

22 September 2023

Construction & Engineering | Construction

Kumpulan Kitacon (KITACON MK)

Not Rated

Your Trusted Home Builder

Fair Value (Return): MYR0.88 (+35%)
 Price: MYR0.65
 Market Cap: USD69.4m
 Avg Daily Turnover (MYR/USD) 0.15m/0.03m

- MYR0.88 FV based on 8.5x FY24F P/E.** Kumpulan Kitacon's long-term relationship with renowned developers may continue supporting its orderbook replenishment and profit growth. The 8.5x P/E is within the 8-10x P/E range ascribed to most small cap peers under our coverage and is at a c.30% discount to Bursa Malaysia Construction Index's 5-year mean P/E of 12.4x. In light of the stable and consistent job replenishment trends, we view its valuation as undemanding – trading at 6.3x FY24F P/E (>2SD below the Bursa Malaysia Construction Index's 5-year mean).
- Robust outstanding orderbook.** KITACON has secured new jobs worth MYR906.8m (already a record high) in FY23 as of 22 Aug. This brings its outstanding orderbook to MYR1.4bn (cover ratio of 2.9x based on FY22 revenue). We expect the group to secure another MYR100m worth of jobs by end FY23F, with FY24F and FY25F estimated to clinch MYR800m and MYR900m worth of new orders. We believe this is reasonable as the group's current ongoing tenders as of 22 Aug are at MYR1.2bn (for 34 projects). Its tender entries are done throughout the year – enabling a steady flow of job wins with 13 new jobs secured thus far for FY23.
- Strategic focus in Selangor.** More than 70% of KITACON's revenue is derived from projects in Selangor. This enables the group to capitalise on Selangor's GDP growth, whereby the Selangor Government projected a GDP growth rate of 6.5-7% annually from 2021-2025 under the First Selangor Plan. This projected growth rate is much higher than the target GDP growth pa of 5-6% from 2021-2025 under the Mid-Term Review of the 12th Malaysia Plan. Industrial properties may serve as a growth factor for its orderbook, with Selangor recording MYR5.4bn transactions of industrial properties in 1H23 (FY22: MYR10.1bn).
- Earnings projection.** We are projecting a 3-year earnings CAGR of 14% for KITACON, underpinned by estimated sturdy job win targets of MYR800m and MYR900m for FY24F and FY25F vs MYR400-600m in FY21-22. The record high job replenishment in FY23F would also ensure higher progress billings as they move along the S-curve. Meanwhile, the scenario of having too many jobs is not a concern as the average tenure of jobs is relatively short at 18-24 months, with some even shorter than a year. A rerating catalyst for the stock includes potentially securing more jobs in Johor, as the state contributed 1.6% of revenue in FY21.
- Net operating cash flow generation is expected to be healthy** at MYR36-56m pa in FY23-25F, thanks to its stable earnings growth. In addition, KITACON's net cash is forecasted to be at MYR113-168m pa in the same period. This should support the commitments in terms of capex and also dividends. Assuming a 25% dividend payout ratio (similar to the group's policy), we derive prospective yields of 3.2% to 4.4% for FY23-25F.
- Key risks** include lower-than-expected job replenishments, unexpected delays, and loss of key management personnel.

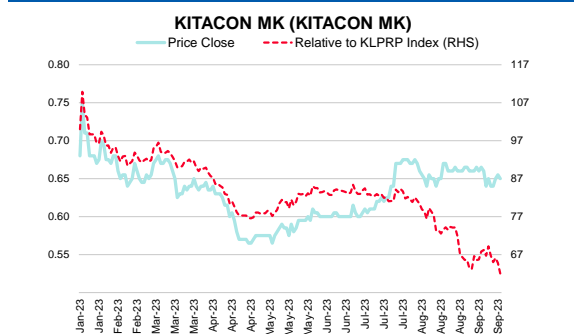
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	(3.0)	8.3	2.4	0.0
Relative	0.0	(10.4)	(19.4)	(28.7)	0.0
52-wk Price low/high (MYR)	0.57 – 0.75				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	456	488	718	899	943
Recurring net profit (MYRm)	38	38	41	51	57
Recurring net profit growth (%)	(0.5)	2.1	6.6	25.6	10.3
Recurring P/E (x)	8.62	8.45	7.93	6.31	5.72
P/B (x)	1.8	1.5	1.3	1.1	1.0
P/CF (x)	4.03	20.16	5.99	9.09	5.85
Dividend Yield (%)	39.8	3.1	3.2	4.0	4.4
EV/EBITDA (x)	4.59	4.46	3.81	2.80	2.07
Return on average equity (%)	18.7	20.2	17.8	19.4	18.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits




Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.08	0.08	0.08	0.10	0.11
Construction & Engineering	DPS	0.26	0.02	0.02	0.03	0.03
Kumpulan Kitacon	BVPS	0.37	0.43	0.49	0.57	0.65
KITACON MK	Return on average equity (%)	18.7	20.2	17.8	19.4	18.6
Not Rated						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	8.62	8.45	7.93	6.31	5.72
8.5x FY24F P/E	P/B (x)	1.8	1.5	1.3	1.1	1.0
	FCF Yield (%)	23.0	2.5	13.6	8.5	14.6
Key drivers	Dividend Yield (%)	39.8	3.1	3.2	4.0	4.4
Kitacon's earnings is supported by expanding orderbook, improving outlook of the property sector.	EV/EBITDA (x)	4.59	4.46	3.81	2.80	2.07
	EV/EBIT (x)	5.01	4.86	4.15	3.03	2.25
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	456	488	718	899	943
i. Higher-than-expected material and labour cost;	Gross profit	81	91	106	141	152
ii. Lower-than-expected sales;	EBITDA	54	56	56	70	77
iii. Lower-than-expected margins.	Depreciation and amortisation	(5)	(5)	(5)	(5)	(6)
	Operating profit	50	51	51	65	71
Company Profile	Net interest	2	1	2	2	3
Kumpulan Kitacon is a building construction contractor for residential and non-residential buildings. As a main contractor, the group is responsible for the overall project. This includes project planning and management, appointment of subcontractors, procurement of labour and materials, and monitoring the entire building construction process to ensure timely completion up to project handovers to customers.	Pre-tax profit	52	53	54	67	74
	Taxation	(11)	(13)	(13)	(16)	(18)
	Reported net profit	42	40	41	51	57
	Recurring net profit	38	38	41	51	57
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	43.1	(25.7)	10.5	(18.8)	(4.6)
	Cash flow from operations	80.6	16.1	54.3	35.8	55.6
	Capex	(5.8)	(8.0)	(10.0)	(8.0)	(8.0)
	Cash flow from investing activities	2.1	18.9	26.3	(8.0)	(8.0)
	Dividends paid	(59.5)	(31.7)	(10.3)	(12.9)	(14.2)
	Cash flow from financing activities	(44.5)	(39.4)	(7.4)	(9.5)	(10.4)
	Cash at beginning of period	5.9	44.0	39.6	112.7	131.0
	Net change in cash	38.1	(4.4)	73.1	18.2	37.2
	Ending balance cash	44.0	39.6	112.7	131.0	168.2
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	83	76	113	131	168
	Tangible fixed assets	31	20	25	28	30
	Total assets	451	409	580	704	768
	Short-term debt	1	0	1	2	3
	Total long-term debt	6	0	0	0	0
	Total liabilities	267	194	335	420	441
	Total equity	184	215	245	284	327
	Total liabilities & equity	451	409	580	704	768
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	(7.0)	7.1	47.2	25.2	4.9
	Recurrent EPS growth (%)	(96.0)	2.1	6.6	25.6	10.3
	Gross margin (%)	17.8	18.7	14.8	15.7	16.1
	Operating EBITDA margin (%)	11.9	11.4	7.8	7.8	8.2
	Net profit margin (%)	9.2	8.3	5.7	5.7	6.0
	Dividend payout ratio (%)	309.6	24.8	25.0	25.0	25.0
	Capex/sales (%)	1.3	1.6	1.4	0.9	0.8
	Interest cover (x)	189	391	1,602	672	443

Source: Company data, RHB

Investment Thesis

A preferred builder by renowned developers. KITACON has established a long-term business relationship with its customers. Out of the top five customers, three have been dealing with it for over 10 years, ie major property developers such as Sime Darby Property (SDPR MK, BUY, TP: MYR0.93), SP Setia (SPSB MK, BUY, TP: MYR0.93), and Worldwide Holdings (WHO MK, NR). Most of the group's projects revolve around landed residential property, which contributed 86% of FY22 revenue, mainly for townships. These affiliations serve as a clear testament to the trust and confidence that these developers have in KITACON's capabilities.

Figure 1: KITACON's major customers

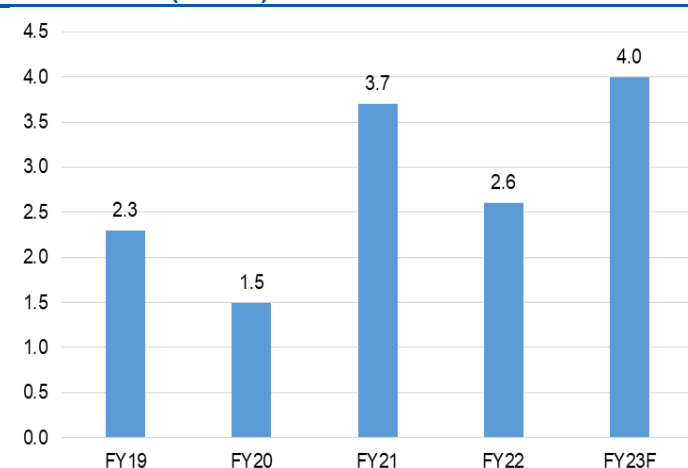
Customer	Type of construction services provided	Length of relationship
	Residential, commercial and industrial buildings, and other related services	24 years
	Residential buildings	22 years
	Residential buildings	13 years

Source: Company data

Highly reputable clients with good track record to provide good job opportunities.

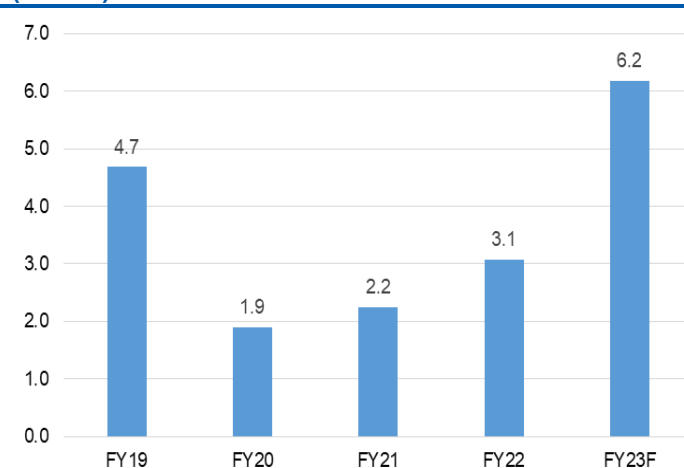
Moreover, KITACON's clients such as SDPR, in particular, has a FY23F sales target of MYR2.7bn, backed by a MYR4bn (FY22 actual GDV launched: MYR2.6bn) GDV launch plan for the same year with a strategic product mix (c.45% landed residential, 39% high-rise residential, c.16% industrial). Thus far, SDPR has launched projects totalling MYR2.1bn in terms of GDV in 1H23, while landed residential and industrial properties recorded average take up rates of 80% and 88% as of 20 Aug. Likewise, SPSB has earmarked a MYR6.2bn GDV launch plan for FY23F (FY22 actual GDV launched: MYR3.1bn). The ability of KITACON's clients to launch new projects will bode well for the group's opportunities to tender for jobs from the said developers.

Figure 2: Annual new launches by Sime Darby Property in terms of GDV (MYRbn)



Source: Company data

Figure 3: Annual new launches by SP Setia in terms of GDV (MYRbn)



Source: Company data

High quality workmanship. The quality of KITACON's workmanship and construction works is assessed through the Quality Assessment System in Construction (QLASSIC), a system introduced by the Construction Industry Development Board (CIDB) to measure and evaluate the quality of workmanship of building construction work, based on the

Construction Industry Standard. QCLASSIC serves as a benchmark for the quality of construction against industry standards, based on a scoring system.

From 2018 up to 30 Nov 2022, 31 out of the group's total 41 QCLASSIC assessments achieved a minimum score of 80%, which is higher than the average QCLASSIC scores of approximately 69% in 2019 and 72% in 2020 published by CIDB. Such attributes make KITACON a preferable option among property developers. In comparison with its peer, Inta Bina (INTA MK, NR), the company recorded a minimum score of 80% for six out the total of 12 QCLASSIC assessments carried out from Nov 2014 to Dec 2019.

Figure 4: Example of the QCLASSIC score assigned to Elmina West Project

CREAM
CONSTRUCTION RESEARCH
INSTITUTE OF MALAYSIA

QCLASSIC
QUALITY CONSTRUCTION
ASSESSMENT

Project Title:
EW/EV5B/DSLH/18/10576 PROPOSED CONSTRUCTION AND COMPLETION OF 205 UNITS DOUBLE STOREY LINK HOUSE TYPE 2 AND 3 AND 2 UNITS OF TNB SUB-STATION, INFRASTRUCTURE AND ASSOCIATED WORKS ON PART OF LOT 368, PHASE EV5B, ELMINA WEST, SEKSYEN U15, 40170 SHAH ALAM, SELANGOR DARUL EHSAN FOR MESSRS. SIME DARBY ELMINA DEVELOPMENT SDN. BHD.

Application No.:
SL21 AP0018 C (P)

Assessment Date:
23 November 2021 - 26 November 2021

Developer/ Owner:
SIME DARBY PROPERTY BERHAD

Main Contractor:
KITACON SDN. BHD.

Company Registration No.:
195501000104

CIDB Registration No.:
1961018-SL009468

CCD: 20 points

Grade : G7

QCLASSIC score:
87%

Chief Executive Officer
Construction Research Institute of Malaysia (CREAM)

Assessment covers Architectural works, External works and Basic M&E fittings (whichever is applicable).
The assessment is based on Construction Industry Standard (CIS 7:2021) which was issued by CIDB.

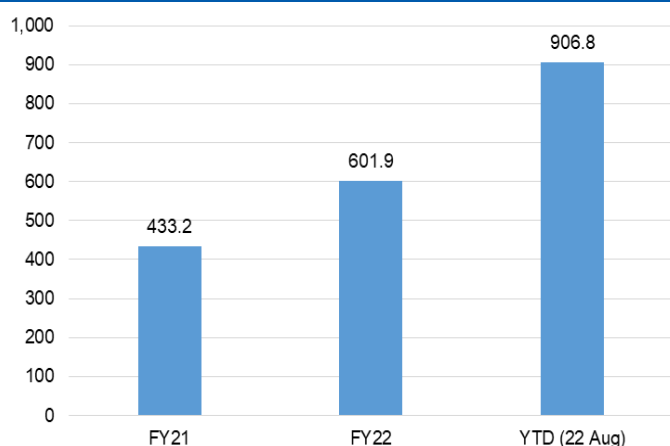
Source: Company data

Steady orderbook replenishment trend. As of 22 Aug, KITACON has secured MYR906.8m worth of new jobs in FY23 – already reaching a record high for the group. We note that the new jobs secured YTD as of 22 Aug came from various clients – GuocoLand (11.2%), SP Setia (10.5%) and Sime Darby Property (5.8%) among others, indicating minimal client concentration risk. This brings the group's outstanding orderbook as of 22 Aug to MYR1.4bn – providing earnings visibility of up to c.3 years, with more than c.20% coming from major clients such as SDPR.

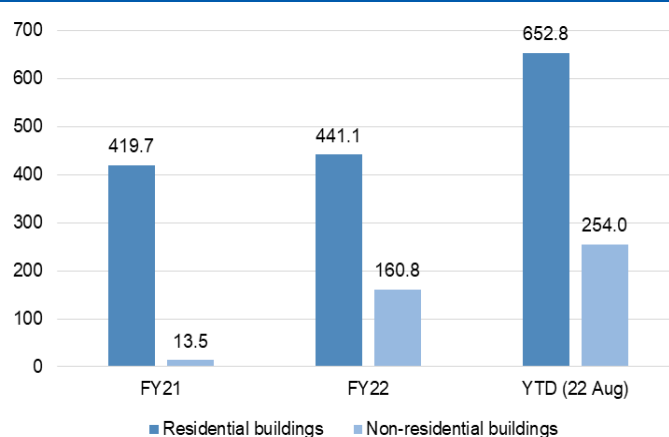
Meanwhile, KITACON's tender book stands at MYR1.2bn spread over 34 projects as at 22 Aug. We gathered that its tender entries are done throughout the year – therefore, the group has the ability to increase its chances of securing new jobs at a steady flow. YTD, the number of jobs won is 13, indicating that job awards for the group are constant.

Furthermore, its specialisation in township construction enables it to continue to bid for contracts for various parcels across different phases within the same township development, as well as the same group of customers. As a result, revenue continues to be generated from the said customers.

The main factor for this comes from the aforementioned relationship it has with long-time customers. As the nature of the group's business is project-based, and typically each project is for a duration of 18-24 months on average, the long-established business relationships with customers demonstrate a continuity in the business relationships with repeat customers. Such replenishment trends also imply that the group has commendable project management skills, as it is able to begin new projects in a short period of time.

Figure 5: KITACON's annual job replenishment trend (MYRm)

Source: Company data

Figure 6: Breakdown of KITACON's annual job replenishment trend according to segments (MYRm)

Source: Company data

Figure 7: Breakdown of KITACON's new job wins according to projects (MYRm) as of 22 Aug

Projects	Expected Completion Date ⁽¹⁾	Total Contract Value (RM mil) ⁽²⁾
New projects secured in Year 2023		
Residential Building		
Bandar Kinrara	2024	23.3
Bandar Seri Coalfields	2024 – 2025	166.0
Bandar Tasik Puteri	2024	61.5
City of Elmina	2024	52.9
Setia Eco Park	2025	47.7
Emerald Rawang	2025	101.5
Mukim Semenyih	2026	81.0
Eco Grandeur	2024	50.3
Kota Bayuemas	2024	24.1
Alam Perdana	2025	42.0
Mukim Morib	2025	2.5
	Sub-total	652.8
Non-residential Building		
Kota Seri Langat	2025	227.8
Mukim Ijok	2025	26.2
	Sub-total	254.0
	Total (Year 2023)	906.8

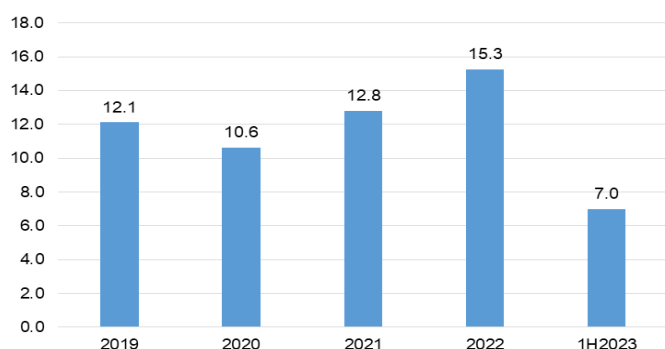
Note: Based on the date of completion stated in the letter of award or revised completion date based on extension of time pending or granted by our customers

Note 2: Refers to contract value which includes variation orders

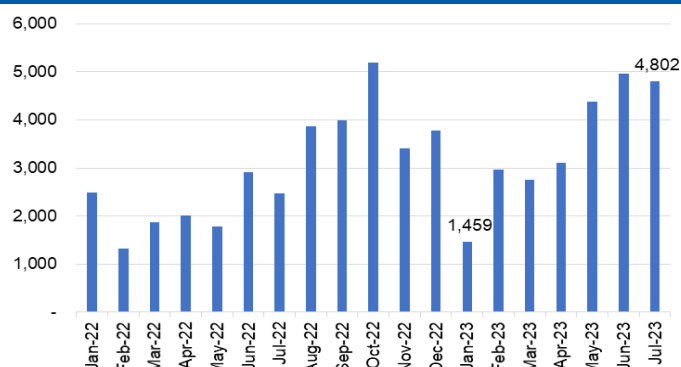
Source: Company data

Strategic focus in Selangor. Aside from having an emphasis on landed townships, which are still in demand, the majority of KITACON's projects are in Selangor – with projects in the state contributing easily over 80% of total revenue. This could enable the group to ride on the state's GDP growth, whereby the Selangor Government projected a GDP growth rate of 6.5-7% annually from 2021-2025 under the First Selangor Plan. This projected growth rate is much higher than the targeted GDP growth pa of 5-6% for the 2021-2025 period under the Mid-Term Review of the 12th Malaysia Plan.

Moreover, the value of residential property transactions in Selangor during 1H23 stood at MYR13.7bn, 10.5% YoY higher from 1H22's MYR12.4bn. Based on our compilation from the National Property Information Centre (NAPIC), the value of transactions for two- to three-storey terrace houses (which is the main type of building built by KITACON) in Selangor has reached MYR15.3bn in 2022 from MYR10.6bn in 2020 – staging a recovery from the pandemic year (Figure 8). While the value of transactions for two- to three-storey terrace houses in 1H23 stood at MYR7bn (1H22: MYR7.5bn), we think this figure may be higher for 2H23 – supported by overall higher loan applications and approvals for the property sector in 7M23, which grew 52% YoY and 64% YoY as per Bank Negara Malaysia's statistics (Figure 9).

Figure 8: Value of transactions for two- to three-storey terrace houses in Selangor (MYRbn)

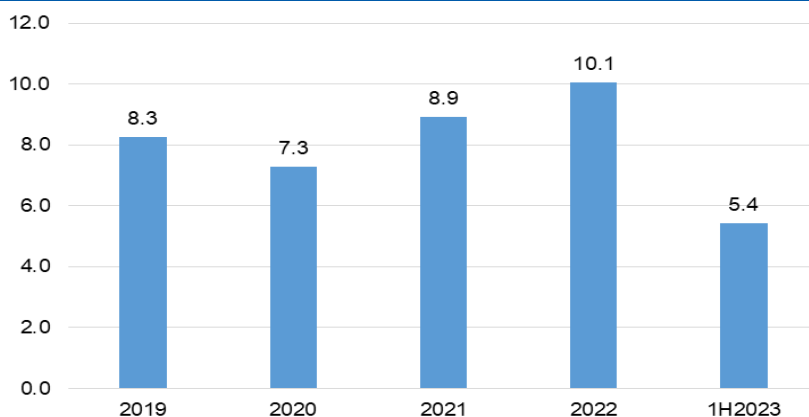
Source: National Property Information Centre (NAPIC)

Figure 9: Number of loans approved for the property sector

Source: Bank Negara Malaysia (BNM)

Growing contribution from the non-residential segment. Out of the MYR906.8m new job wins for YTD-FY23, c.75% is for residential buildings while 25% is for non-residential buildings. We also observed that the job wins for the non-residential segment have been steadily increasing – reaching MYR254m for YTD-FY23 from just MYR13.5m in FY21 (Figure 6).

As for its outstanding orderbook as of 22 Aug, around 25% comes from non-residential projects comprising of commercial buildings such as malls and the warehouses. A few notable industrial projects include Delloyd Industrial (MYR22.3m) and an industrial park at Kota Seri Langat (MYR227.8m). We take the view that KITACON is in a sweet spot to leverage on the growth of industrial properties in Selangor. The transaction value for industrial properties in Selangor stood at MYR5.4bn for 1H23, more than half of the MYR10.1bn seen in FY22.

Figure 10: Value of transactions for industrial properties in Selangor (MYRbn)

Source: NAPIC

Investment in value-added system and facility. KITACON has consistently demonstrated a commitment to enhance its operations by investing in value-added systems and facilities. Among these investments are the allocation of resources towards acquiring an aluminium formwork system and establishing storage and refurbishment facilities. Since 2017, KITACON has started using aluminium formwork and progressively increased its utilisation over the years. As a result, the adoption has shown a steady rise, growing from 26% in FY19 to approximately 60% in FY22 and 70-80% currently.

Furthermore, MYR18m of the IPO proceeds has been designated for the purpose of procuring an estimated 25,000sq m of aluminium formwork systems. This acquisition is intended to be carried out gradually over a span of 36 months. This strategic move supports KITACON's expansion efforts in scaling up its construction activities utilising aluminium formwork systems.

Generally, the use of aluminium formwork system would lower the group's estimated project cost during the tender bid by approximately 1% - 1.5% as compared to using conventional

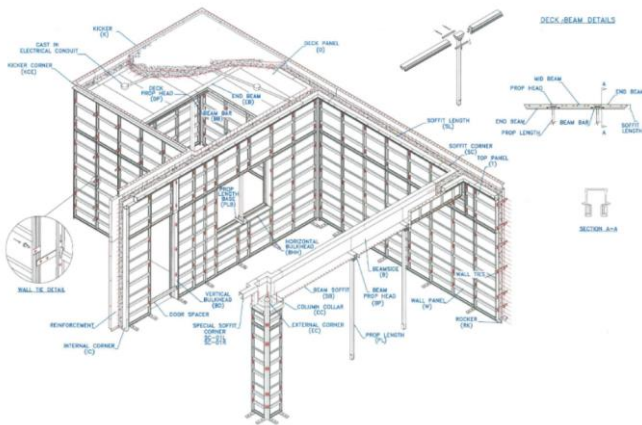
timber formwork. The advantages of using aluminium formwork system enable KITACON to be competitive in its bids while reducing reliance on labour. Typically, the aluminium formwork has a useful life of up to 10 years and can be used for approximately 300 cycles, subject to proper repair and maintenance after each use as compared to conventional timber formwork, which can only be used for up to five cycles, thereby reducing wastage at sites.

Figure 11: Aluminium formworks vs conventional formworks

Characteristics	Aluminium Formworks	Conventional Formworks
Speed of construction	7 days cycle per floor	Minimum cycle time of 21 days
Quality of surface finish	Excellent – plastering is not required	Bad – plastering is required
Wastage of formwork material	Very little	High
Pre-planning of formwork system	Can be done in advance and fabrication of formwork can done offsite	To be done onsite and time consuming with modifications required throughout the process
Re-usage value of formwork system	250-300 times	Maximum 50 times

Source: Sourced from Kerjaya Prospek

Figure 12: Layout plan of aluminium formworks systems



Source: Company data

Figure 13: Aluminium formworks systems at sites



Source: Company data

Financial Overview And Valuation

Results highlight. KITACON reported 2QFY23 revenue and core earnings of MYR191m (+18% QoQ) and MYR8.7m (-14% QoQ). This brings 1H23 revenue and core earnings to MYR352.6m and MYR18.8m. Despite a higher revenue due to higher construction activities from the residential (78% of revenue) and industrial segment (15% of revenue), KITACON's lower 2Q23 core earnings QoQ was due to lower profit margin from ongoing projects which are mostly at the initial stage. As the projects progress along the S-curve – room to recalibrate the margin is there.

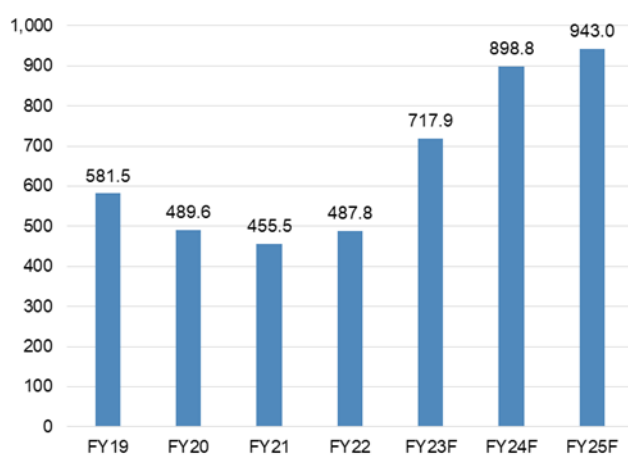
Typically, the group will allocate higher cost estimates during the initial stage of our projects due to higher uncertainties of cost savings realisation, which are subject to factors such as, among others, fluctuations in the prices, and availability of construction materials. As part of the group's cost management strategy, it adopts just-in-time purchasing (where orders for construction materials are made as and when they are required at different construction stages) and negotiate with suppliers and subcontractors at different stages of construction. In the event the group obtains more favourable negotiated terms from its suppliers or subcontractors which leads to lower costs – GPM may improve vs what was initially budgeted.

Earnings forecasts. We foresee recurring net profit growth to be at 6.6% in FY23F before recording a double-digit growth in FY24F-25F as existing projects progress along the S-curve, combined with potential margin recalibration. Recall that KITACON has already secured MYR906.8m for the year as at 22 Aug vs MYR433m and MYR602m in FY21 and FY22 – which is a record high. The record high of new jobs won in YTD-2023 may serve as an earnings driver for FY24F-25F. We impute a job replenishment target of MYR1bn for FY23F and MYR800m and MYR900m for FY24F and FY25F – backed by its robust pipeline launches of its major clientele – SDPR and SPSB, among others.

Cash flow and balance sheet. Net operating cash flow generation is expected to be healthy at MYR36-56m pa in FY23F-25F, thanks to its stable earnings growth. In addition, KITACON's net cash is forecasted to be at MYR113-168m pa in the same period. This should support the commitments in terms of capex (estimated at MYR8m-10m pa) and also dividends.

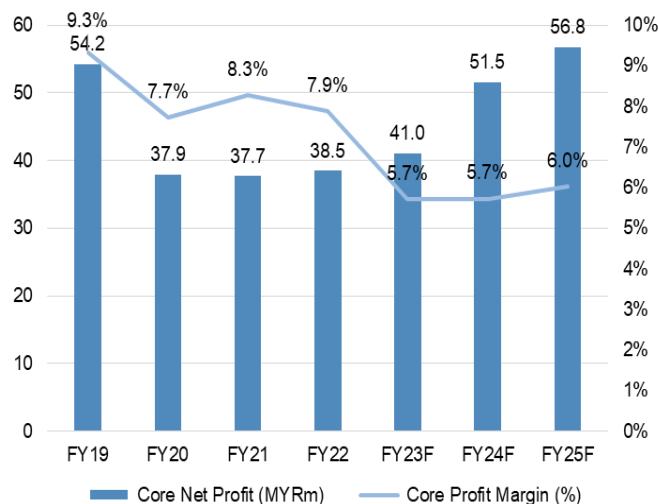
Dividend policy. KITACON has a dividend policy of distributing at least 25% of earnings for FY23F-25F and we pencil in a similar payout ratio assumption for the said years. This translates into dividend payments of MYR10.3m, MYR12.9m, and MYR14.2m for FY23F-25F – with prospective yields of 3.2-4.4% based on the latest share price of MYR0.65. The most recent dividend declared was in 1Q23, with 1 sen per ordinary share amounting to MYR5m. Given its stable operating cash flow and net cash level – we do not discount the possibility of a higher payout ratio.

Figure 14: Revenue trend (MYRm)

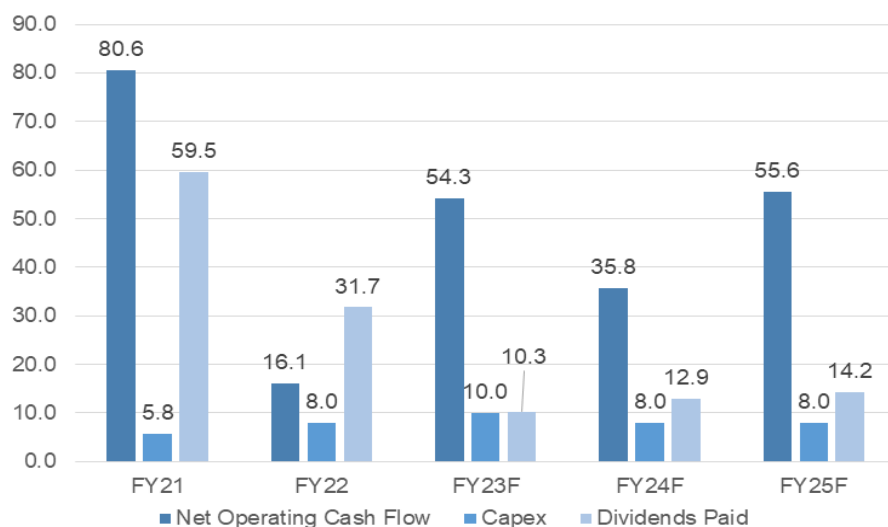


Source: Company data, RHB

Figure 15: Core net profit (MYRm) and margin trends (%)



Source: Company data, RHB

Figure 16: KITACON's net operating cash flow, capital expenditure, and dividends paid (MYRm)

Source: Company data, RHB

Valuation. We ascribe a FV of MYR0.88 based on a target P/E of 8.5x pegged to its FY24F earnings. For peer comparison purposes, we chose some local peers mainly involved in construction of residential properties, eg Kerjaya Prospek (KPG MK, BUY, TP: MYR1.50), MGB (MLG MK, BUY, TP: MYR1.10) and INTA. In our view, KITACON should trade at a discount to KPG's FY24F (or 2-year forward) P/E of 10.4x. This is premised on KPG's established track record since listing, its diversified business consisting of property development and manufacturing in addition to construction plus KPG's larger size in terms of market capitalisation.

On the other hand, KITACON should trade at a premium to INTA's and MLG's FY24F P/E of 6.8-7.1x given the two peers' lower profit base of MYR8-27m in the past three financial years and lower ROAE. Therefore, the suitable P/E valuation range for KITACON should be at 8.5x, in our view – which is also within the 8-10x range ascribed to most small cap contractors under our coverage. The valuation target is also at a c.30% discount to Bursa Malaysia Construction Index's 5-year mean P/E of 12.4x due to its relatively small market capitalisation of MYR325m.

Figure 17: Peer comparison

Company	Country	FYE	Mkt Cap (USDm)	Price	P/E (x)			Div. Yld (%)	ROAE (%)	EV/ EBITDA	NP Growth (%)	
				18-Sep-23 (Local Currency)	Actual	1 Yr Fwd	2 Yr Fwd				1 Yr Fwd	2 Yr Fwd
Kumpulan Kitacon	MA	12/2023	70.5	0.66	7.2	7.3	6.4	3.1	17.8	3.6	6.6	25.6
Peers												
Kerjaya Prospek Group	MA	12/2023	336.1	1.25	13.9	11.4	10.4	6.1	10.8	5.1	16.4	17.0
MGB	MA	12/2023	88.9	0.71	35.5	10.1	7.1	1.4	8.1	4.3	193.8	33.1
Inta Bina	MA	12/2023	29.1	0.26	13.4	6.5	6.8	3.9	13.7	3.8	105.7	-4.8
Mkt. Cap Weighted Avg.			268.0		18.1	10.8	9.5	5.0	10.5	5.0	56.9	18.8
Simple Avg.			151.4		17.4	9.1	7.8	3.5	11.6	5.2	97.5	16.2

Source: Bloomberg, RHB

Company Overview

KITACON is a G7 building construction contractor. Its main focus lies in constructing various types of buildings, encompassing both residential and non-residential structures. As a contractor, the group assumes comprehensive responsibility for projects, which entails project planning and management, as well as the process of obtaining necessary approvals and permits. Its primary market is centred in Malaysia, specifically in regions such as Selangor, Negeri Sembilan, and Johor.

Its business segments comprise the following:

- i. **Residential buildings (86.3% of FY22 revenue)** are mainly used for dwelling purposes and include landed properties such as terrace, semi-detached, and detached houses, cluster houses and townhouses, as well as low-rise and high-rise residential properties;

Figure 18: Examples of residential buildings – terrace, semi-detached, and detached houses



Source: Company data

- ii. **Non-residential buildings (12.2% of FY22 revenue)** primarily involve commercial, industrial, purpose-built, and institutional buildings. Examples of respective types of buildings are listed below:
 - a. Commercial buildings such as shop offices and shopping mall;
 - b. Industrial buildings such as factories and warehouses;
 - c. Purpose-built buildings such as clubhouse and show village; and
 - d. Institutional buildings such as schools.

Figure 19: Examples of non-residential buildings – industrial, commercial, purpose-built and institutional



Source: Company data

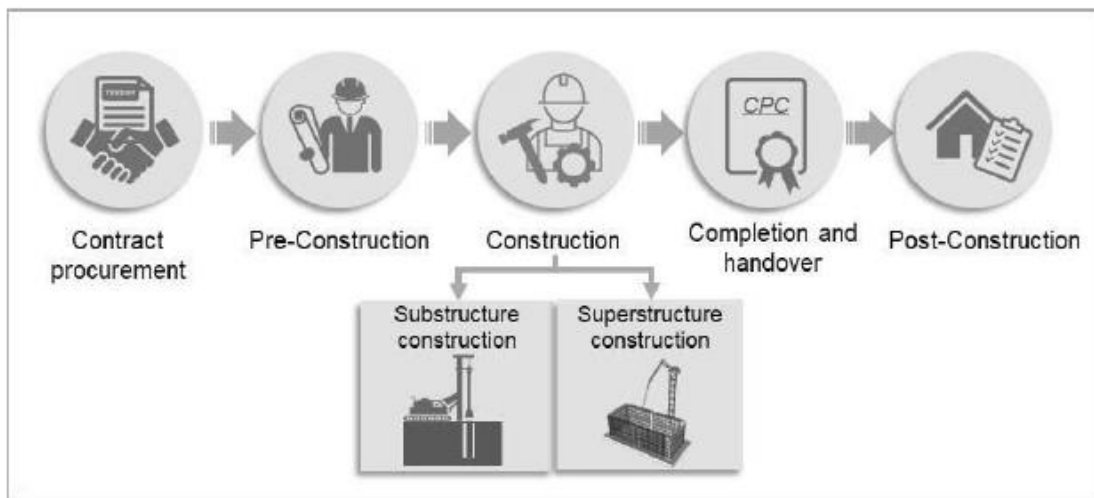
- iii. **Other related services (1.5% of FY22 revenue)** includes earthworks, roadworks, hoarding works, rectification works, piling works, and infrastructure works.

Figure 20: Examples of other related services – roadwork, hoarding work and earthwork



Source: Company data

Figure 21: KITACON's process flow



Source: Company data

Key Risks

Subject to regulatory requirements. KITACON is obligated to adhere to regulatory requirements in the countries where it operates and provides its services. These requirements encompass the possession of crucial licenses, permits, and certifications, subject to strict compliance with relevant laws and conditions. Failure to comply could result in the revocation of these permits or the inability to renew them upon expiration. Such outcomes could have adverse effects on KITACON's ability to continue its operations, thereby impacting its financial performance.

Dependent on Executive Directors and key senior management. The continuing success is heavily dependent upon the services of its Executive Directors and key senior management who have extensive knowledge and experience in the business and industry. As such, the loss of any Executive Directors and/or key senior management without suitable or timely replacements may result in an adverse effect on group operations and may eventually affect its ability to maintain and/or improve business or financial performances.

Dependent on ability to replenish orderbook. Given the construction industry operates on a project-oriented basis, the revenue of the business originates from the successful implementation and completion of individual projects. Consequently, the financial performance of KITACON hinges on its capacity to acquire new projects and refill its order book. To achieve this, the group must consistently present bids to secure new ventures. In cases where projects within the orderbook face cancellations, delays, or rescheduling, and if the acquisition of new projects does not occur promptly, there is potential for negative repercussions on the group's operational outcomes and financial standing.

Escalation of construction costs. KITACON typically operates with projects structured under fixed-rate or lump sum contracts. In these arrangements, the contract's total value and the associated cost of the designated scope of work are established and outlined. Consequently, if there is a rise in costs related to materials or labour, the group is unable to transfer these additional expenses to its clients. This situation has the potential to negatively impact its financial performance. Nevertheless, the group has decided to undertake review at four different stages of the project (ie upon commencement of the project, upon completion of 35% of the project, upon completion of 70% of the project and upon obtaining Certificate of Practical Completion) starting in 2022. KITACON revises its cost estimates when actual costs incurred are lower than budgeted costs, which are usually achieved through, among others, more favourable negotiated terms from suppliers such as early payment discounts, bulk discount for purchase of building materials and lower subcontractors' pricing

Unexpected delays or interruptions. The construction works provided by KITACON are subject to unexpected delays or interruptions caused by factors beyond its control such as natural disaster and delay in obtaining permits. Thus, if there are any delays in the progress of its projects, its timing of delivery will be affected and this will subsequently result in project costs overruns and would affect the recognition on revenue thus affecting the group's financial performance.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-09-21			

Source: RHB, Bloomberg

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