

## Strong contract flows for KNM from Rapid

### KNM Group Bhd (May 16, 45.5 sen)

**Maintain buy with an unchanged target price (TP) of 62 sen:** KNM Group Bhd has announced receipt of contract from Tecnicas Reunidas SA for works totalling US\$23.2 million (RM93 million). The contract works are for the fabrication of high-thickness vessels and high-thickness columns. These vessels and columns are to be used for the refinery and petrochemical integrated development (Rapid) project in Pengerang.

Since 2015, KNM Group has secured more than RM500 million worth of contracts from various main contractors involved in Rapid. Among the main contractors involved in Rapid which have awarded KNM with work packages are Toyo Engineering Corp, Tecnicas Reunidas and Sinopec Engineering (Group) Co Ltd.

We remain bullish on the Rapid project and sanguine about more projects to arise from Rapid for KNM — especially related to the process equipment segment. KNM has thus far been awarded with RM151 million worth of jobs for Rapid this year alone.

Judging from the outstanding jobs which are still available in the Pengerang Integrated Petroleum Complex and also tenders which are within KNM's core expertise, we are estimating KNM's bid book to be in the tune of approximately RM5 billion. Assuming a success rate of approximately 15%, we expect KNM to be announcing more job wins in subsequent quarters.

We believe that the bulk of revenue from the Rapid wins will be recognised in financial year 2016 (FY16) to FY17. We are maintaining our earnings estimates as this project falls within our annual order book replenishment assumption.

We reiterate our "buy" recommendation on KNM with an unchanged TP of 62 sen per share. Our TP is derived by pegging 2016 earnings per share of 4.8 sen to price-earnings ratio (PER) multiples of 13 times. Our target PER is premised on a 0.5-standard deviation discount to KNM's 10-year historical average PER.

On a separate note, KNM's subsidiary Peterborough Green Energy Ltd accepted the offer from Export-Import Bank of Malaysia Bhd for an overseas project financing (OPF) facility of £35 million (RM202.1 million). The OPF facility is to part finance the development and construction of Phase 1MW to 18MW waste-to-energy power plant in Peterborough, the United Kingdom. The tenor for the OPF facility is for a period of 11 years only and guaranteed by KNM. With this financing facility, KNM's gearing will increase to 0.34 times from 0.27 times previously. — *MIDF Research, May 16*

### KNM Group Bhd

FYE DEC (RM MIL)	2013	2014	2015	2016F	2017F
Revenue	1,985.2	1,865.1	1,641.3	1,987.0	2,226.6
Ebit	100.7	179.4	165.7	198.7	200.4
Pre-tax profit	45.8	123.4	124.1	180.7	182.4
Net profit	20.3	45.69	49.5	94.0	94.8
EPS (sen)	1.6	2.9	2.7	4.8	4.8
EPS growth (%)	-79.4	80.4	-9.9	80.9	0.9
PER (x)	28.5	15.8	17.5	9.7	9.6
Net dividend (sen)	0	0	0	0.5	0.5
Net dividend yield (%)	0	0	0	1.0	1.0

Source: MIDFR