

KNM seen securing more Rapid projects

KNM Group Bhd
(May 27, 46 sen)

Maintain buy with a lower target price (TP) of 59 sen: KNM Group Bhd's revenue increased 15.3% year-on-year (y-o-y) to RM397.1 million, while earnings declined 69.2% y-o-y largely due to a higher earnings base recorded in the first financial quarter ended March 31, 2015 (1QFY15). 1QFY16 earnings missed our and consensus estimates by a variance of more than 10% as we believe that the bulk of earnings recognition will be back-end-loaded towards the latter part

of FY16 and into FY17.

Revenue from Asia and Oceania increased 39.8% y-o-y to RM117.2 million, but earnings before interest, taxes, depreciation and amortisation took a hit, diving 43.5% y-o-y to RM36 million due to the large earnings base recorded in 1QFY15 from a gain on disposal of an Australian operation. The rise in revenue was attributable to increased activity in Pengerang.

As the bulk of the revenue and earnings from key projects in the Petronas Pengerang Integrated Complex project will only be rec-

ognised towards the latter part of FY16 and into FY17, coupled with weaker-than-expected jobs from the Americas, we are revising our FY16 and FY17 earnings forecasts to RM75.5 million and RM82.7 million respectively.

We are reiterating our "buy" recommendation on KNM Group with a revised TP of 59 sen per share (previously 62 sen). We roll forward our valuation base year premised on earnings per share for FY17 of 4.2 sen to price-earnings ratio (PER) for FY17 multiple of 14 times. Our target PER is derived from a 0.5-stand-

ard deviation discount to KNM's five-year historical average PER.

Year to date, KNM Group has announced a collective RM326 million worth of local jobs secured mainly in Johor. Our optimism about the Refinery And Petrochemical Integrated Development (Rapid) project remains and we are still sanguine about more projects to arise from Rapid for KNM Group — especially in the process equipment segment. KNM Group has thus far been awarded with RM151 million worth of jobs from Rapid in 2016 alone. — *MIDF Research, May 27*