

KKB Engineering Berhad

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

Stellar Steel Fabrication Jobs Boost 3QFY23

KEY INVESTMENT HIGHLIGHTS

- Core earnings of RM9.7m in 3QFY23; 9MFY23 core earnings at RM22.7m, which was above expectations
- Stronger bottom line lifted by onshore steel fabrication jobs
- Outstanding order book stands at over RM500m with earnings visibility up to FY24; current active tender book of more than RM260m
- Maintain BUY with an upgraded TP of RM1.77

Within expectations. KKB Engineering Berhad (KKB) registered a core net profit of RM9.7m for the 2QFY23, more than triple the amount in the same quarter last year, driven by stronger steel fabrication jobs. For the cumulative 9MFY23, the group locked in a core net profit of RM22.7m, exceeding ours and consensus expectations, making up 90.1% and 85.3% respectively of full-year estimates.

Engineering segment. Revenue from the segment grew +35.6%yoy to RM131.5m for the quarter. While civil construction revenue came in lower by -24.4%yoy to RM53.6m, this was offset by a stronger steel fabrication division that saw a tripling of revenue to RM77.9m as compared to 3QFY22. This was attributable to the group's ongoing major onshore fabrication jobs for oil and gas facilities, especially the engineering, procurement, and construction (EPC) of standard wellhead platforms for MNLG FaS and the fabrication and supply of steel structures for Malaysia Rosmari and Marjoram onshore gas plant project in Bintulu, both projects from Sarawak Shell. Meanwhile, construction revenue came in lower due to lower progress claims from the Pan Borneo Highway package it is working on and water-related projects that are reaching the tail end.

Manufacturing segment. The segment's revenue rose +13.0%yoy to RM8.5m, coming mainly from the steel pipes manufacturing division, which tripled to RM6.0m for the quarter, on the back of export of mild steel water pipes to Brunei from KKB's manufacturing plant in Kota Kinabalu. The manufacturing of LP gas cylinders on the other hand, posted a -19.4%yoy decline in revenue to RM2.5m

Order book remains healthy. KKB's outstanding orderbook stands at north of RM500m, with earnings visibility up to FY24. Management guided that they are actively participating in tenders, with a current tender book level of more than RM260m. The group expects the upcoming FY24 to be driven by oil and gas related projects and water piping projects.

Earnings estimates. We are raising our earnings estimates for FY23E-FY25F by 12.0%-16.7% to RM29.1m-RM31.6m to account for the stronger than expected performance, especially from steel fabrication jobs.

Target price. We are revising our TP to **RM1.77** as we peg KKB's FY24F EPS of 10.4 sen to a PER of 17x based on the group's five-year historical mean.

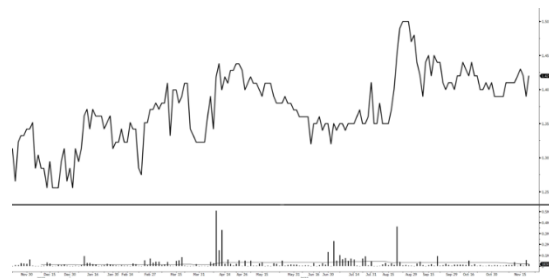
Maintain BUY

Revised Target Price: RM1.77
 (previously RM1.58)

RETURN STATISTICS

Price @ 21 st Nov 2023 (RM)	1.42
Expected share price return (%)	+24.65
Expected dividend yield (%)	+3.39
Expected total return (%)	+28.04

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	-1.5
3 months	0.7	-2.9
12 months	3.6	2.6

INVESTMENT STATISTICS


FYE Dec	2023E	2024F	2025F
Revenue	388.4	430.4	451.9
Operating Profit	40.0	45.2	47.5
Profit Before Tax	38.8	45.2	47.5
Core Net Profit	29.1	30.1	31.6
Core EPS	10.1	10.4	11.0
DPS (sen)	6.0	6.0	6.0
Dividend Yield	3.4%	3.4%	3.4%

KEY STATISTICS

FBM KLCI	1,463.40
Issue shares (m)	288.73
Estimated free float (%)	16.72
Market Capitalisation (RM'm)	409.99
52-wk price range	RM1.30-RM1.51
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.02
Top Shareholders (%)	
Kho Kak Beng Holding Co	38.93
Cahva Mata Sarawak Bhd	17.90
Sarawak Economic Development	10.71

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Maintain BUY. With a steady pipeline of jobs premised on its outstanding order book of more than RM500m, we opine that KKB would be able to sustain its performance, at least over the next few quarters. We can also expect the group to be among the beneficiaries of the various development plans that are in store for Sarawak, backed by the allocations and initiatives under Budget 2024 and the Mid-Term Review of the 12th Malaysia Plan. All factors considered; we maintain our **BUY** recommendation on KKB. 

KKB ENGINEERING BERHAD: 3QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	3QFY23	2QFY23	3QFY22	QoQ	YoY	9MFY23	9MFY22	YoY
Income Statement								
Revenue	140.1	104.4	102.0	34.2%	37.3%	304.9	305.1	-0.1%
Gross profit	23.2	25.2	13.5	-7.9%	71.2%	60.8	35.4	71.9%
Administrative expenses	-8.7	-9.7	-7.8	-10.3%	11.7%	-27.7	-24.7	12.1%
Finance costs	-0.6	-0.4	-0.1	34.0%	376.6%	-1.3	-0.2	542.0%
Other expenses	-0.5	-0.4	-2.5	6.2%	-81.5%	-1.4	-3.7	-61.9%
Other income	2.1	1.8	1.0	17.7%	119.8%	7.1	2.8	148.8%
Share of results of associates	0.4	0.5	0.4	-30.2%	-4.4%	1.2	0.7	77.6%
Profit before tax	15.4	16.4	4.5	-5.6%	243.2%	37.4	10.5	256.5%
Tax expense	-3.6	-3.7	-0.9	-2.2%	300.0%	-8.3	-2.4	245.1%
Core net profit	9.7	9.9	3.0	-1.6%	220.9%	22.7	6.8	231.6%

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	40.0	45.2	47.5
Profit before tax	34.0	25.1	40.0	45.2	47.5
Net profit	28.9	18.5	29.1	30.1	31.6
Core net profit	25.9	13.8	29.1	30.1	31.6
Core EPS (sen)	9.0	4.8	10.1	10.4	11.0
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	40.0	45.2	47.5
Depreciation & amortisation	11.2	10.7	13.8	14.0	14.0
Changes in working capital	-17.3	-13.8	-10.4	-9.9	-9.9
Operating cash flow	28.0	42.0	38.9	45.2	47.5
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	1.5	7.3	9.6
Beginning cash flow	38.3	34.4	15.8	17.0	19.2
Ending cash flow	34.4	15.8	17.3	24.3	28.8

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	9.7%	6.3%	10.3%	10.5%	10.5%
PBT margin	8.7%	6.5%	10.0%	10.5%	10.5%
PAT margin	7.4%	4.8%	7.5%	7.0%	7.0%
Core PAT margin	4.3%	3.6%	7.5%	7.0%	7.0%

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