	34.0	25.1	39.7	40.1	42.1
Net profit	28.9	18.5	25.2	26.9	27.1
Core net profit	25.9	13.8	25.2	26.9	27.1
Core EPS (sen)	9.0	4.8	8.7	9.3	9.4
DPS (sen)	5.0	5.5	6.0	6.0	6.0

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	148.1	135.0	150.8	143.2	140.4
Other investments and assets	9.6	13.0	14.7	15.0	15.0
Non-current assets	157.7	147.3	165.5	158.2	155.4
Cash	34.7	16.1	54.3	70.0	75.0
Trade debtors	70.0	83.8	97.2	103.0	90.0
Current assets	360.8	403.5	386.6	410.5	400.3
Trade creditors	71.8	100.3	70.0	105.0	74.2
Short-term debt	0.1	0.0	0.2	0.2	0.2
Current liabilities	72.8	100.6	118.2	107.4	42.6
Long-term debt	-	-	-	-	-
Non-current liabilities	5.8	7.4	5.5	6.0	6.0
Share capital	175.3	175.3	180.2	180.2	180.2
Retained earnings	225.8	223.1	248.3	275.2	276.6
Equity	439.8	442.8	428.4	455.3	507.1

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	34.1	25.1	39.7	40.1	42.1
Depreciation & amortisation	11.2	10.7	13.8	14.0	14.0
Changes in working capital	-17.3	-13.8	-14.9	14.0	14.0
Operating cash flow	28.0	42.0	38.6	40.1	42.1
Capital expenditure	-0.7	-10.0	-1.5	-2.0	-2.0
Investing cash flow	-65.6	-44.9	-21.5	-22.0	-22.0
Dividends paid	-11.7	-15.4	-15.4	-15.4	-15.4
Financing cash flow	33.6	-15.6	-15.9	-15.8	-15.8
Net cash flow	-3.9	-18.5	1.2	2.2	4.2
Beginning cash flow	38.3	34.4	15.8	17.0	19.2
Ending cash flow	34.4	15.8	17.0	19.2	23.4

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	9.7%	6.3%	10.1%	9.4%	9.4%
PBT margin	8.7%	6.5%	10.2%	9.3%	9.3%
PAT margin	7.4%	4.8%	7.8%	6.9%	6.9%
Core PAT margin	4.3%	3.6%	6.5%	6.3%	6.0%

Source: Bloomberg, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology