

## KKB Engineering Berhad

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

### Steel Fabrication Leads Earnings

#### KEY INVESTMENT HIGHLIGHTS

- Core earnings improved +28.3%yoy to RM3.9m in 1QFY24 on the back of stronger engineering and manufacturing divisions
- Steel fabrication jobs drove engineering segment while mild steel pipes export to Brunei lifted manufacturing segment
- Outstanding order book stands at RM400m with earnings visibility up to FY25; current active tender book of more than RM168m
- Maintain BUY with an upgraded TP of RM2.13

**Within expectations.** KKB Engineering Berhad (KKB) registered a core net profit of RM3.9m in 1QFY24, an improvement of +28.3%yoy, driven by stronger results from both its engineering and manufacturing divisions. The results were below ours and street's expectations at 11.0% and 11.3% of full-year estimates respectively, coming in below expectations.

**Engineering segment.** Revenue from the segment grew 2.4x yoy to RM141.9m while its PAT rose +73.9%yoy to RM9.4m. This was mainly driven by its steel fabrication division involving EPC works, module fabrication and supply of steel structures. The construction division also saw a slight improvement in revenue by +8.3%yoy to RM36.5m, mostly from its ongoing package for the Pan Borneo Highway in Sarawak.

**Manufacturing segment.** KKB's manufacturing segment registered a significant 4.6x growth in revenue to RM8.5m and a rebound into the black with a PAT of RM0.3m as compared to a loss of -RM0.8m in the same quarter last year. This was mostly driven by the export of mild steel pipes to Brunei. The higher offtake of new LPG cylinders during the quarter also contributed to the stronger performance.

**Order book remains healthy.** KKB's outstanding orderbook stands at about RM400m, with earnings visibility up to FY25. The group is actively participating in tenders with a tender book of RM168m, comprising water supply, energy related jobs and other construction projects.

**Earnings estimates.** We are maintaining our earnings estimates as we expect subsequent quarters to pick up the pace.

**Target price.** We are upgrading our **TP to RM2.13** as we roll forward our valuation year to FY25 and peg its EPS of 12.5 sen to a PER of 17x, based on the group's five-year historical mean.

**Maintain BUY.** We can expect KKB 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 12<sup>th</sup> Malaysia Plan, on top of its decent outstanding order book of RM400m. The group recently secured RM37.9m worth of jobs for the supply of mild steel concrete line pipes and fittings to Perbena Emas Sdn Bhd and an award for LPG cylinder fabrication and maintenance from Petronas Dagangan. All factors considered; we maintain our **BUY** recommendation on KKB.

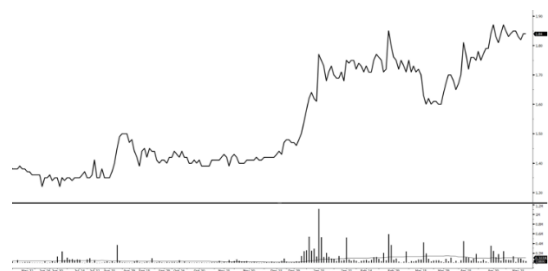
**Maintain BUY**

**Revised Target Price: RM2.13**  
 (Previously RM2.07)

#### RETURN STATISTICS

Price @ 20 <sup>th</sup> May 2024 (RM)	1.84
Expected share price return (%)	+15.8
Expected dividend yield (%)	+3.3
<b>Expected total return (%)</b>	<b>+19.1</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.1	0.0
3 months	12.2	-0.8
12 months	26.9	11.4

#### INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	489.8	514.3	540.0
Operating Profit	46.5	54.0	57.2
Profit Before Tax	53.9	54.0	56.7
Core Net Profit	35.3	36.0	41.0
Core EPS	12.2	12.5	14.2
DPS (sen)	7.0	7.0	7.0
Dividend Yield	3.4%	3.4%	3.4%

#### KEY STATISTICS

FBM KLCI	1,627.50
Issue shares (m)	288.73
Estimated free float (%)	14.52
Market Capitalisation (RM'm)	531.26
52-wk price range	RM1.32-RM1.89
3-mth average daily volume (m)	0.10
3-mth average daily value (RM'm)	0.18
Top Shareholders (%)	
Kho Kak Beng Holding Co	38.93
Cahva Mata Sarawak Bhd	17.90
Sarawak Economic Development	10.71

#### Analyst

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**KKB ENGINEERING BERHAD: 1QFY24 RESULTS SUMMARY**

All in RM'm unless stated otherwise	Quarterly Results				
	1QFY24	4QFY23	1QFY23	QoQ	YoY
<b>Income Statement</b>					
Revenue	150.3	166.1	60.5	-9.5%	>+100%
Gross profit	23.7	25.8	12.5	-8.1%	90.0%
Administrative expenses	-12.0	-11.5	-9.2	4.8%	30.9%
Finance costs	-1.1	-0.9	-0.3	20.3%	>+100%
Other expenses	-0.7	-1.6	-0.5	-57.9%	36.9%
Other income	2.5	2.7	3.1	-9.7%	-20.8%
Share of results of associates	1.0	0.7	0.3	39.9%	>+100%
Profit before tax	13.3	14.8	5.6	-10.5%	>+100%
Tax expense	-3.6	-9.5	-1.0	-61.9%	>+100%
Core net profit	3.9	3.6	3.1	9.0%	28.3%

**FINANCIAL SUMMARY**

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	386.8	471.0	489.8	514.3	540.0
Gross profit	57.8	86.6	86.3	88.9	94.5
Operating profit	24.4	44.6	46.5	54.0	57.2
Profit before tax	25.1	52.2	53.9	54.0	56.7
Net profit	18.5	36.5	35.3	38.6	41.0
Core net profit	13.8	35.3	35.3	36.0	41.0
Core EPS (sen)	4.8	12.2	12.2	12.5	14.2
DPS (sen)	5.5	7.0	7.0	7.0	7.0

Balance Sheet (RM'm)	2022A	2023E	2024F	2025F	2026F
Fixed assets	135.0	135.3	143.2	140.4	133.3
Other investments and assets	13.0	11.9	15.0	15.0	16.0
<b>Non-current assets</b>	<b>147.3</b>	<b>148.8</b>	<b>158.2</b>	<b>155.4</b>	<b>149.3</b>
Cash	16.1	35.8	70.0	75.0	78.8
Trade debtors	83.8	80.5	103.0	90.0	94.5
<b>Current assets</b>	<b>403.5</b>	<b>481.3</b>	<b>410.5</b>	<b>400.3</b>	<b>411.0</b>
Trade creditors	100.3	157.5	105.0	74.2	77.7
Short-term debt	0.0	157.5	0.2	0.2	0.2
<b>Current liabilities</b>	<b>100.6</b>	<b>159.3</b>	<b>107.4</b>	<b>42.6</b>	<b>47.2</b>
Long-term debt	-	-	-	-	-
<b>Non-current liabilities</b>	<b>7.4</b>	<b>12.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
Share capital	175.3	175.3	175.3	175.3	180.2
Retained earnings	223.1	232.4	275.2	276.6	276.6
<b>Equity</b>	<b>442.8</b>	<b>458.9</b>	<b>455.3</b>	<b>507.1</b>	<b>507.1</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
PBT	25.1	52.2	45.2	47.5	56.7
Depreciation & amortisation	10.7	10.0	14.0	14.0	13.3
Changes in working capital	-13.8	-13.9	-9.9	-9.9	-8.9
<b>Operating cash flow</b>	<b>42.0</b>	<b>41.7</b>	<b>45.2</b>	<b>47.5</b>	<b>51.5</b>
Capital expenditure	-10.0	-10.3	-2.0	-2.0	-
<b>Investing cash flow</b>	<b>-44.9</b>	<b>6.0</b>	<b>-22.0</b>	<b>-22.0</b>	<b>-20.0</b>
Dividends paid	-15.4	-18.3	-15.4	-15.4	-15.4
<b>Financing cash flow</b>	<b>-15.6</b>	<b>-18.7</b>	<b>-15.8</b>	<b>-15.8</b>	<b>-15.8</b>
<b>Net cash flow</b>	<b>-18.5</b>	<b>19.5</b>	<b>7.3</b>	<b>9.6</b>	<b>15.6</b>
<b>Beginning cash flow</b>	<b>34.4</b>	<b>15.8</b>	<b>17.0</b>	<b>19.2</b>	<b>34.2</b>
<b>Ending cash flow</b>	<b>15.8</b>	<b>35.3</b>	<b>24.3</b>	<b>28.8</b>	<b>49.9</b>

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Operating profit margin	6.3%	9.5%	9.5%	10.5%	10.6%
PBT margin	6.5%	11.1%	11.0%	10.5%	10.5%
PAT margin	4.8%	7.8%	7.2%	7.5%	7.6%
Core PAT margin	3.6%	7.8%	7.2%	7.5%	7.6%

Source: Bloomberg, MIDFR

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#### 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