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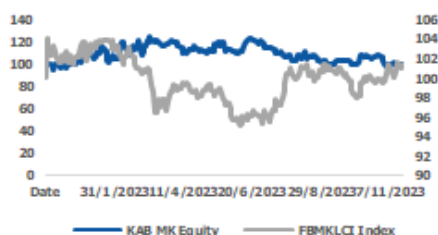
Recommendation:	BUY
Current Price:	RM 0.40
Previous Target Price:	RM 0.53
Target Price:	RM 0.53
Upside/Downside:	32.5%

Stock information

Board	ACE
Sector	Digital Services
Bursa / Bloomberg Code	0176 / KAB MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	888.4
Market Cap (RM' m)	355.4
52-Week Price Range (RM)	0.525-0.379
Beta (x)	0.8
Free float (%)	35.1
3M Average Volume (m)	0.7
3M Average Value (RM' m)	0.3

Top 3 Shareholders	(%)
Oversea-Chinese Banking Corp Ltd	40.2
Tan Jeck Min	13.5
DESERT STREAMS INV LTD	11.6

Share Price Performance



	1M	3M	12M
Absolute (%)	-5.9	-7.0	2.1
Relative (%)	-6.4	-7.9	2.2

Kronologi Asia Berhad



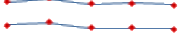






Struggling with higher costs

Summary

- **Krono's 9MFY24 core net profit at RM6.6m came below our expectations dragged by slow recovery and higher than expected in operations cost.**
- **Looking ahead, we are still optimistic over the long-term prospects, despite disappointing results.**
- **We maintain our BUY recommendation with an unchanged target price of RM0.53 by pegging PE multiple of 17.0x to FY25f EPS of 3.1 sen.**

Results Review

- **Results review.** 3QFY24 net profit declined 86.1% yoy to RM28.4m, mainly dragged down by weaker contribution from the EDM infrastructure technology segment from China in tandem with higher operation costs. Revenue for the quarter fell 14.9% yoy to RM67.7m.
- **Far from expectations.** In 9MFY24, cumulative net profit at RM6.6m only makes up to 29% of our forecasted net profit of RM23.0m. The variance was mainly due to slower than expected recover in China operations and higher than expected in operations cost particularly in depreciations and selling and distribution costs. We believe the underperformance was the result of the management's focus on capturing the market share.
- **Operations Highlights.** The EDM IT segment reported a decrease in qoq revenue (-19%) and net profit (-39%), while EDM AAS remained flat on revenue (-3% qoq) and showed an increase in net profit (+7% qoq), showcasing the stability of income provided by the EDM AAS segment. Geographically, most segment revenues remained flat, but China posted sluggish results with -39% qoq and -50% yoy.
- **Industry Highlights.** IMF forecasted Asia's economy to grow average of 4.2% yoy in 2024, thanks to an accelerating pace of growth, which will be a "bright spot" in an otherwise bleak global economic landscape. As Krono focus onto serving the Asia market, we anticipated the group will capitalise on the region's economic growth and well-positioned during the global economic downturn.
- **Outlook.** Despite disappointing results in 9MFY24, we believe the group will recover alongside the broader economy in the next calendar year. This is premised to business owners and managements are willing to plough additional investments, given a clearer economic outlook. Additionally, we are optimistic about the operations in China, riding on the ongoing supply chain relocation trend where Chinese companies tend to prefer building their own data storage systems.
- **Valuation.** Cut our earnings forecast by 44% for FY24F but remained for FY25F, to adjust for the higher-than-expected costs. Re-iterate our **BUY** recommendation on Krono with unchanged target price of RM0.53 as we are expecting a strong recovery in FY25F (CY24).
- **Risk.** Revenue lags behind escalating costs (depreciation and selling cost) due to management aggressively capture market share.

FYE Jan (RM m)	3QFY2 4	3QFY2 3	YoY (%)	2QFY2 4	QoQ (%)	9MFY2 4	9MFY2 3	YoY (%)	5 Quarters Trend	Comments
Revenue	67.7	87.7	(22.7)	79.6	(14.9)	210.4	208.1	1.1		Slow recovery in China operation Dragged by higher costs resulting from aggressively capturing market share
Gross Profit	16.0	19.2	(16.9)	21.0	(23.8)	52.2	50.7	3.1		
Pre-tax profit	1.8	7.6	(76.4)	5.5	(67.3)	10.7	15.4	(30.7)		
Net profit	1.0	7.3	(86.1)	3.0	(66.9)	6.6	12.6	(47.5)		
Core net profit	1.0	7.3	(86.1)	3.0	(66.9)	6.6	12.6	(47.5)		
Core EPS (sen)	0.1	0.8	(86.1)	0.3	(66.9)	0.7	1.4	(47.5)		
EBITDA margin (%)	23.6	21.9		26.3		24.8	24.4			
PBT margin (%)	2.7	8.7		6.9		5.1	7.4			
Core PATMI margin (%)	1.5	8.3		3.8		3.1	6.0			

Source: Company, Apex Securities

Financial Highlights

Income Statement

FYE Jan (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	265.5	308.0	272.7	291.0	327.5
Gross Profit	41.1	64.3	55.9	64.0	72.1
Profit from operations	17.4	30.0	26.6	20.8	39.2
Interest expenses	-1.5	-1.4	-2.0	-4.0	-3.6
Pre-tax Profit	15.9	28.6	24.6	16.8	35.6
Tax	-2.7	-4.8	-5.9	-3.7	-7.8
Profit After Tax	1.4	23.8	18.7	13.1	27.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	1.4	23.8	25.0	13.1	27.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	1.4	23.8	25.0	13.1	27.7

Key Ratios

FYE Jan (RM m)	FY21	FY22	FY23	FY24F	FY25F
Gross margin	15.5%	20.9%	20.5%	22.0%	22.0%
Operation profit margin	6.6%	9.8%	9.7%	7.1%	10.9%
PBT margin	6.0%	9.3%	9.0%	5.8%	10.9%
PAT margin	0.5%	7.7%	6.9%	4.5%	8.5%
NP margin	0.5%	7.7%	9.2%	4.5%	8.5%
Core NP margin	0.5%	7.7%	9.2%	4.5%	8.5%
ROE	0.6%	6.7%	6.0%	2.9%	5.9%
ROFA	0.8%	7.1%	7.3%	3.6%	7.2%
Net gearing	-16.9%	-25.1%	-16.4%	-25.3%	-29.3%

Growth rate (%)

FYE Jan (RM m)	FY21	FY22	FY23	FY24F	FY25F
EMD IT revenue growth rate		12.9%	-2.7%	-12.3%	5.0%
EMD AAS revenue growth rate		33.6%	24.9%	11.2%	35.0%
Group revenue growth rate	12.7%	16.0%	2.0%	6.7%	12.5%
Group net profit growth rate	-92.4%	1573.6%	5.2%	-47.6%	111.7%

Valuations

Valuations	FY25f
Core EPS (RM)	0.031
P/E multiple (x)	17.0
Fair Value (RM)	0.53

Source: Company, Apex Securities

Balance Sheet

FYE Jan (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	69.6	117.6	106.4	143.3	168.2
Receivables	48.4	54.2	83.5	89.0	100.2
Inventories	9.8	15.9	13.6	-16.4	-11.4
Other current assets	54.3	52.0	38.9	30.0	22.6
Total Current Assets	182.0	239.7	242.4	245.9	279.7
Fixed Assets	43.8	57.4	71.4	97.4	115.4
Intangibles	119.5	263.3	263.3	263.3	263.3
Other non-current assets	25.4	12.6	9.8	7.8	8.2
Total Non-current assets	188.8	333.3	344.5	368.5	386.9
Short-term Debt	28.7	28.4	31.4	25.0	25.0
Payables	35.8	53.8	55.7	59.4	66.9
Other Current Liabilities	46.4	109.6	54.3	57.4	74.3
Total Current Liabilities	111.0	191.8	141.5	141.8	166.1
Long-term Debt	0.0	0.0	6.6	5.5	4.8
Other non-current liabilities	17.4	25.8	21.9	22.0	23.0
Total Non-current Liabilities	17.4	25.8	28.5	27.5	27.8
Shareholder's equity	242.4	355.4	416.9	445.1	472.8
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	242.4	355.4	416.9	445.1	472.8

Cash Flow

FYE Jan (RM m)	FY21	FY22	FY23	FY24F	FY25F
Net income	1.4	23.7	24.5	13.1	27.7
Depreciation & amortisation	14.0	17.7	25.5	26.0	26.5
Net working capital	6.8	25.2	-29.7	30.0	-5.0
Others	-3.0	2.1	2.4	15	15
Operating cash flow	19.2	68.7	22.8	70.6	50.8
Net capex	-18.7	-15.5	-33.8	-26.0	-18.0
Others	0.6	-62.5	0.1	0.0	0.0
Investing cash flow	-18.1	-78.0	-33.7	-26.0	-18.0
Changes in borrowings	-6.8	-6.0	3.0	-4.8	-4.8
Issuance of shares	19.3	64.3	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Financing cash flow	12.5	58.3	3.0	-4.8	-4.8
Net cash flow	13.6	49.0	-7.9	39.8	28.0
Forex	-1.0	-0.9	-3.2	-3.0	-3.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	57.0	69.6	117.6	106.4	143.3
Ending cash	69.6	117.6	106.4	143.3	168.2

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
Head Office: 6th Floor, Menara Apex, Off Jalan Semenyih, Bukit Mewah 43000 Kajang, Selangor Darul Ehsan, Malaysia General Line: (603) 8736 1118 Mutiara Damansara Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia General Line: (603) 7890 8899	Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028) Institutional Dealing Team: Siti Nur Nadhirah (ext 2032) PJ Office: General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)	Mutiara Damansara Office: Kenneth Leong (ext 2093) Lee Cherng Wee (ext 2067) Steven Chong (ext 2068) Jayden Tan (ext 2069)

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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