

26 June 2019

George Kent (M) Bhd

Broadly In-line

1Q20 CNP of RM13.5m makes up 16%/ 19% of our and consensus full-year estimates. We deem that its results to be within expectations as GKENT's results are generally weaker in first half, coupled that LRT3 work progress has yet to pick up in pace. No dividends declared as expected. No changes to FY20-21E earnings. Maintain MP with unchanged SoP-driven TP of RM1.15.

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Results highlight. 1Q20 CNP fell 28%, YoY attributable to: (i) decrease in revenue (-17%), (ii) losses contribution from its associate & joint venture contribution, (iii) higher effective tax rate of 25% (+9ppt). The decline in revenue was due to the decline in billings for its construction division coupled with slower sales in its metering division. The losses in associate contribution were due to the project cost review on LRT3, which resulted in a temporary halt in work progress for that project. **QoQ**, its 1Q20 CNP decreased by 29% due to similar reasons above except that it recorded lower effective tax in 1Q20 of 25% (-25ppt).

Outlook. For LRT3, we believe that the current progress is still at c.10%, but management remains optimistic in meeting the construction timeline as it has been rescheduled to 2024. As for its metering division, management is 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 allowing water players to bill customers effortlessly and we have built the potential into our estimates.

Earnings estimates unchanged. Post results, no changes to FY20-21E earnings.

Maintain MARKET PERFORM. We maintain our MARKET PERFORM call with an unchanged Target Price of RM1.15. We believe that its outlook is improving but still highly dependent on the execution of LRT3. Our TP implies FY20E PER of 7.8x, 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) ahead of schedule/delay in construction works.

MARKET PERFORM ↔

Price: RM1.11
Target Price: RM1.15 ↔

Expected Capital Gain: RM0.04 +3.6%
Expected Div. Yield: RM0.05 +4.5%
Expected Total Return: RM0.09 +8.1%

KLCI Index 1,676.61

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)	597.9
Par value per share (RM)	0.50
52-week range (H)	1.62
52-week range (L)	0.76
Free Float	72%
Beta	1.9
3-mth avg daily vol:	4,793,792

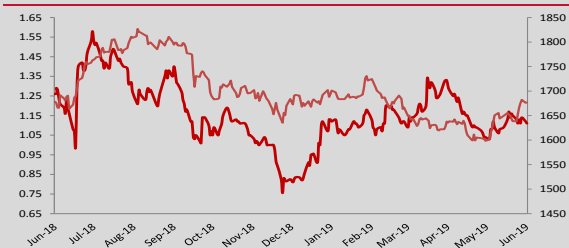
Major Shareholders

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

Summary Earnings Table

FY Jan (RM m)	2019A	2020E	2021E
Turnover	431	493	492
EBIT	104	169	162
PBT	126	109	146
Net Profit	85	82	109
Core PATAMI	78	82	109
Consensus	N.A.	71	78
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	14.1	14.7	19.6
Core EPS growth (%)	-43%	5%	33%
NDPS (sen)	7.0	5.0	6.6
NTA per share (RM)	0.9	1.0	1.1
Price to NTA (x)	1.3	1.1	1.0
PER (x)	7.9	7.5	5.7
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	10%	10%	12%
Return on Equity (%)	18%	15%	18%
Net Div. Yield (%)	6.3%	4.5%	5.9%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	6.7%	1.8%	-11.9%
Relative (%)	1.8%	0.2%	-11.8%

Adrian Ng

adrian.ng@kenanga.com.my

+603-2172 2639

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Results Highlights

	1Q20	4Q19	QoQ	1Q19	YoY
FYE Jan (RM'm)					
Turnover	82.8	114.5	-28%	99.8	-17%
EBIT	18.2	41.5	-56%	12.7	43%
Interest inc/(exp)	0.5	1.2	-58%	0.8	-39%
Associates/JV	-0.8	-5.9	-86%	9.4	-109%
Exceptional items	0.0	0.0	n.m.	0.0	n.m.
Forex gain/(loss)	0.0	-0.7	-100%	2.7	-100%
Pretax profit	17.9	36.2	-50%	25.7	-30%
Taxation	-4.4	-17.9	-75%	-4.2	6%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.
Profit after tax	13.5	18.2	-26%	21.5	-37%
Minority interest	0.0	0.0	n.m.	0.0	n.m.
PATAMI	13.5	18.2	-26%	21.5	-37%
Core PATAMI	13.5	18.9	-29%	18.9	-28%
DPS (sen)	0.0	3.5		0.0	
EBIT margin	22%	36%		13%	
Pretax margin	22%	32%		26%	
NP margin	22%	32%		26%	
CNP margin	16%	17%		19%	
EPS (sen)	2.5	3.3		3.8	
Core EPS(sen)	2.5	3.4		3.3	
BV/share (RM)	0.9	0.9		0.8	
Net gearing (x)	-0.4	-0.4		-0.7	
Effective tax	25%	50%		16%	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q20	4Q19	QoQ	1Q19	YoY
External Revenue					
Engineering	51.4	79.6	-35%	73.0	-30%
Metering	31.4	34.9	-10%	26.8	17%
Pre-tax Segmentation					
Engineering	16.4	38.9	-58%	21.3	-23%
Metering	5.0	5.6	-11%	6.1	-18%
Pre-tax margins					
Engineering	32%	49%		29%	
Metering	16%	16%		23%	

Source: Company, Kenanga Research

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
Sub-total			644.2
Co. Discount			0.0
Total			644.2
Shares Outstanding			556.8
Target Price			1.15
Implied PE			7.8

Source: Company, 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																	
GAMUDA BHD	3.62	8,938.3	Y	07/2019	-20.8%	0.3%	-27.7%	-16.0%	10.9	15.1	18.0	1.2	1.1	7.7%	3.3%	2.90	UP
GEORGE KENT (MALAYSIA) BHD	1.11	597.9	Y	01/2020	14.4%	-0.3%	4.9%	33.1%	7.9	7.5	5.7	1.3	1.1	15.0%	4.5%	1.15	MP
HOCK SENG LEE BERHAD	1.35	741.8	Y	12/2019	18.7%	15.6%	31.6%	10.3%	13.8	10.5	9.5	1.0	0.9	8.8%	1.9%	1.40	MP
IJM CORP BHD	2.40	8,710.6	Y	03/2020	22.8%	2.0%	11.0%	2.2%	20.8	18.8	18.4	0.9	0.9	4.7%	2.1%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.36	1,676.7	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.2	10.9	10.7	1.7	1.5	14.9%	2.2%	1.20	MP
KIMLUN CORP BHD	1.40	464.6	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	7.4	7.5	7.4	0.7	0.7	9.0%	2.6%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.345	306.9	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	6.9	11.7	13.2	0.4	0.4	3.3%	4.3%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.77	1,335.2	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	8.2	8.5	8.1	1.2	1.1	14.8%	2.5%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.02	2,604.5	Y	12/2019	-6.1%	21.9%	-12.2%	22.3%	18.7	21.3	17.4	4.3	4.0	19.4%	2.7%	1.40	UP
WCT HOLDINGS BHD	1.05	1,450.6	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	11.6	13.4	11.2	0.5	0.4	3.4%	0.0%	0.815	UP
Simple Average					5.9%	4.1%	-3.9%	6.9%	11.9	12.5	12.0	1.3	1.2	10.2%	2.6%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.420	251.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	17.1	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.180	68.6	Y	06/2019	N.A.	N.A.	N.A.	N.A.	132.0	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRs BHD	1.35	665.9	Y	12/2019	25.8%	33.1%	26.2%	30.4%	10.9	8.6	0.0	1.4	1.4	15.8%	4.3%	1.75	BUY
GADANG HOLDINGS BHD	0.885	644.2	Y	05/2019	11.8%	15.6%	-33.1%	16.3%	6.6	9.9	0.0	0.8	N.A.	8.8%	2.6%	0.890	NEUTRAL
JAKS RESOURCES BHD	0.755	485.6	Y	12/2019	74.4%	-48.7%	655.6%	-21.2%	32.1	4.2	0.0	0.5	0.5	12.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.290	171.1	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.48	411.3	Y	06/2019	224.3%	-2.7%	135.7%	-6.5%	26.5	11.2	0.1	1.3	1.3	11.5%	7.6%	2.56	NEUTRAL
PESONA METRO HOLDINGS	0.225	156.4	Y	12/2019	12.1%	9.5%	130.2%	0.0%	18.9	8.2	0.0	1.0	N.A.	10.3%	4.4%	0.260	BUY
PROTASCO BHD	0.260	126.6	Y	12/2019	-1.4%	7.9%	365.8%	31.2%	N.A.	9.6	0.0	0.4	0.4	3.6%	5.4%	0.220	SELL
TRC SYNERGY BHD	0.630	302.7	Y	12/2019	15.8%	23.6%	70.8%	29.9%	14.5	8.5	0.0	0.7	0.7	8.2%	3.8%	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%

**** The Expected Total Return might contain rounding discrepancy.**

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

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

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