

20 March 2018

## George Kent (M) Bhd Beat Estimates

**FY18 CNP of RM136.5m came in above at 108%/117% of our/street's estimates. Full-year dividend of 9.5 sen is also higher compared to our expectation of 7.8 sen. No changes to FY19E earnings, introduces FY20E earnings of RM147.2m. Downgrade to UNDERPERFORM from MARKET PERFORM with an unchanged SoP-driven Target Price of RM3.65.**

**Results above.** FY18 CNP of RM136.5m (excluding forex gains of c.RM12.0m) came in above expectations; making up 108%/117% of our/street's estimates. The positive variance was largely due to better-than-expected margin contributions from its engineering division. Third interim dividend of 5.0 sen declared, bringing FY18 dividends to 9.5 sen, which is also higher compared to our full-year expectations of 7.8 sen.

**Results highlight.** FY18 CNP grew 41% YoY driven by several factors; (i) revenue growth of 3% backed by its metering division (+20%), (ii) improvements in EBIT margins to 25% (+5ppt) also due to both engineering and metering divisions, and (iii) its associate/joint-venture also registered growth of 145% as the progress work on LRT3 picked up pace. QoQ, 4Q18 core PATAMI grew 96% backed by revenue growth of 36% due to the impressive improvement in EBIT margin of engineering segment to 38% (+12ppt), which we believe could be largely due to variation order claims or from advanced works done for its on-going projects. That said, its associate contribution also registered a decent growth of 45% mainly from LRT3's contribution.

**Outlook.** To-date, the total construction cost for LRT3 has yet to be finalized by Prasarana. Based on available data and news flow which we compiled, the construction cost for LRT3 has well exceeded RM9.0b. We are expecting the total cost for LRT3 to hover closer to RM14.0-15.0b. Based on our previous scenario analysis, should LRT3 come up to RM15.0b, it would potentially raise our FY19E earnings by 24% and Target Price to RM3.95. That said, another re-rating catalyst for GKENT lies in their potential in MRT3 project that we have yet factored into our earnings estimate and Target Price.

**Earnings estimates unchanged.** Post results, we made no changes to our FY19E CNP estimates as we expect its margin to normalize once most of the variation orders for its on-going projects are fully recognized, and also introduces our FY20E earnings of RM147.2m.

**Downgrade to UNDERPERFORM.** While GKENT's outlook remains promising, we are downgrading the stock to UNDERPERFORM (previously, MARKET PERFORM) at this juncture and might look to upgrade in the future should they are able to secure MRT3 job. Furthermore, its current share price has also hit a record high implying FY19E PER of 17.3x. Our current TP of RM3.65 is based on; (i) 14x FY19E PER for metering, (ii) 17x FY19 PER for construction, (iii) NPV of 6% PDP fees based on RM9b cost, and (iv) 30% discount to net cash.

**Key downside risks for our call are:** (i) lower-than-expected margins, and (ii) delay in construction works.

## UNDERPERFORM ↓

**Price: RM4.33**  
**Target Price: RM3.65 ↔**

**Expected Capital Gain: RM-0.680 -15.7%**  
**Expected Divd. Yield: RM0.091 +2.1%**  
**Expected Total Return: RM-0.589 -13.6%**

**KLCI Index 1,847.94**

### Stock Information

|                          |                |
|--------------------------|----------------|
| Bloomberg Ticker         | GKEN MK Equity |
| Bursa Code               | 3204           |
| Listing Market           | Main Market    |
| Shariah Compliant        | Yes            |
| Issued shares            | 563.3          |
| Market Cap (RM m)        | 2,439.0        |
| Par value per share (RM) | 0.50           |
| 52-week range (H)        | 4.47           |
| 52-week range (L)        | 2.10           |
| Free Float               | 73%            |
| Beta                     | 1.3            |
| 3-mth avg daily vol:     | 1,303,378      |

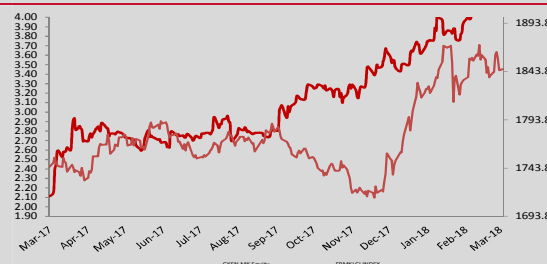
### Major Shareholders

|                                |       |
|--------------------------------|-------|
| Star Wealth Investment Limited | 14.0% |
| Tan Swee Bee                   | 7.7%  |
| Tan Kay Hock                   | 4.8%  |

### Summary Earnings Table

| FY Jan (RM m)            | 2017A        | 2018E        | 2019E        |
|--------------------------|--------------|--------------|--------------|
| Turnover                 | 617.0        | 751.5        | 799.3        |
| EBIT                     | 152.6        | 137.2        | 145.6        |
| PBT                      | 160.3        | 187.9        | 196.3        |
| <b>Net Profit</b>        | <b>124.4</b> | <b>141.0</b> | <b>147.2</b> |
| <b>Core PATAMI</b>       | <b>124.4</b> | <b>141.0</b> | <b>147.2</b> |
| Consensus                |              |              |              |
| Earnings Revision        |              |              |              |
| Core EPS (sen)           | 22.1         | 25.0         | 26.1         |
| Core EPS growth (%)      | 22.9%        | 13.3%        | 0.0%         |
| NDPS (sen)               | 7.7          | 8.8          | 9.1          |
| NTA per share (RM)       | 0.9          | 1.0          | 1.2          |
| Price to NTA (x)         | 5.1          | 4.3          | 3.6          |
| PER (x)                  | 19.6         | 17.3         | 16.6         |
| Debt-to-Equity ratio (x) | -0.8         | -0.8         | -0.9         |
| Return on Asset (%)      | 14.6%        | 13.6%        | 12.7%        |
| Return on Equity (%)     | 25.9%        | 24.6%        | 22.0%        |
| Net Div. Yield (%)       | 1.8%         | 2.0%         | 2.1%         |

### Share Price Performance



|              | 1 mth  | 3 mths | 12 mths |
|--------------|--------|--------|---------|
| Absolute (%) | 4.6%   | 22.8%  | 80.2%   |
| Relative (%) | 104.6% | 122.8% | 180.2%  |

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## Results Highlights

| FYE Dec (RM'm)             | 4Q18         | 3Q18         | QoQ        | 4Q17         | YoY         | FY18         | FY17         | YoY        |
|----------------------------|--------------|--------------|------------|--------------|-------------|--------------|--------------|------------|
| <b>Turnover</b>            | <b>172.9</b> | <b>127.1</b> | <b>36%</b> | <b>122.1</b> | <b>42%</b>  | <b>617.0</b> | <b>599.0</b> | <b>3%</b>  |
| <b>EBIT</b>                | <b>65.7</b>  | <b>33.1</b>  | <b>98%</b> | <b>25.2</b>  | <b>160%</b> | <b>152.7</b> | <b>122.7</b> | <b>24%</b> |
| Interest inc/(exp)         | 1.2          | 0.6          | 99%        | 0.6          | 95%         | 1.5          | -0.3         | -654%      |
| Associates                 | 8.2          | 5.6          | 45%        | 3.1          | 161%        | 18.2         | 7.4          | 145%       |
| Admin, Distribution, Other | -20.1        | -12.3        | 63%        | -8.9         | 125%        | -47.6        | -32.2        | 48%        |
| Exceptional items          | 0.0          | 0.0          | N.A.       | 0.0          | N.A.        | 0.0          | 0.0          | N.A.       |
| Forex gain/(loss)          | -9.5         | -2.6         | 259%       | 0.6          | -1726%      | -12.0        | 4.4          | -374%      |
| <b>Pre-tax profit</b>      | <b>65.6</b>  | <b>36.7</b>  | <b>79%</b> | <b>29.6</b>  | <b>122%</b> | <b>160.3</b> | <b>134.2</b> | <b>19%</b> |
| Taxation                   | -13.7        | -8.0         | 71%        | -5.8         | 135%        | -35.9        | -32.8        | 9%         |
| Deferred tax               | 0.0          | 0.0          | N.A.       | 0.0          | N.A.        | 0.0          | 0.0          | N.A.       |
| <b>Profit after tax</b>    | <b>51.9</b>  | <b>28.7</b>  | <b>81%</b> | <b>23.7</b>  | <b>119%</b> | <b>124.4</b> | <b>101.4</b> | <b>23%</b> |
| Minority interest          | 0.0          | 0.0          | N.A.       | 0.0          | N.A.        | 0.0          | -0.1         | -124%      |
| <b>PATAMI</b>              | <b>51.9</b>  | <b>28.7</b>  | <b>81%</b> | <b>23.7</b>  | <b>119%</b> | <b>124.5</b> | <b>101.3</b> | <b>23%</b> |
| <b>Core PATAMI</b>         | <b>61.4</b>  | <b>31.3</b>  | <b>96%</b> | <b>23.2</b>  | <b>165%</b> | <b>136.5</b> | <b>96.9</b>  | <b>41%</b> |
| EBIT margin                | 38%          | 26%          |            | 21%          |             | 25%          | 20%          |            |
| Pre-tax margin             | 38%          | 29%          |            | 24%          |             | 26%          | 22%          |            |
| CNP margin                 | 35%          | 25%          |            | 19%          |             | 22%          | 16%          |            |
| EPS (sen)                  | 9.2          | 5.1          |            | 7.5          |             | 22.1         | 18.0         |            |
| Core EPS(sen)              | 10.9         | 5.6          |            | 7.1          |             | 24.2         | 17.2         |            |
| BV/share (RM)              | 0.8          | 0.8          |            | 0.7          |             | 0.8          | 0.7          |            |
| Net gearing (x)            | -1.0         | -0.8         |            | -0.9         |             | -1.0         | -0.9         |            |
| Effective tax              | 21%          | 22%          |            | 20%          |             | 22%          | 24%          |            |

Source: Company, Kenanga Research

## Segmental Breakdown

| Turnover Segmentation  | 4Q18  | 3Q18 | QoQ  | 4Q17  | YoY  | FY18  | FY17  | YoY |
|------------------------|-------|------|------|-------|------|-------|-------|-----|
| Metering               | 33.3  | 44.9 | -26% | 33.9  | -2%  | 152.4 | 127.5 | 20% |
| Engineering            | 139.6 | 82.1 | 70%  | 155.2 | -10% | 464.6 | 471.5 | -1% |
| <b>Pre-tax profits</b> |       |      |      |       |      |       |       |     |
| Metering               | 5.5   | 11.7 | -53% | 8.1   | -32% | 36.2  | 27.4  | 32% |
| Engineering            | 74.0  | 32.2 | 130% | 49.4  | 50%  | 154.5 | 115.4 | 34% |
| <b>Pre-tax margins</b> |       |      |      |       |      |       |       |     |
| Metering               | 17%   | 26%  |      | 24%   |      | 24%   | 21%   |     |
| Engineering            | 53%   | 39%  |      | 32%   |      | 33%   | 24%   |     |

Source: Company, Kenanga Research

## Sum-Of-Parts

| Division                  | Stake | Value at Stake | Valuation/Discount Applied | Value (RM'm)  |
|---------------------------|-------|----------------|----------------------------|---------------|
| Metering                  | 100%  | 324.0          | 14.0                       | 324.0         |
| Construction              | 100%  | 1142.2         | 17.0                       | 1142.2        |
| NPV of PDP                | 100%  | 175.4          |                            | 175.4         |
| FY19E Net Cash            | 100%  | 573.5          | 30%                        | 401.5         |
| <b>Total</b>              |       | <b>2215.2</b>  |                            | <b>2043.1</b> |
| Implied Discount          |       |                | 7%                         |               |
| Shares Outstanding        |       |                |                            | 563.3         |
| <b>Target Price/share</b> |       |                |                            | <b>3.65</b>   |

Source: Company, Kenanga Research

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## Peer Comparison

| CORE COVERAGE                |                     |         |         |             |             |                   |          |      |                  |             |             |                          |                          |                 |                |         |
|------------------------------|---------------------|---------|---------|-------------|-------------|-------------------|----------|------|------------------|-------------|-------------|--------------------------|--------------------------|-----------------|----------------|---------|
| NAME                         | Price<br>(20/03/18) | Mkt Cap | PER (x) |             |             | Est. Div.<br>Yld. | Est. ROE | P/BV | Net Profit (RMm) |             |             | 1 Yr Fwd<br>NP<br>Growth | 2 Yr Fwd<br>NP<br>Growth | Target<br>Price | Rating         | YTD (%) |
|                              | (RM)                | (RMm)   | Actual  | 1 Yr<br>Fwd | 2 Yr<br>Fwd | (%)               | (%)      | (x)  | Actual           | 1 Yr<br>Fwd | 2 Yr<br>Fwd | (%)                      | (%)                      | (RM)            |                |         |
| EVERSENDAI CORP BHD          | 0.710               | 555     | 8.4     | 7.7         | 7.9         | 200%              | 8%       | 0.6  | 68.7             | 78.4        | 76.7        | 14%                      | -2%                      | 0.740           | Underperform   | 0.710   |
| GAMUDA BHD                   | 5.05                | 12412   | 0.2     | 19.2        | 16.1        | 2%                | 10%      | 1.6  | 700.6            | 741.7       | 885.9       | 6%                       | 19%                      | 5.45            | Outperform     | 5.05    |
| IJM CORP BHD                 | 2.64                | 9578    | 17.7    | 20.6        | 18.6        | 106%              | 5%       | 1.0  | 539.1            | 462.9       | 511.9       | -14%                     | 11%                      | 3.35            | Outperform     | 2.64    |
| KIMLUN CORP BHD              | 2.10                | 673     | 10.5    | 8.2         | 7.4         | 107%              | 13%      | 1.0  | 70.0             | 81.6        | 90.3        | 17%                      | 11%                      | 2.30            | Market Perform | 2.10    |
| MUHIBBAH ENGINEERING (M) BHD | 3.06                | 1470    | 12.0    | 10.8        | 10.2        | 82%               | 12%      | 1.3  | 131.6            | 136.5       | 143.7       | 4%                       | 5%                       | 3.55            | Outperform     | 3.06    |
| HOCK SENG LEE BERHAD         | 1.61                | 885     | 18.9    | 12.8        | 11.3        | 97%               | 9%       | 1.1  | 46.6             | 69.1        | 77.9        | 48%                      | 13%                      | 1.40            | Underperform   | 1.61    |
| WCT HOLDINGS BHD             | 1.36                | 1913    | 21.3    | 16.6        | 14.5        | 131%              | 5%       | 0.8  | 114.4            | 146.9       | 168.3       | 28%                      | 15%                      | 1.90            | Outperform     | 1.36    |
| MITRAJAYA HOLDINGS BHD       | 0.732               | 561     | 9.3     | 6.3         | 6.0         | 157%              | 15%      | 0.8  | 70.6             | 104.9       | 109.1       | 49%                      | 4%                       | 1.03            | Outperform     | 0.732   |
| SUNWAY CONSTRUCTION GROUP    | 2.12                | 2740    | 20.4    | 15.6        | 14.2        | 28%               | 26%      | 4.1  | 134.0            | 176.0       | 192.8       | 31%                      | 10%                      | 2.30            | Market Perform | 2.12    |
| KERJAYA PROSPEK GROUP BHD    | 1.56                | 1937    | 15.6    | 12.7        | 11.6        | 52%               | 38%      | 2.2  | 124.5            | 152.9       | 166.1       | 23%                      | 9%                       | 1.55            | Underperform   | 1.56    |
| GEORGE KENT (MALAYSIA) BHD   | 4.33                | 2439    | 19.6    | 17.3        | 16.6        | 2%                | 21%      | 3.6  | 124.4            | 141.0       | 147.2       | 13%                      | 4%                       | 3.65            | Underperform   | 4.33    |
| <i>Average</i>               |                     |         | 14.0    | 13.4        | 12.2        |                   |          |      |                  |             |             |                          |                          |                 |                |         |
| NOT RATED/ON OUR RADAR       |                     |         |         |             |             |                   |          |      |                  |             |             |                          |                          |                 |                |         |
| NAME                         | Price               | Mkt Cap | PER (x) |             |             | Est. Div.<br>Yld. | Est. ROE | P/BV | Net Profit (RMm) |             |             | 1 Yr Fwd<br>NP<br>Growth | 2 Yr Fwd<br>NP<br>Growth | Target<br>Price | Rating         | YTD (%) |
|                              | (RM)                | (RMm)   | Actual  | 1 Yr<br>Fwd | 2 Yr<br>Fwd | (%)               | (%)      | (x)  | Actual           | 1 Yr<br>Fwd | 2 Yr<br>Fwd | (%)                      | (%)                      | (RM)            |                |         |
| MUDAJAYA                     | 0.75                | 439     | -1.6    | 10.8        | 7.9         | N.A.              | N.A.     | N.A. | -264.9           | 38.5        | 52.9        | -115%                    | 37%                      | n.a.            | Not Rated      | 0.75    |
| PROTASCO                     | 0.97                | 411     | 7.9     | 7.0         | 6.8         | 6%                | 14%      | 1.0  | 51.8             | 58.5        | 60.1        | 13%                      | 3%                       | 1.52            | Trading Buy    | 0.97    |
| PINTARAS JAYA                | 3.30                | 545     | 30.4    | 12.8        | 10.7        | 6%                | 13%      | 1.7  | 17.8             | 42.2        | 50.6        | 137%                     | 20%                      | 4.2             | Trading Buy    | 3.30    |
| GABUNGAN AQRS                | 1.66                | 772     | 30.0    | 18.3        | 8.7         | 2%                | 10%      | 1.8  | 22.6             | 37.2        | 77.9        | 65%                      | 109%                     | 1.6             | Not Rated      | 1.66    |
| GADANG HOLDINGS              | 0.92                | 607     | 3.2     | 3.4         | 3.3         | 3%                | 27%      | 0.9  | 94.2             | 86.8        | 90.8        | -8%                      | 5%                       | 2.44            | Not Rated      | 0.92    |
| AZRB                         | 0.80                | 425     | 15.2    | 7.2         | 5.7         | N.A.              | 14%      | 1.0  | 27.2             | 57.4        | 73          | 111%                     | 27%                      | 1.35            | Trading Buy    | 0.80    |
| TRC SYNERGY                  | 0.65                | 310     | 10.4    | 9.4         | 11.8        | 3%                | 8%       | 0.7  | 29.9             | 32.9        | 26.3        | 10%                      | -20%                     | n.a.            | Not Rated      | 0.65    |
| BINA PURI                    | 0.33                | 87      | 84.9    | 5.7         | 5.7         | N.A.              | N.A.     | N.A. | 1                | 14.9        | 14.9        | 1390%                    | 0%                       | n.a.            | Not Rated      | 0.33    |
| PESONA                       | 0.37                | 254     | 12.7    | 7.2         | 5.2         | 4%                | 20%      | 1.4  | 20               | 35.3        | 48.5        | 77%                      | 37%                      | 0.485           | Take Profit    | 0.37    |
| JAKS                         | 1.50                | 744     | 1.0     | 11.5        | 8.3         | 0%                | 11%      | 1.3  | 736              | 61.933      | 85.433      | -92%                     | 38%                      | 1.54            | Not Rated      | 1.50    |
| <i>Average</i>               |                     |         | 19.4    | 9.3         | 7.4         |                   |          |      |                  |             |             |                          |                          |                 |                |         |

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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