

14 March 2019

## George Kent (M) Bhd Going Back On Track

Recently, we met up with GKENT's management for an update and came back feeling more reassured. They are working relentlessly in the design change for LRT3 of which they are hopeful of finalizing in 2HCY19. The finalization of design will allow GKENT-MRCB to proceed with the construction of LRT3 full swing. As for its metering division, we are optimistic with the potential for their smart meters, being an essential part of the Internet of Things trend. No changes to FY19-20E earnings. Maintain MARKET PERFORM with a higher SoP-driven Target Price of RM1.15 (from RM0.845).

**Focused on delivery.** We met up with management recently for an update. In terms of future job prospects, management indicated that their current core focus would be on the delivery of LRT3 and its existing ongoing projects, i.e. LRT2, MRT2, and public hospitals with an estimated outstanding order-book of RM5.4b. Hence, management is not looking to participate aggressively in other jobs in the near term.

**LRT3 progressing.** While its current progress is still at c.10%, management remains optimistic of meeting the construction timeline as it has been rescheduled to 2024. Currently, management is expecting the redesign of the project to be completed by 2HCY19 and hopes to progress to full swing as its sub-contractor would be able to proceed with works on stations upon receiving the final designs. That said, now that GKENT-MRCB JV is no longer the PDP but the main contractor for LRT3, they are working closely with banks to secure financing for the working capital needs for LRT3. We are confident that they will be able to secure financing given that both GKENT and MRCB's balance sheets remain healthy, which GKENT is in net cash position while MRCB is lowly geared at 0.2x.

**Metering forward.** Management is excited about its metering division as they are doubling their effort in promoting their smart metering solutions to various state governments and countries within the South-East Asia region. Its smart meters are an add-on to existing meters that offers fixed network reading or mobile network reading, which allows water players to bill customers effortlessly. While it is still at the pilot stage, as they are working with mobile operators in testing the transmission of data, we believe that should it take off, it would be a strong growth factor for its metering division. We anticipate the smart meters could potentially grow its metering revenue by a minimum of 50%, should GKENT is able to package its smart meters together with its existing products.

**Earnings estimates.** We are keeping our FY19E CNP of RM75.0m as we believe that GKENT will meet our expectations as they tend to perform stronger in fourth quarter. No changes to our FY20E CNP of RM82.0m for now.

**Maintain MARKET PERFORM.** Post the meeting with management, we upgraded our SoP-driven Target Price of RM0.845 to RM1.15, as we roll forward our valuation base-year to FY20E and removed the 20% discount as LRT3 is finally back on track as GKENT-MRCB JV has reached a novation with its subcontractors. Previously, we ascribed 20% discount to our SoP-drive Target Price due to uncertainty on the project status of LRT3. Our TP implies FY20E PER of 7.9x which is in-line with our ascribed multiple of 6.0-11.0x within the construction space.

**Risks for our call are:** (i) higher/lower-than-expected margins, and (ii) delay in construction works.

## MARKET PERFORM ↔

Price: RM1.18  
Target Price: RM1.15 ↑

Expected Capital Gain: -RM0.03 -2.5%  
Expected Divd. Yield: RM0.05 4.2%  
Expected Total Return: RM0.02 1.7%

KLCI Index 1,678.24

### Stock Information

Bloomberg Ticker	GKEN MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	538.6
Market Cap (RM m)	635.6
Par value per share (RM)	0.50
52-week range (H)	4.47
52-week range (L)	0.76
Free Float	72%
Beta	2.1
3-mth avg daily vol:	6,986,739

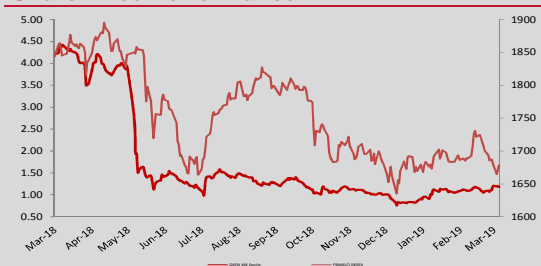
### Major Shareholders

Star Wealth Investment Limited	14.7%
Tan Swee Bee	8.1%
Tan Kay Hock	5.0%

### Summary Earnings Table

FY Jan (RM m)	2018A	2019E	2020E
Turnover	617	468	493
EBIT	154	119	125
PBT	160	100	109
<b>Net Profit</b>	<b>124</b>	<b>75</b>	<b>82</b>
<b>Core PATAMI</b>	<b>136</b>	<b>75</b>	<b>82</b>
Consensus	n.a.	81	70
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	24.3	13.3	14.6
Core EPS growth (%)	35%	-45%	10%
NDPS (sen)	9.5	5.0	5.0
NTA per share (RM)	0.8	0.9	1.0
Price to NTA (x)	1.4	1.3	1.2
PER (x)	4.9	8.9	8.1
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	14%	8%	8%
Return on Equity (%)	26%	15%	14%
Net Div. Yield (%)	8.1%	4.2%	4.3%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	6.3%	29.0%	-73.0%
Relative (%)	6.7%	29.1%	-63.0%

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## Sum-Of-Parts

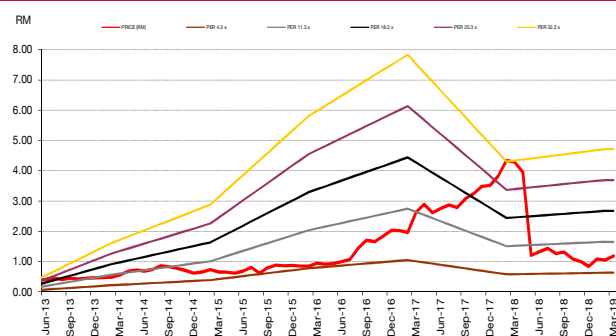
Division	Valuation/Discount Applied	Net Profit	Market Cap (RM'm)
Metering	10.0	23.1	231.4
Construction	7.0	59.0	412.8
<b>Sub-total</b>			<b>644.2</b>
Co. Discount			0.0
<b>Total</b>			<b>644.2</b>
Shares Outstanding			561.9
<b>Target Price</b>			<b>1.15</b>
Implied FY20E PER			7.9

Source: Company, Kenanga Research

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	468	493	<b>Growth (%)</b>					
EBITDA	63	121	159	124	130	Revenue	52%	12%	3%	-24%	5%
Depreciation	-4	-4	-5	-5	-5	EBITDA	148%	194%	131%	78%	105%
EBIT	59	117	154	119	125	EBIT	52%	100%	32%	-23%	5%
Int. Expense	-1	7	2	2	2	Pre-tax Income	75%	90%	20%	-38%	10%
Associates/JV	0	0	0	22	27	Net Income	78%	102%	23%	-40%	10%
Except. Items	15	20	-12	0	0	Core Net Income	78%	102%	35%	-45%	10%
PBT	71	134	160	100	109	<b>Profitability (%)</b>					
Taxation	-21	-33	-36	-25	-27	EBITDA Margin	12%	20%	26%	26%	26%
MI/Perps	0	0	0	0	0	EBIT Margin	11%	20%	25%	25%	25%
Net Profit	50	101	124	75	82	PBT Margin	13%	22%	26%	21%	22%
Core Net Profit	50	101	136	75	82	Net Margin	9%	17%	20%	16%	17%
						Core Net Margin	9%	17%	22%	16%	17%
						Effective Tax Rate	-29%	-24%	-22%	-25%	-25%
						ROE	16%	25%	26%	14%	14%
						ROA	7%	11%	14%	8%	8%
						<b>DuPont Analysis</b>					
						Net margin (%)	9%	17%	20%	16%	17%
						Assets Turnover (x)	0.8	0.7	0.6	0.5	0.5
						Leverage Factor (x)	2.1	2.3	2.0	1.9	1.8
						ROE (%)	16%	25%	26%	15%	14%
						<b>Leverage</b>					
						Debt/Asset (x)	0.0	0.1	0.1	0.1	0.0
						Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
						Net Debt/(Cash)	-214.3	-372.9	-454.2	-556.9	-548.1
						Net Debt/Equity (x)	-0.7	-0.9	-1.0	-1.1	-1.0
						<b>Valuations</b>					
						Core EPS (sen)	8.9	18.0	24.3	13.3	14.6
						FD Core EPS (sen)	8.9	18.0	24.3	13.3	14.6
						NDPS (sen)	3.7	6.7	9.5	5.0	5.0
						BV/share (RM)	0.57	0.71	0.85	0.93	1.03
						Core PER (x)	13.2	6.5	4.9	8.9	8.1
						FD Core PER (x)	13.2	6.5	4.9	8.9	8.1
						Net Div. Yield (%)	3.2%	5.7%	8.1%	4.2%	4.3%
						PBV (x)	2.06	1.66	1.39	1.27	1.15
						EV/EBITDA (x)	1.70	0.87	0.67	0.86	0.82

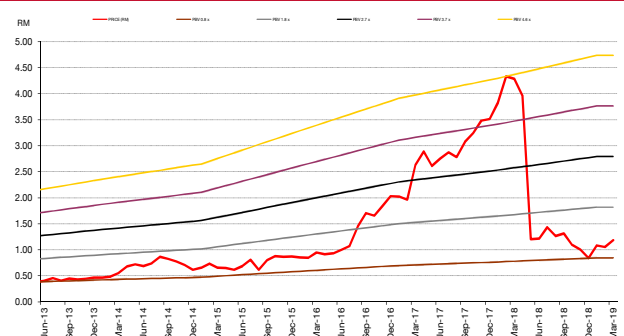
Source: Kenanga Research

## Fwd PER Band



Source: Bloomberg, Kenanga Research

## Fwd PBV Band



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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.			
<b>STOCKS UNDER COVERAGE</b>																	
EVERSENDI CORP BHD	0.570	445.2	Y	12/2019	-7.3%	-3.2%	-10.9%	-2.1%	7.1	7.9	8.1	0.5	0.4	5.6%	0.0%	0.490	UP
GAMUDA BHD	2.90	7,157.7	Y	07/2019	-20.8%	0.3%	-27.7%	1.2%	8.7	12.1	11.9	0.9	0.9	7.7%	4.1%	3.05	MP
GEORGE KENT (MALAYSIA) BHD	1.18	635.6	Y	01/2019	-24.1%	5.3%	-45.1%	9.7%	4.9	8.9	8.1	1.4	1.3	15.0%	4.2%	1.15	MP
HOCK SENG LEE BERHAD	1.41	774.8	Y	12/2019	16.0%	11.2%	28.1%	5.6%	14.4	11.2	10.6	1.0	0.9	8.6%	1.8%	1.25	UP
IJM CORP BHD	1.98	7,180.1	Y	03/2019	9.6%	5.1%	-10.9%	26.7%	17.5	19.6	15.5	0.8	0.7	3.8%	2.5%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.26	1,556.2	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.3	10.1	9.9	1.6	1.4	14.9%	2.4%	1.20	MP
KIMLUN CORP BHD	1.22	404.9	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.4	6.5	6.3	0.6	0.6	9.0%	3.0%	1.30	MP
MITRAJAYA HOLDINGS BHD	0.410	362.8	Y	12/2019	-4.7%	-7.3%	1.8%	-8.4%	11.0	10.8	11.8	0.5	0.4	4.0%	3.7%	0.260	UP
MUHIBBAH ENGINEERING (M) BHD	2.90	1,397.4	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	8.6	8.9	8.5	1.3	1.1	14.8%	2.4%	3.20	MP
SUNWAY CONSTRUCTION GROUP BHD	1.84	2,377.7	Y	12/2019	12.0%	2.2%	3.7%	3.6%	17.1	16.5	15.9	3.9	3.6	22.7%	3.5%	1.40	UP
WCT HOLDINGS BHD	0.840	1,159.7	Y	12/2019	16.5%	4.2%	15.0%	4.7%	9.2	8.0	7.7	0.4	0.4	4.5%	0.0%	0.850	MP
<b>Simple Average</b>					<b>2.3%</b>	<b>1.1%</b>	<b>-3.5%</b>	<b>4.6%</b>	<b>10.6</b>	<b>11.0</b>	<b>10.4</b>	<b>1.2</b>	<b>1.1</b>	<b>10.1%</b>	<b>2.5%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.470	281.1	Y	12/2019	N.A.	N.A.	N.A.	N.A.	19.2	N.A.	N.A.	0.6	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.190	72.4	Y	12/2019	N.A.	N.A.	N.A.	N.A.	139.3	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.23	601.9	Y	12/2019	41.6%	18.2%	33.7%	19.8%	9.5	7.1	0.0	1.2	1.4	16.0%	4.5%	1.69	BUY
GADANG HOLDINGS BHD	0.685	453.3	Y	05/2019	3.7%	11.9%	-19.9%	6.9%	4.7	5.8	0.0	0.6	N.A.	5.9%	3.6%	0.685	BUY
JAKS RESOURCES BHD	0.790	461.9	Y	12/2019	46.5%	-31.1%	483.1%	16.7%	30.5	5.2	0.0	0.5	0.5	11.0%	0.0%	0.775	BUY
MUDAJAYA GROUP BHD	0.325	191.7	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.20	364.9	Y	06/2019	99.1%	9.6%	65.9%	16.7%	23.5	14.2	0.1	1.2	1.2	8.2%	9.2%	2.38	NEUTRAL
PESONA METRO HOLDINGS	0.225	156.4	Y	12/2019	26.5%	-6.8%	190.8%	-20.8%	18.9	6.5	0.0	0.9	N.A.	12.7%	6.7%	0.260	BUY
PROTASCO BHD	0.255	124.5	Y	12/2019	0.0%	7.9%	369.2%	31.2%	N.A.	9.5	0.0	0.4	0.4	3.6%	9.0%	0.185	SELL
TRC SYNERGY BHD	0.645	309.9	Y	12/2019	17.6%	7.7%	58.1%	15.5%	14.9	9.4	0.0	0.8	0.7	7.7%	3.6%	0.750	BUY

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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