



AmResearch

Company report

KIMLUN

(KICB MK, KICB.KL)

30 October 2013

Sells Nilai land for RM46.5mil

BUY

(Maintained)

AmResearch Sdn Bhd

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Rationale for report: Company update

Price	RM1.95
Fair Value	RM3.22
52-week High/Low	RM2.48/RM1.30

Key Changes

Fair value	unchanged
EPS	unchanged

YE to Dec	FY12	FY13F	FY14F	FY15F
Revenue (RMmil)	897.3	1,006.7	1,246.0	1,327.4
Core Net Profit (RMmil)	49.3	44.1	78.9	88.1
Core FD EPS (sen)	20.5	18.3	32.8	36.6
Core FD EPS growth (%)	10.0	(10.6)	79.1	11.5
Consensus EPS (sen)	20.7	22.1	26.1	29.8
DPS (sen)	4.8	5.0	6.0	6.0
Core FD PE (x)	8.3	10.7	6.0	5.4
EV/EBITDA (x)	3.8	3.5	2.2	2.2
Div yield (%)	2.8	2.6	3.1	3.1
ROE (%)	18.0	14.3	21.1	19.7
Net Gearing (%)	44.1	71.2	67.4	36.7

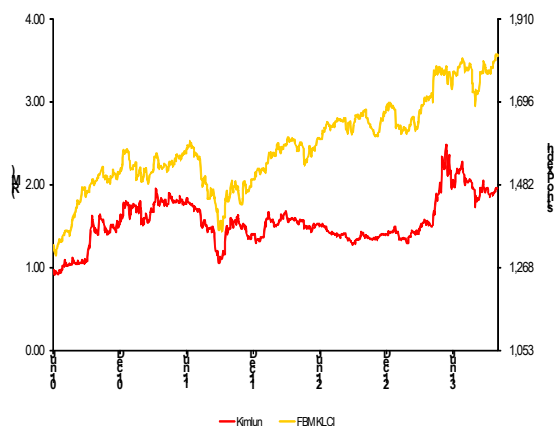
Stock and Financial Data

Shares Outstanding (million)	240.5
Market Cap (RMmil)	461.7
Book value (RM/share)	1.1
P/BV (x)	1.5
ROE (%)	19.8
Net Gearing (%)	44.1

Major Shareholders	Phin Sdn Bhd (33.4%) Pang Tin (7.2%)
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Free Float (%)	41.0
Avg Daily Value (RMmil)	n/a

Price performance	3mth	6mth	12mth
Absolute (%)	(16.6)	37.1	47.4
Relative (%)	(16.4)	30.1	37.5



Investment Highlights

- We maintain BUY on Kimlun Corporation Bhd with a fair value of RM3.22/share – a 20% discount to our SOP-derived value of RM4.03/share.
- Kimlun yesterday announced on Bursa Malaysia that its wholly-owned unit, Kimlun Land Sdn Bhd, has entered into a sales and purchase agreement to dispose nine parcels of agriculture land in Nilai for RM46.5mil.
- The buyer of the nine parcels of land, measuring 17.3 ha, is Bina Plastics Sdn Bhd.
- Kimlun said the disposal would help it unlock the value of its land bank and free up capital tied to the disposed property.
- Kimlun intends to use RM18.8mil (40%) from the proceeds to repay borrowings, and RM26.8mil (57%) for working capital.
- We view the disposal positively as it would help reduce Kimlun’s gearing, albeit marginally. Recall that the group is looking to invest RM35mil-RM40mil this year to upgrade its Johor plant and to purchase construction-related machineries. As at end-June, it has a net gearing of 0.6x.
- The Nilai land was previously earmarked for industrial development with an intended GDV of RM120mil-RM130mil, following the conversion of land title (from agriculture). Kimlun is expecting a gain of RM10.7mil from the disposal.
- With the disposal, capital can now be channelled towards the development of its maiden property project, HYVE in Cyberjaya (GDV: RM240mil) and its existing jobs at hand.
- To recap, HYVE was launched in Feb with a 70% take-up rate thus far. The project is expected to be completed in 2016 but we only expect meaningful contributions from next year onwards.
- Meanwhile, the civil contracts worth SGD1.1bil for the Thomson MRT line have been awarded this month, with the tunnel lining segment package worth SGD100mil (RM250mil) expected to be awarded by year-end.
- We like Kimlun as a proxy to the surge of construction jobs in Iskandar Malaysia and MRT jobs in Singapore and the Klang Valley.
- While earnings are expected to be muted in the 2H due to compressed margins, we see earnings accretion in FY14F-FY15F, boosted by a record RM1.1bil of new job wins this year.

SELLS NILAI LAND FOR RM46.5MIL

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□ Disposal to pare down debt

We view the disposal positively as it would help pare down Kimlun's borrowings.

Recall that the group is looking to invest RM35mil-RM40mil this year to upgrade its Johor plant and invest in construction-related machineries.

As at end-June, it has a net gearing of 0.6x.

Kimlun said the disposal is expected to reduce its gearing marginally by 0.07x.

□ Expected gain of RM10.7mil from disposal

Kimlun had bought the nine parcels of land in 2011 for a cash consideration of RM27.4mil.

Subsequently, Kimlun undertook plans to convert the land title (from agriculture to industrial) with the intention of build industrial units on the land with a potential GDV of RM120mil-RM130mil.

However the plans have been scrapped with the disposal

of the land.

Kimlun told Bursa Malaysia that the expected gain from the disposal of the land is RM10.7mil or 4.4 sen/share.

OTHER UPDATES

□ Focus on HYVE, Cyberjaya

With the disposal, we believe management will be more focused on the development of its maiden property project, HYVE in Cyberjaya (GDV: RM240mil).

HYVE was launched in Feb and has achieved a 70% take-up rate thus far. The project is expected to be completed in 2016 but we only expect meaningful contributions from next year onwards.

HYVE comprises 768 freehold SoHo units that ranges between 450 to 850 sq ft.

Tower A was launched in Feb with selling prices of RM530 –RM540psf for each unit. Tower B is expected to be launched by year-end with a higher selling price of RM570psf.

We understand that Kimlun still intends to develop SoHo and retail units in Medini, Iskandar with launch slated in 2H of 2014. There are no indicative GDV at this juncture.

□ TLS package for Thomson MRT line soon

The civil contracts worth SGD1.1bil for the Thomson MRT line have been awarded this month, with the tunnel lining segment package worth SGD100mil (RM250mil) expected to be awarded by year-end.

TABLE 1: DERIVATION OF FAIR VALUE

Division	Value (RM)		(% of NAV)	Basis
	mil	/share		
Construction	736.2	3.06	76.0	11x average 3-year construction division net profit
Manufacturing	259.9	1.08	26.9	10x average 3-year manufacturing division net profit
Property	87.0	0.36	9.0	DCF of development profits @7%/Market value
Others	10.0	0.04	1.0	Book value as at 31 December 2012
Net debt	(125.1)	(0.52)	(12.9)	As at 31 December 2012
SOP	968.0	4.03	100.0	
No of shares		240.5		
SOP/share		4.03		
Fair value (20% discount to SOP)		3.22		
Capital gain (%)		73.2		
FY13F yield (%)		2.7		
Total return (%)		75.8		
Implied FY14 target PE (x)		9.8		

Source: Company / AmResearch

TABLE 2: CURRENT PROJECTS IN JOHOR

Year	Project	Value (RM mil)	Date ann	Start	End	Duration	Client
2013	Apartments & ancillary buildings, JB	70.5	Oct-13	n/a	Oct-15	n/a	SP Setia
	Earthworks, piling and structure works, JB	115.5	Sep-13	n/a	Sep-14	n/a	IOI Properties
	Service apartments & offices, Puteri Harbour	210	Sep-13	n/a	Mar-16	n/a	UEM Sunrise
	Factories, JB, Johor	59	Aug-13	n/a	Oct-14	n/a	Mah Sing
	Service apartments & ancillary buildings, JB	296.4	Aug-13	Aug-13	May-16	33 months	IOI Properties
	Housing contract, Kulajaya (268 units)	64.3	Apr-13	May-13	Jul-14	15 months	Keck Seng
	Apartments & ancillary buildings, JB	87.7	Jan-13	Jan-13	Jan-15	2 years	SP Setia
2012	Service apartments & ancillary buildings, JB	114.7	Mar-12	Mar-12	Feb-14	23 months	SP Setia
	244 units of houses, JB	36.9	Mar-12	Mar-12	Feb-14	23 months	Keck Seng
	Apartments & ancillary buildings, JB	68.3	Mar-12	Mar-12	Dec-14	21 months	UM Land
	Service apartments & ancillary buildings (2 blocks), Plentong,	82.1	Jan-12	Feb-12	May-14	27 months	IJM Land

Source: Company / AmResearch

CHART 1 : PB BAND CHART



CHART 2 : PE BAND CHART



TABLE 3 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2011	2012	2013F	2014F	2015F
Revenue	652.1	897.3	1,006.7	1,246.0	1,327.4
EBITDA	66.8	75.6	78.0	129.0	155.1
Depreciation/Amortisation	(6.6)	(8.6)	(13.9)	(15.8)	(16.5)
Operating income (EBIT)	60.2	67.0	64.1	113.3	138.6
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(2.0)	(5.9)	(10.0)	(11.5)	(10.7)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	58.3	61.1	54.1	101.8	127.9
Taxation	(15.6)	(11.8)	(10.0)	(19.4)	(32.7)
Minorities/pref dividends	0.0	0.1	(0.1)	(3.5)	(7.1)
Net profit	42.7	49.3	44.1	78.9	88.1
Core net profit	42.7	49.3	44.1	78.9	88.1
Balance Sheet (RMmil, YE July)	2011	2012	2013F	2014F	2015F
Fixed assets	45.9	128.3	154.4	148.6	142.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.4	0.4	0.4	0.4	0.4
Total non-current assets	46.3	128.7	154.8	149.0	142.5
Cash & equivalent	78.2	34.0	18.5	34.4	71.5
Stock	12.5	19.5	29.6	35.6	37.4
Trade debtors	224.3	307.4	344.7	443.8	472.8
Other current assets	149.2	230.2	285.2	300.2	310.2
Total current assets	464.2	591.1	678.1	814.0	891.9
Trade creditors	212.5	266.2	291.2	341.4	358.3
Short-term borrowings	47.6	93.9	132.3	153.4	136.0
Other current liabilities	16.7	17.9	17.9	17.9	17.9
Total current liabilities	276.8	377.9	441.4	512.6	512.1
Long-term borrowings	14.0	65.3	82.3	70.8	61.9
Other long-term liabilities	3.5	1.5	1.5	1.5	1.5
Total long-term liabilities	17.5	66.8	83.8	72.3	63.5
Shareholders' funds	216.1	274.8	307.3	374.2	447.9
Minority interests	0.0	0.3	0.4	3.9	10.9
BV/share (RM)	0.94	1.14	1.28	1.56	1.86
Cash Flow (RMmil, YE July)	2011	2012	2013F	2014F	2015F
Pretax profit	58.3	61.1	54.1	101.8	127.9
Depreciation/Amortisation	6.6	8.6	13.9	15.8	16.5
Net change in working capital	(54.6)	(66.8)	(77.5)	(69.9)	(23.8)
Others	(48.8)	(63.2)	(10.0)	(19.4)	(32.7)
Cash flow from operations	(38.5)	(60.4)	(19.4)	28.3	87.8
Capital expenditure	(12.4)	(75.9)	(40.0)	(10.0)	(10.0)
Net investments & sale of fixed assets	0.3	0.1	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(12.1)	(75.8)	(40.0)	(10.0)	(10.0)
Debt raised/(repaid)	30.5	97.5	55.4	9.6	(26.3)
Equity raised/(repaid)	0.0	17.6	0.0	0.0	0.0
Dividends paid	(11.0)	(7.5)	(11.5)	(12.0)	(14.4)
Others	(1.8)	(15.8)	0.0	0.0	0.0
Cash flow from financing	17.7	91.9	43.9	(2.4)	(40.7)
Net cash flow	(32.9)	(44.3)	(15.5)	15.9	37.1
Exchange rate effects	(0.0)	0.1	0.0	0.0	0.0
Net cash/(debt) b/f	111.2	78.2	34.0	18.5	34.4
Net cash/(debt) c/f	78.2	34.0	18.5	34.4	71.5
Key Ratios (YE July)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	23.6	37.6	12.2	23.8	6.5
EBITDA growth (%)	21.6	13.1	3.2	65.4	20.2
Pretax margins (%)	8.9	6.8	5.4	8.2	9.6
Net profit margins (%)	6.5	5.5	4.4	6.3	6.6
Interest cover (%)	30.8	11.3	6.4	9.9	12.9
Effective tax rate (%)	26.8	19.4	18.4	19.0	25.6
Net dividend payout (%)	28.2	23.4	27.3	18.3	16.4
Debtors turnover (days)	391	515	413	219	339
Stock turnover (days)	35	77	61	39	37

Source: Company, AmResearch estimates

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Printed by

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