

KKB Engineering Berhad

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

Ending FY23 on A Strong Note

KEY INVESTMENT HIGHLIGHTS

- Core earnings improved +89.9% to RM26.3m in FY23 on the back of stronger revenue of +21.7% to RM471.0m
- Stronger bottom line lifted by both engineering and manufacturing business segments
- Outstanding order book stands at over RM550m with earnings visibility up to FY25; current active tender book of more than RM290m
- Maintain BUY with an upgraded TP of RM2.07

Within expectations. KKB Engineering Berhad (KKB) registered a core net profit of RM26.3m for FY23, an improvement of +89.9%, driven by better results from both its engineering and manufacturing divisions. The results were slightly below expectations at 90.4% of ours and 89.0% of street's expectations respectively.

Engineering segment. Revenue from the segment grew +19.1% to RM445.0m for the year while its PAT surged +65.8% to RM32.4m. Among factors were due to higher progress billings from the construction division and higher revenue from steel fabrication, where the group is involved in 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. These projects are expected to continue contributing positively to the group's FY24.

Manufacturing segment. The segment's revenue rose +97.3%yoy to RM25.9m, while its bottom line rebounded to a PAT of RM1.9m from a loss after tax of -RM1.1m in FY22. This came mainly from the steel pipes manufacturing division, which has maintained its RM6.0m of revenue for two consecutive quarters.

Order book remains healthy. KKB's outstanding orderbook stands at about RM550m, with earnings visibility up to FY25. Management guided that they are actively participating in tenders, with a current tender book level of more than RM290m and will be actively pursuing more projects, comprising water supply and energy related jobs.

Earnings estimates. We are raising our earnings estimates for FY24E/FY25F by +17.2%/+22.1% to RM35.3m/RM38.6m to account for the stronger than expected performance, especially from steel fabrication jobs.

Target price. We are upgrading our TP to **RM2.07** as we peg KKB's FY24F EPS of 12.2 sen to a PER of 17x based on the group's five-year historical mean.

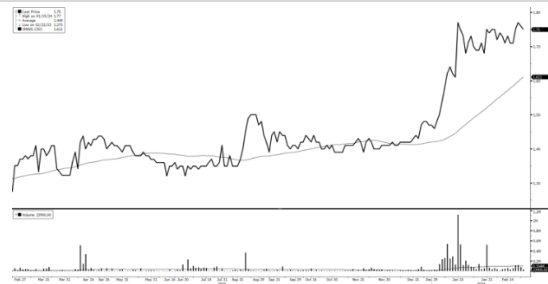
Maintain BUY

Revised Target Price: RM2.07
 (Previously RM1.77)

RETURN STATISTICS

Price @ 22 nd Feb 2024 (RM)	1.75
Expected share price return (%)	+18.3
Expected dividend yield (%)	+3.4
Expected total return (%)	+21.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.2	-2.4
3 months	19.0	15.3
12 months	31.6	24.6

INVESTMENT STATISTICS


AFYE Dec	2023A	2024F	2025F
Revenue	471.0	489.8	514.3
Operating Profit	44.6	46.5	54.0
Profit Before Tax	52.2	53.9	54.0
Core Net Profit	35.3	35.3	36.0
Core EPS	12.2	12.2	12.5
DPS (sen)	7.0	7.0	7.0
Dividend Yield	3.4%	3.4%	3.4%

KEY STATISTICS

FBM KLCI	1,545.49
Issue shares (m)	288.73
Estimated free float (%)	16.72
Market Capitalisation (RM'm)	505.27
52-wk price range	RM1.30-RM1.84
3-mth average daily volume (m)	0.10
3-mth average daily value (RM'm)	0.17
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 RM550m, we opine that KKB would be able to sustain its performance in FY24. 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, on top of other oil and gas related jobs the group is bidding. All factors considered; we maintain our **BUY** recommendation on KKB. 

KKB ENGINEERING BERHAD: 4QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	4Q23	3Q23	4Q22	QoQ	YoY	12MFY23	12MFY22	YoY
Income Statement								
Revenue	166.1	140.1	81.7	18.6%	>+100%	471.0	386.8	21.7%
Gross profit	25.8	23.2	22.4	11.2%	14.9%	86.6	57.8	49.8%
Administrative expenses	-11.5	-8.7	-8.2	31.6%	39.9%	-39.2	-32.9	19.0%
Finance costs	-0.9	-0.6	-0.2	48.5%	>+100%	-2.2	-0.4	>+100%
Other expenses	-1.6	-0.5	-1.8	>+100%	-10.7%	-3.0	-5.5	-45.1%
Other income	2.7	2.1	1.9	27.3%	43.6%	9.8	4.7	>+100%
Share of results of associates	0.7	0.4	0.8	93.0%	-8.9%	1.9	1.5	32.0%
Profit before tax	14.8	15.4	14.6	-4.1%	1.3%	52.2	25.1	>+100%
Tax expense	-9.5	-3.6	-4.2	>+100%	>+100%	-17.8	-6.6	>+100%
Core net profit	3.6	9.7	7.0	-62.9%	-48.4%	26.3	13.8	89.9%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Revenue	391.6	386.8	471.0	489.8	514.3
Gross profit	71.6	57.8	86.6	86.3	88.9
Operating profit	38.0	24.4	44.6	46.5	54.0
Profit before tax	34.0	25.1	52.2	53.9	54.0
Net profit	28.9	18.5	36.5	35.3	38.6
Core net profit	25.9	13.8	35.3	35.3	36.0
Core EPS (sen)	9.0	4.8	12.2	12.2	12.5
DPS (sen)	5.0	5.5	7.0	7.0	7.0

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	148.1	135.0	135.3	143.2	140.4
Other investments and assets	9.6	13.0	11.9	15.0	15.0
Non-current assets	157.7	147.3	148.8	158.2	155.4
Cash	34.7	16.1	35.8	70.0	75.0
Trade debtors	70.0	83.8	80.5	103.0	90.0
Current assets	360.8	403.5	481.3	410.5	400.3
Trade creditors	71.8	100.3	157.5	105.0	74.2
Short-term debt	0.1	0.0	157.5	0.2	0.2
Current liabilities	72.8	100.6	159.3	107.4	42.6
Long-term debt	-	-	-	-	-
Non-current liabilities	5.8	7.4	12.0	6.0	6.0
Share capital	175.3	175.3	175.3	175.3	175.3
Retained earnings	225.8	223.1	232.4	275.2	276.6
Equity	439.8	442.8	458.9	455.3	507.1

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	34.1	25.1	52.2	45.2	47.5
Depreciation & amortisation	11.2	10.7	10.0	14.0	14.0
Changes in working capital	-17.3	-13.8	-13.9	-9.9	-9.9
Operating cash flow	28.0	42.0	41.7	45.2	47.5
Capital expenditure	-0.7	-10.0	-10.3	-2.0	-2.0
Investing cash flow	-65.6	-44.9	6.0	-22.0	-22.0
Dividends paid	-11.7	-15.4	-18.3	-15.4	-15.4
Financing cash flow	33.6	-15.6	-18.7	-15.8	-15.8
Net cash flow	-3.9	-18.5	19.5	7.3	9.6
Beginning cash flow	38.3	34.4	15.8	17.0	19.2
Ending cash flow	34.4	15.8	35.3	24.3	28.8

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	9.7%	6.3%	9.5%	9.5%	10.5%
PBT margin	8.7%	6.5%	11.1%	11.0%	10.5%
PAT margin	7.4%	4.8%	7.8%	7.2%	7.5%
Core PAT margin	4.3%	3.6%	7.8%	7.2%	7.5%

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