

28 September 2018

George Kent (M) Bhd Prospects De-Railed

We came back from a briefing feeling less excited with its near-term prospects as the project cost review on LRT3 took longer than expected, which hindered the group from proceeding with the construction works despite not being shelved by the government. Lowered FY19-20E earnings by 37-36% respectively. Downgrade to MP, with a lower SoP-driven TP of RM1.35 (previously, OP, TP: RM2.20).

LRT3 still under review. While Ministry of Finance (MOF) gave the green light to proceed with the construction works on LRT3, the project cost review and on-going negotiations between GKENT-MRCB JV with the government took longer than expected. Nonetheless, management remains hopeful that they are able to reach a conclusion with the government on their role in LRT3, which is highly likely to be converted from a PDP partner into a main contractor role. As for project cost review, management indicated that it would take 8-9 months for the GKENT-MRCB JV to finalise on the reduced project cost and only expect construction works to be back on full swing in 2HCY19.

Renewed focus on metering. As for its metering division, management aims to grow its metering contribution from 20% to 50% in the short term (2-3 years' timeline) with acquisitions/strategic alliances forming part of their strategy to mitigate risks from the construction sector. That said, they also intend to introduce their proprietary Automated Meter Reading (AMR) or SMART Metering solution into the market which we believe would be the next big hit for the sector as it could assist the government in resolving non-revenue water issues in the future given their ability to provide customers with real-time access to water consumption data. We believe that demand will continue to outstrip supply and we maintain our metering division's 10% growth assumptions in FY19.

Outlook. Currently, its outstanding order-book is c.RM5.0b of which LRT3 makes up 80%. GKENT-MRCB JV is working closely with the government in bringing down the cost of RM16.6b for LRT3 closer to its initial cost of RM9.0b. While its near-term prospects seem less exciting arising from the delays in LRT3, we believe that this particular project would be one of GKENT-MRCB JV's strongest testament in the future should they be able to complete it with at a lower cost and within schedule, which would strengthen their foothold in the rail infrastructure scene in the future.

Earnings reviewed. Post briefing, we reduced our FY19-20E earnings by 37-36%, respectively, as we remove our FY19E order-book replenishment target of RM500.0m as we do not expect them to secure any construction jobs for the year and also pushed back our billings assumption for LRT3.

Downgrades to MP (from OP). Following our earnings review, we downgrade our call to MARKET PERFORM with a lower SoP-driven Target Price of RM1.35 (previously, RM2.20) on the back of: (i) lower construction earnings as we remove our RM500.0m replenishment assumption, and (ii) removed its net cash position from our SoP valuation in view of their high working capital requirement should they convert from PDP to a main contractor for LRT3 as they no longer earn a fee, while maintaining 10x FY19E PER for its metering business, and NPV of PDP fees for now until they successfully convert their status into the main contractor. Our TP of RM1.35, implies 8.6x FY19E PER which is close to its 5-year FWD PER average of 8.7x.

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

MARKET PERFORM ↓

Price: RM1.32
Target Price: RM1.35 ↓

Expected Capital Gain: RM0.030 2.3%
Expected Divd. Yield: RM0.055 4.2%
Expected Total Return: RM0.085 6.4%

KLCI Index 1,798.64

Stock Information

Bloomberg Ticker	GKENT MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	556.7
Market Cap (RM m)	734.8
Par value per share (RM)	0.50
52-week range (H)	4.47
52-week range (L)	0.98
Free Float	73%
Beta	1.8
3-mth avg daily vol:	11,557,580

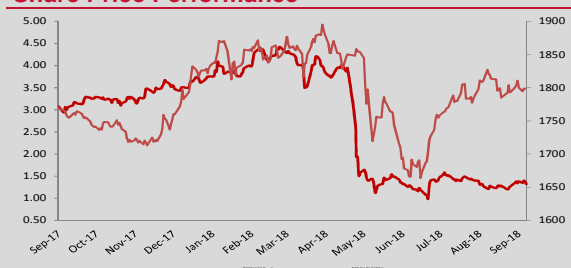
Major Shareholders

Star Wealth Investment Limited	14.2%
Tan Swee Bee	7.8%
Tan Kay Hock	4.8%

Summary Earnings Table

FY Jan (RM m)	2018A	2019E	2020E
Turnover	617	585	610
EBIT	154	150	156
PBT	160	118	126
Net Profit	124	88	95
Core PATAMI	136	88	95
Consensus	n.a.	106	95
Earnings Revision	n.a.	-37%	-36%
Core EPS (sen)	24.3	15.7	16.8
Core EPS growth (%)	35%	-35%	7%
NDPS (sen)	9.5	5.5	5.9
NTA per share (RM)	0.8	0.9	1.1
Price to NTA (x)	1.6	1.4	1.2
PER (x)	5.4	8.4	7.8
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	14%	9%	9%
Return on Equity (%)	26%	17%	16%
Net Div. Yield (%)	7.2%	4.2%	4.5%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	8.2%	3.1%	-56.0%
Relative (%)	8.7%	2.9%	-57.9%

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Sum-Of-Parts

Division	Stake	Value at Stake	Valuation/Discount Applied	(RM'm)
Metering	100%	231.4	10.0	231.4
Construction	100%	436.0	9.0	436.0
NPV of PDP	100%	102.3		102.3
Total		769.7		769.7
Shares Outstanding				561.9
Target Price (RM)				1.35

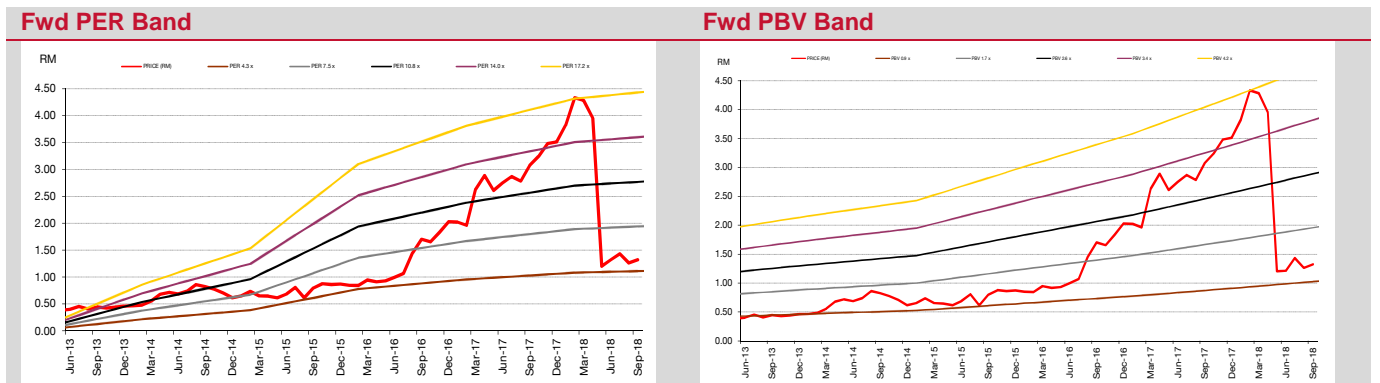
Source: Company, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Jan (RM'm)	2016A	2017A	2018A	2019E	2020E	FY Jan (RM'm)	2016A	2017A	2018A	2019E	2020E
Revenue	536	599	617	585	610	Growth (%)					
EBITDA	63	121	159	155	161	Revenue	52%	12%	3%	-5%	4%
Depreciation	-4	-4	-5	-5	-5	EBITDA	148%	194%	131%	97%	104%
EBIT	59	117	154	150	156	EBIT	52%	100%	32%	-3%	4%
Int. Expense	-1	7	2	2	2	Pre-tax Income	75%	90%	20%	-26%	7%
Associates/JV	0	0	0	17	20	Net Income	78%	102%	23%	-29%	7%
Except. Items	15	20	-12	0	0	Core Net Income	78%	102%	35%	-35%	7%
PBT	71	134	160	118	126	Profitability (%)					
Taxation	-21	-33	-36	-29	-32	EBITDA Margin	12%	20%	26%	26%	26%
MI/Perps	0	0	0	0	0	EBIT Margin	11%	20%	25%	26%	26%
Net Profit	50	101	124	88	95	PBT Margin	13%	22%	26%	20%	21%
Core Net Profit	50	101	136	88	95	Net Margin	9%	17%	20%	15%	16%
						Core Net Margin	9%	17%	22%	15%	16%
						Effective Tax Rate	-29%	-24%	-22%	-25%	-25%
						ROE	16%	25%	26%	17%	16%
						ROA	7%	11%	14%	9%	9%
						DuPont Analysis					
						Net margin (%)	9%	17%	20%	15%	16%
						Assets Turnover (x)	0.8	0.7	0.6	0.6	0.6
						Leverage Factor (x)	2.1	2.3	2.0	1.9	1.9
						ROE (%)	16%	25%	26%	17%	16%
						Leverage					
						Debt/Asset (x)	0.0	0.1	0.1	0.0	0.0
						Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
						Net Debt/(Cash)	-214.3	-372.9	-454.2	-573.6	-572.6
						Net Debt/Equity (x)	-0.7	-0.9	-1.0	-1.1	-1.0
						Valuations					
						Core EPS (sen)	8.9	18.0	24.3	15.7	16.8
						FD Core EPS (sen)	8.9	18.0	24.3	15.7	16.8
						NDPS (sen)	3.7	6.7	9.5	5.5	5.9
						BV/share (RM)	0.57	0.71	0.85	0.95	1.06
						Core PER (x)	14.8	7.3	5.4	8.4	7.8
						FD Core PER (x)	14.5	14.8	7.3	5.4	8.4
						Net Div. Yield (%)	2.8%	5.1%	7.2%	4.2%	4.5%
						PBV (x)	2.30	1.85	1.56	1.39	1.25
						EV/EBITDA (x)	2.69	1.38	1.06	1.09	1.05

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
EVERSENDI CORP BHD	0.780	609.2	N	12/2018	-4.1%	-4.3%	2.1%	1.0%	9.7	9.5	9.4	1.0	0.6	8.0%	0.0%	0.665	UP
GAMUDA BHD	3.22	7,947.1	Y	07/2018	20.0%	5.0%	14.9%	7.4%	11.3	9.9	9.2	1.1	1.0	10.4%	4.3%	4.30	OP
GEORGE KENT (MALAYSIA) BHD	1.32	734.8	Y	01/2019	-5.2%	4.2%	-35.1%	7.0%	5.4	8.4	7.8	1.6	1.4	17.4%	4.2%	1.35	MP
HOCK SENG LEE BERHAD	1.38	758.3	Y	12/2018	18.0%	18.6%	31.4%	17.7%	16.3	12.4	10.5	1.0	1.0	8.1%	1.6%	1.30	UP
IJM CORP BHD	1.80	6,535.6	Y	03/2019	11.9%	3.8%	12.4%	9.7%	15.9	14.1	12.9	0.7	0.7	4.8%	2.8%	2.15	OP
KERJAYA PROSPEK GROUP BHD	1.42	1,762.9	Y	12/2018	32.9%	7.9%	16.9%	6.1%	14.2	12.1	11.4	2.2	1.9	16.8%	2.2%	1.50	MP
KIMLUN CORP BHD	1.26	418.2	Y	12/2018	-9.5%	6.5%	-14.1%	7.4%	5.9	6.9	6.4	0.7	0.6	9.5%	3.6%	1.60	OP
MITRAJAYA HOLDINGS BHD	0.415	371.6	Y	12/2018	-16.4%	-9.9%	-28.5%	7.4%	5.3	7.4	6.9	0.5	0.5	6.8%	4.8%	0.395	UP
MUHIBBAH ENGINEERING (M) BHD	3.01	1,448.9	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	11.8	9.2	8.6	1.4	1.3	14.8%	2.7%	4.15	OP
SUNWAY CONSTRUCTION GROUP BHD	1.80	2,326.0	Y	12/2018	11.9%	13.2%	11.6%	17.4%	17.4	15.6	13.3	4.2	3.8	25.6%	3.9%	1.80	UP
WCT HOLDINGS BHD	0.900	1,244.0	Y	12/2018	20.8%	13.9%	28.4%	14.6%	14.1	11.0	9.6	0.6	0.5	5.0%	0.0%	1.35	OP
Simple Average					5.1%	5.9%	6.2%	9.3%	11.6	10.6	9.6	1.4	1.2	11.6%	2.7%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.395	210.0	Y	12/2018	N.A.	N.A.	N.A.	N.A.	7.2	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.210	61.5	Y	12/2018	N.A.	N.A.	N.A.	N.A.	19.9	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	N.A.
GABUNGAN AQRS BHD	1.11	530.1	Y	12/2018	74.5%	17.0%	49.7%	31.1%	11.0	7.4	0.0	1.1	1.3	15.9%	71.0%	1.89	BUY
GADANG HOLDINGS BHD	0.685	453.3	Y	05/2019	19.0%	13.4%	10.0%	0.9%	4.8	4.3	0.0	0.6	0.6	13.7%	4.4%	1.00	BUY
JAKS RESOURCES BHD	1.05	573.2	Y	12/2018	90.5%	-17.2%	-41.3%	8.7%	4.5	7.7	0.0	0.7	0.8	10.4%	0.0%	1.42	BUY
MUDAJAYA GROUP BHD	0.425	250.7	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.
PINTARAS JAYA BHD	2.40	398.1	Y	06/2019	68.1%	26.5%	73.3%	25.1%	25.7	14.8	0.1	1.2	1.3	8.5%	8.5%	2.45	NEUTRAL
PESONA METRO HOLDINGS	0.310	215.4	Y	12/2018	22.0%	19.3%	-25.9%	74.3%	11.2	15.2	0.0	1.2	1.1	8.3%	4.2%	0.325	SELL
PROTASCO BHD	0.370	183.1	Y	12/2018	-0.2%	8.4%	-35.8%	54.0%	6.5	10.2	0.0	0.5	0.5	4.5%	5.7%	0.450	SELL
TRC SYNERGY BHD	0.440	211.4	Y	12/2018	10.0%	15.2%	-7.0%	35.9%	7.0	7.5	0.0	0.5	0.5	6.7%	4.5%	0.490	NEUTRAL

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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