

13 June 2018

## George Kent (M) Bhd

### Broadly Within

1Q19 CNP of RM18.9m came in broadly within expectations at 13% each of our/consensus estimates. No dividends declared, as expected. No changes to FY19-20E earnings. Upgrade to **OUTPERFORM** from **UNDERPERFORM** with a lower SoP-driven Target Price of RM2.20 (previously, RM3.65).

**Results broadly within.** 1Q19 CNP of RM18.9m (excluding forex gains of c.RM2.7m) came in at 13% of our and consensus estimates. However, we deem the results to be inline as first-half performances are generally weaker and we expect a strong performance in 2H19. No dividends declared, as expected.

**Results highlight.** 1Q19 CNP only dipped 4% YoY despite a steep drop in revenue (-23%) as the impact was well cushioned by higher contribution from associates/joint-ventures level, which increased substantially by 479% thanks to the contribution from LRT3. The drop in revenue was driven by both its construction and metering divisions which we believe could be due to the timing of the billings for its on-going projects and meter orders. QoQ, 1Q19 CNP fell 69% underpinned by lower revenue (-42%) mainly dragged down by its construction division, which saw 48% decrease in revenue, as they booked in several project completions in 4Q18.

**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, and we believe that the government will continue with the construction works of LRT3, as most of the contracts have already been awarded to various contractors and construction works are already in progress. While we think that LRT3 is likely to proceed, we highlight that there would be significant risk to earnings and valuations on the contrary. (Refer overleaf for more details).

**Earnings estimates unchanged.** Post results, we made no changes to our FY19-20E earnings.

**Upgrade to OUTPERFORM.** We are upgrading GKENT from **UNDERPERFORM** to **OUTPERFORM** but with a lower SoP-driven Target Price of RM2.20 (previously, RM3.65). To recap, we had previously called an **UNDERPERFORM** on GKENT due to its rich valuation as it traded up to FY19E PER of 17.3x. However, we see value emerging in the stock arising from the recent sell-down due to the negative news flow in the construction as several mega infrastructure projects have been scraped since the change in government. Our current TP of RM2.20 is based on; (i) 10x FY19E PER for metering, (ii) 9x FY19 PER for construction (lowered from 17x PER, previously in anticipation of low contract flows going forward), (iii) NPV of 6% PDP fees based on RM9b cost, and (iv) 30% discount to 1Q19 net cash, implying FY19E PER of 8.8x.

**Key downside risks to our call are:** (i) lower-than-expected margins, (ii) delay in construction works, and (iii) scrapping of LRT3 project by the government.

## OUTPERFORM ↑

**Price:** RM1.54  
**Target Price:** RM2.20 ↓

**Expected Capital Gain:** RM0.66 42.9%  
**Expected Div. Yield:** RM0.09 5.7%  
**Expected Total Return:** RM0.75 48.5%

**KLCI Index** 1,764.16

### Stock Information

Bloomberg Ticker	GKEN MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	563.3
Market Cap (RM m)	867.4
Par value per share (RM)	0.50
52-week range (H)	4.47
52-week range (L)	1.12
Free Float	73%
Beta	1.6
3-mth avg daily vol:	7,426,726

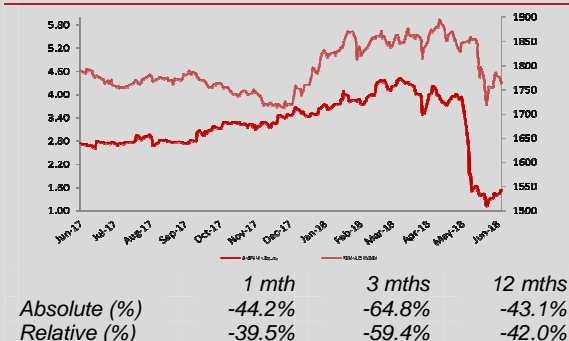
### Major Shareholders

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

### Summary Earnings Table

FY Jan (RM m)	2018A	2019E	2020E
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>136.4</b>	<b>141.0</b>	<b>147.2</b>
Consensus	n.a.	135.6	142.3
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	22.1	25.0	26.1
Core EPS growth (%)	22.9%	13.3%	4.4%
NDPS (sen)	9.5	8.8	9.1
NTA per share (RM)	0.8	1.0	1.2
Price to NTA (x)	1.8	1.5	1.3
PER (x)	7.0	6.2	5.9
Debt-to-Equity ratio (x)	n.cash	n.cash.	n.cash
Return on Asset (%)	14.6%	13.7%	12.8%
Return on Equity (%)	26.4%	25.1%	22.4%
Net Div. Yield (%)	6.2%	5.7%	5.9%

### Share Price Performance



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## Results Highlights

FYE Jan (RM'm)	1Q19	4Q18	QoQ	1Q18	YoY
<b>Turnover</b>	<b>99.8</b>	<b>172.9</b>	<b>-42%</b>	<b>129.4</b>	<b>-23%</b>
<b>EBITDA</b>	<b>13.4</b>	<b>65.7</b>	<b>-80%</b>	<b>25.2</b>	<b>-47%</b>
Depreciation	0.0	0.0	n.m.	0.0	n.m.
<b>EBIT</b>	<b>13.4</b>	<b>65.7</b>	<b>-80%</b>	<b>25.2</b>	<b>-47%</b>
Interest inc/(exp)	0.2	1.2	-86%	-0.6	-128%
Associates	9.4	8.2	15%	1.6	479%
Admin, Distribution, Other	-13.1	-20.1	-35%	-8.7	50%
Exceptional items	0.0	0.0	n.m.	0.0	n.m.
Forex gain/(loss)	2.7	-9.5	-128%	-1.2	-319%
<b>Pretax profit</b>	<b>25.7</b>	<b>65.6</b>	<b>-61%</b>	<b>25.0</b>	<b>3%</b>
Taxation	-4.2	-13.7	-70%	-6.5	-36%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.
<b>Profit after tax</b>	<b>21.5</b>	<b>51.9</b>	<b>-58%</b>	<b>18.5</b>	<b>16%</b>
Minority interest	0.0	0.0	n.m.	0.0	-100%
<b>PATAMI</b>	<b>21.5</b>	<b>51.9</b>	<b>-58%</b>	<b>18.5</b>	<b>16%</b>
<b>Core PATAMI</b>	<b>18.9</b>	<b>61.4</b>	<b>-69%</b>	<b>19.7</b>	<b>-4%</b>
EBIT margin	13%	38%		19%	
Pretax margin	26%	38%		19%	
CNP margin	19%	35%		15%	
EPS (sen)	3.8	9.2		3.3	
Core EPS(sen)	3.3	10.9		3.5	
BV/share (RM)	0.8	0.8		0.7	
Net gearing (x)	-0.7	-1.0		-0.9	
Effective tax	16%	21%		26%	

Source: Company, Kenanga Research

## Segmental Breakdown

Turnover Segmentation	1Q19	4Q18	QoQ	1Q18	YoY
Metering	26.8	33.3	-20%	34.5	-22%
Engineering	73.0	139.6	-48%	95.0	-23%
<b>Pre-tax profits</b>					
Metering	6.1	5.5	11%	9.7	-37%
Engineering	21.3	74.0	-71%	22.0	-3%
<b>Pre-tax margins</b>					
Metering	23%	17%		28%	
Engineering	29%	53%		23%	

Source: Company, Kenanga Research

## Sum-Of-Parts

Division	Stake	Value at Stake	Valuation/Discount Applied	(RM'm)
Metering	100%	231.4	10.0	231.4
Construction	100%	604.7	9.0	604.7
NPV of PDP	100%	175.4		175.4
1Q19 Net Cash	100%	343.5	30%	240.5
<b>Total</b>		<b>1355.1</b>		<b>1252.0</b>
Shares Outstanding				563.3
<b>Target Price (RM)</b>				<b>2.20</b>

Source: Company, Kenanga Research

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**Scenario Analysis: Assuming LRT3 Project Scrapped**

<b>Division</b>	<b>Stake</b>	<b>Value at Stake</b>	<b>Valuation/Discount Applied</b>	<b>(RM'm)</b>
Metering	100%	231.4	10.0	231.4
Construction	100%	604.7	9.0	604.7
1Q19 Net Cash	100%	343.5	30%	240.5
<b>Total</b>		<b>1179.7</b>		<b>1076.6</b>
Shares Outstanding				563.3
<b>Target Price (RM)</b>				<b>1.90</b>
<b>Changes in Estimates</b>			<b>Old</b>	<b>New</b>
FY19E CNP (RM'm)			141.0	90.3
FY20E CNP (RM'm)			147.2	96.6

Source: Company, Kenanga Research

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## Peer Comparison

CORE COVERAGE																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.970	758	13.9	10.5	10.8	2%	8%	0.8	86.5	78.4	76.7	-9%	-2%	0.720	Underperform	12.1
GAMUDA BHD	3.53	8712	16.5	12.4	10.9	3%	12%	1.3	602.1	804.3	909.9	34%	13%	5.50	Outperform	-28.8
IJM CORP BHD	1.75	6342	15.5	13.3	12.3	3%	5%	0.6	349.8	476.1	514.0	36%	8%	2.30	Outperform	-42.6
KIMLUN CORP BHD	1.39	446	6.5	6.4	6.2	4%	11%	0.7	68.7	69.8	71.8	2%	3%	1.80	Outperform	-37.4
MUHIBBAH ENGINEERING (M) BHD	3.14	1508	12.3	9.6	9.0	3%	14%	1.4	131.6	157.4	168.0	20%	7%	4.15	Outperform	10.6
HOCK SENG LEE BERHAD	1.39	764	16.4	11.0	9.8	2%	9%	1.0	46.6	69.1	77.9	48%	13%	1.40	Market Perform	-2.8
WCT HOLDINGS BHD	0.82	1154	12.8	10.0	8.7	0%	5%	0.5	154.6	146.9	168.3	-5%	15%	1.35	Outperform	-49.4
MITRAJAYA HOLDINGS BHD	0.460	412	5.8	5.1	5.8	4%	12%	0.5	70.6	80.8	70.4	14%	-13%	0.475	Market Perform	-46.8
SUNWAY CONSTRUCTION GROUP	1.90	2455	18.3	14.0	12.8	4%	26%	3.7	137.8	176.0	192.8	28%	10%	2.40	Outperform	-24.3
KERJAYA PROSPEK GROUP BHD	1.55	1925	15.2	12.6	11.6	2%	37%	2.1	124.5	152.9	166.1	23%	9%	1.60	Market Perform	-16.0
GEORGE KENT (MALAYSIA) BHD	1.54	867	7.0	6.2	5.9	6%	25%	1.5	124.4	141.0	147.2	13%	4%	2.20	Outperform	-56.1
<i>Average</i>			12.7	10.1	9.4											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	0.465	274	-1.0	6.7	4.9	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	-50.0
PROTASCO	0.535	265	5.1	4.5	4.4	7%	14%	0.7	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-40.6
PINTARAS JAYA	2.88	478	26.5	11.2	9.3	7%	14%	1.5	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	-22.6
GABUNGAN AQRS	1.100	507	19.9	12.1	5.8	3%	11%	1.3	22.6	37.2	77.9	65%	109%	1.6	Not Rated	-42.4
GADANG HOLDINGS	0.735	486	2.5	2.7	2.6	4%	25%	0.7	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	-33.8
AZRB	0.410	218	7.3	3.4	2.7	n.a.	15%	0.5	27.2	57.4	73	111%	27%	1.35	Trading Buy	-57.1
TRC SYNERGY	0.415	199	6.7	6.1	7.6	5%	8%	0.5	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	-34.1
BINA PURI	0.270	75	70.6	4.7	4.7	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-20.6
PESONA	0.275	191	9.6	5.4	3.9	5%	18%	1.0	20	35.3	48.5	77%	37%	0.485	Take Profit	-38.9
JAKS	1.38	753	0.9	10.6	7.7	0%	9%	1.0	736	61.933	85.433	-92%	38%	1.54	Not Rated	-7.4
<i>Average</i>			14.8	6.8	5.4											

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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