

**Jayden Tan**  
 (603) 7890 8888 (ext 2069)  
[kdtdan@apexsecurities.com.my](mailto:kdtdan@apexsecurities.com.my)

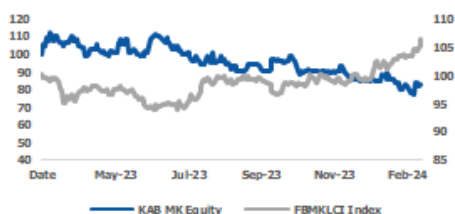
<b>Recommendation:</b>	<b>BUY</b>
<b>Current Price:</b>	RM 0.365
<b>Previous Target Price:</b>	RM 0.530
<b>Target Price:</b>	↓ RM 0.440
<b>Upside/Downside:</b>	20.5%

**Stock information**

Board	ACE
Sector	Digital Services
Bursa / Bloomberg Code	0176 / KAB MK
Syariah Compliant	Yes
FTSE4Good Index	N/A
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	888.4
Market Cap (RM' m)	324.3
52-Week Price Range (RM)	0.525-0.34
Beta (x)	0.9
Free float (%)	35.1
3M Average Volume (m)	0.6
3M Average Value (RM' m)	0.2

<b>Top 3 Shareholders</b>	<b>(%)</b>
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 (%)	-1.4	-7.6	-17.4
Relative (%)	-0.4	-12.0	-23.9

## Kronologi Asia Berhad

### Struggling with higher costs

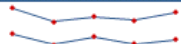



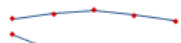




#### Summary

- **Krono's FY24 core net profit at RM8.2m came below our expectations dragged by slow recovery and higher than expected in operations cost.**
- **Looking ahead, we remain optimistic over the long-term prospects with a clearer economic outlook.**
- **Maintained our BUY recommendation with lower target price of RM0.44 by pegging PE multiple of 17x to FY25F EPS of 2.6 sen.**

#### Results Review

- **Results review.** In 4QFY24, core net profit sank 86.5% yoy to RM1.6m, primarily due to lower revenue and higher costs, particularly from depreciation and forex losses. However, there was an improvement of 59.6% qoq, attributed to the seasonally stronger revenue in the fourth quarter. Despite a 14.2% yoy decline, revenue for the quarter increased by 34.3% qoq to RM91m.
- **Profit missed expectations.** In FY24, the cumulative net profit of RM8.2m only represents 63% of our forecasted net profit of RM13.1m, despite revenue meeting our forecast. The variance was primarily due to a lower-than-expected contribution from the EDM As-A-Service division, which typically offers better margins. Additionally, operating costs, particularly in depreciations and selling and distribution costs, were higher than expected. We believe this reflects the management's focus on capturing market share, which impacted profitability.
- **Operations Highlights.** The EDM IT segment revenue increased +50% qoq, while core net profit jumped +245% qoq, primarily due to the seasonal strength of the 4Q2023, driven by high IT capital expenditure from customers. Meanwhile, the EDM AAS segment remain challenging, with flat revenue (+1% qoq) and a decline in net profit (-61% qoq).
- **Industry Highlights.** Rapid advancement of generative AI development fueled an increase in demand for data storage. Data storage has become indispensable for organisations handling vast amounts of data to train and develop their AI models. We anticipate that Krono will leverage to the promising industry outlook and benefit significantly from the AI boom.
- **Outlook.** Despite disappointing results in FY24, we maintain our optimistic view regarding the longer-term prospects. We anticipate the Group will recover alongside the broader economy in the next calendar year, as businesses CAPEX ramping up alongside with a clearer economic outlook. However, we remain cautious over Krono's China operation, as ongoing tensions between China and US may affect corporate willingness to expand data storage investments in China.
- **Valuation.** Cut our earnings forecast by 21% for FY25F, to adjust for the higher-than-expected depreciation costs and introduce RM 29.1m net profit for FY26F. Re-iterate our **BUY** recommendation on Krono with lower target price of RM0.44 to reflect the changes in earnings forecasts.
- **Risk.** Revenue lags behind escalating costs (depreciation and selling cost) due to management aggressively capture market share.

**Figure 1: Results Comparison**

FYE Jan (RM m)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)	5 Quarters Trend	Comments
Revenue	91.0	106.1	(14.2)	67.7	34.3	301.4	314.2	(4.1)		Seasonally strong revenue in the fourth quarter
Gross Profit	18.7	23.2	(19.2)	16.0	17.1	71.0	73.9	(3.9)		
Pre-tax profit	2.1	13.8	(85.0)	1.8	14.9	12.8	29.2	(56.3)		
Net profit	1.6	11.9	(86.5)	1.0	59.6	8.2	24.5	(66.5)		
Core net profit	1.6	11.9	(86.5)	1.0	59.6	8.2	24.5	(66.5)		
Core EPS (sen)	0.2	1.3	(86.5)	0.1	59.6	0.9	2.8	(66.5)		
EBITDA margin (%)	20.6	21.8		23.6		23.5	23.5			
PBT margin (%)	2.3	13.0		2.7		4.2	9.3			
Core PATMI margin (%)	1.8	11.2		1.5		2.7	7.8			

Source: Company, Apex Securities

**Financial Highlights**
**Income Statement**

FYE Jan (RM m)	FY21	FY22	FY23	FY24	FY25F	FY26F
<b>Revenue</b>	<b>265.5</b>	<b>308.0</b>	<b>314.2</b>	<b>301.4</b>	<b>327.5</b>	<b>373.5</b>
<b>Gross Profit</b>	<b>41.1</b>	<b>64.3</b>	<b>73.9</b>	<b>71.0</b>	<b>72.1</b>	<b>82.2</b>
<b>Profit from operations</b>	<b>17.4</b>	<b>30.0</b>	<b>31.9</b>	<b>16.8</b>	<b>32.9</b>	<b>40.9</b>
Interest expenses	-1.5	-1.4	-2.7	-4.0	-3.6	-3.6
<b>Pre-tax Profit</b>	<b>15.9</b>	<b>28.6</b>	<b>29.2</b>	<b>12.8</b>	<b>29.3</b>	<b>37.3</b>
Tax	-2.7	-4.8	-4.7	-4.5	-6.4	-8.2
<b>Profit After Tax</b>	<b>1.4</b>	<b>23.8</b>	<b>24.5</b>	<b>8.2</b>	<b>22.9</b>	<b>29.1</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>1.4</b>	<b>23.8</b>	<b>24.5</b>	<b>8.2</b>	<b>22.9</b>	<b>29.1</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>1.4</b>	<b>23.8</b>	<b>24.5</b>	<b>8.2</b>	<b>22.9</b>	<b>29.1</b>

**Key Ratios**

FYE Jan (RM m)	FY21	FY22	FY23	FY24	FY25F	FY26F
Gross margin	15.5%	20.9%	23.5%	23.5%	22.0%	22.0%
Operation profit margin	6.6%	9.8%	10.1%	5.6%	10.0%	10.9%
PBT margin	6.0%	9.3%	9.3%	4.2%	9.0%	10.0%
PAT margin	0.5%	7.7%	7.8%	2.7%	7.0%	7.8%
NP margin	0.5%	7.7%	7.8%	2.7%	7.0%	7.8%
Core NP margin	0.5%	7.7%	7.8%	2.7%	7.0%	7.8%
ROE	0.6%	6.7%	5.9%	1.8%	4.8%	5.7%
ROFA	0.8%	7.1%	7.1%	2.0%	5.4%	6.6%
Net gearing	-16.9%	-25.1%	-16.4%	-15.4%	-16.5%	-22.0%

**Growth rate (%)**

FYE Jan (RM m)	FY21	FY22	FY23	FY24	FY25F	FY26F
EMD IT revenue growth rate		12.9%	-2.7%	-12.3%	5.0%	5.0%
EMD AAS revenue growth rate		33.6%	24.9%	11.2%	35.0%	35.0%
Group revenue growth rate	12.7%	16.0%	2.0%	-4.1%	8.7%	14.0%
Group net profit growth rate	-92.4%	1573.6%	3.1%	-66.5%	178.3%	27.2%

**Valuations**

	FY25f
Core EPS (RM)	0.026
P/E multiple (x)	17.0
<b>Fair Value (RM)</b>	<b>0.44</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Jan (RM m)	FY21	FY22	FY23	FY24	FY25F	FY26F
Cash	69.6	117.6	106.4	83.3	109.1	141.8
Receivables	48.4	54.2	83.5	78.7	85.5	97.6
Inventories	9.8	15.9	13.6	18.7	23.7	28.7
Other current assets	54.3	52.0	38.9	41.2	22.6	22.6
<b>Total Current Assets</b>	<b>182.0</b>	<b>239.7</b>	<b>242.4</b>	<b>221.9</b>	<b>241.0</b>	<b>290.7</b>
Fixed Assets	43.8	57.4	71.4	131.7	149.7	167.7
Intangibles	119.5	263.3	263.3	263.3	263.3	263.3
Other non-current assets	25.4	12.6	9.8	11.7	8.2	8.2
<b>Total Non-current assets</b>	<b>188.8</b>	<b>333.3</b>	<b>344.5</b>	<b>406.8</b>	<b>421.2</b>	<b>439.2</b>
Short-term Debt	28.7	28.4	31.4	10.9	25.0	25.0
Payables	35.8	53.8	55.7	57.1	62.0	70.7
Other Current Liabilities	46.4	109.6	54.3	50.7	65.4	65.4
<b>Total Current Liabilities</b>	<b>111.0</b>	<b>191.8</b>	<b>141.5</b>	<b>118.6</b>	<b>152.4</b>	<b>161.2</b>
Long-term Debt	0.0	0.0	6.6	1.8	4.8	4.8
Other non-current liabilities	17.4	25.8	21.9	51.2	25.1	55.0
<b>Total Non-current Liabilities</b>	<b>17.4</b>	<b>25.8</b>	<b>28.5</b>	<b>53.1</b>	<b>29.9</b>	<b>59.8</b>
Shareholder's equity	242.4	355.4	416.9	457.1	479.9	509.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Equity</b>	<b>242.4</b>	<b>355.4</b>	<b>416.9</b>	<b>457.1</b>	<b>479.9</b>	<b>509.0</b>

**Cash Flow**

FYE Jan (RM m)	FY21	FY22	FY23	FY24	FY25F	FY26F
<b>Net income</b>	<b>1.4</b>	<b>23.7</b>	<b>24.5</b>	<b>8.2</b>	<b>22.9</b>	<b>29.1</b>
Depreciation & amortisation	14.0	17.7	25.5	31.6	32.2	32.9
Net working capital	6.8	25.2	-29.7	10.4	-5.0	-5.0
Others	-3.0	2.1	2.4	8.2	1.5	1.5
<b>Operating cash flow</b>	<b>19.2</b>	<b>68.7</b>	<b>22.8</b>	<b>58.5</b>	<b>51.6</b>	<b>58.5</b>
Net capex	-18.7	-15.5	-33.8	-60.2	-18.0	-18.0
Others	0.6	-62.5	0.1	-0.1	0.0	0.0
<b>Investing cash flow</b>	<b>-18.1</b>	<b>-78.0</b>	<b>-33.7</b>	<b>-60.3</b>	<b>-18.0</b>	<b>-18.0</b>
Changes in borrowings	-6.8	-6.0	3.0	-25.3	-4.8	-4.8
Issuance of shares	19.3	64.3	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	-3.2	0.0	0.0
<b>Financing cash flow</b>	<b>12.5</b>	<b>58.3</b>	<b>3.0</b>	<b>-28.5</b>	<b>-4.8</b>	<b>-4.8</b>
<b>Net cash flow</b>	<b>13.6</b>	<b>49.0</b>	<b>-7.9</b>	<b>-30.4</b>	<b>28.8</b>	<b>35.7</b>
Forex	-1.0	-0.9	-3.2	7.3	-3.0	-3.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
Beginning cash	57.0	69.6	117.6	106.4	83.3	109.1
<b>Ending cash</b>	<b>69.6</b>	<b>117.6</b>	<b>106.4</b>	<b>83.3</b>	<b>109.1</b>	<b>141.8</b>

**APEX SECURITIES BERHAD – CONTACT LIST**

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

**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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