

28 August 2019

Kerjaya Prospek Group

Within Expectations

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1H19 CNP of RM71.0m came in within expectations, making up 46%/45% of our/consensus full-year estimates. No dividend was declared, as expected. No changes to FY19-20E earnings. Maintain UP with an unchanged SoP-driven TP of RM1.20.

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Results highlight. 1H19 CNP improved by 5% YoY, driven by improvements such as: (i) lower financing cost (-74%), and (ii) better margins where pre-tax margin improved to 17.8% (+1.2ppt) which we believe arose from better billings for higher-margin jobs. **QoQ**, 2Q19 CNP grew 2% amid a marginal drop in revenue (-2%), thanks to improvement in margins similar as above.

Solid outstanding order-book. To-date, KERJAYA has secured RM1.1b worth of jobs and management is confident of exceeding their replenishment target of RM1.2b. Its outstanding order-book remains fairly healthy at RM3.3b providing them at least 3-year's visibility. We believe KERJAYA stands a good chance of winning more contracts in Penang, mainly from E&O's Seri Tanjung Pinang 2 (STP2) project.

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

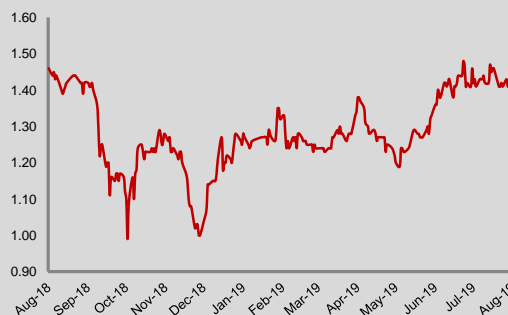
Maintain UNDERPERFORM with an unchanged SoP-derived Target Price of RM1.20 pegged to unchanged valuation of 10.0x PER on FY20E, due to the recent rise in share price. The valuation ascribed to KERJAYA is at the higher-end of our small-mid cap PER range of 6.0-11.0x due to their strong track record of "zero delay" project delivery coupled with superior margins compared to other players. Our SoP-derived TP implies a FY20E PER of 9.5x which is lower than our ascribed 10.0x valuation for its construction division as this is diluted by its property division, which was valued at a lower multiple of 5.0x.

Risks to our call include: lower-than-expected job wins, delay in construction progress and lower construction margins.

UNDER PERFORM ↔

Price : RM1.41
Target Price : RM1.20 ↔

Share Price Performance



KLCI 1,590.84
YTD KLCI chg -5.9%
YTD stock price chg 22.6%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker KPG MK EQUITY
Market Cap (RM m) 1,738.4
Shares Outstanding 1,232.9
52-week range (H) 1.49
52-week range (L) 0.99
3-mth avg daily vol: 309,257
Free Float 24%
Beta 1.3

Major Shareholders

Egovision Sdn Bhd 50.4%
Amazing Parade Sdn Bhd 20.4%
Employees Provident Fund Board 5.6%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	1068.8	1371.5	1310.7
EBIT	190.0	206.6	210.6
PBT	182.4	205.7	209.7
Net Profit	138.4	154.3	157.3
Core PATAMI	138.4	154.3	157.3
Consensus (NP)	N.A.	158.6	173.6
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	11.1	12.4	12.7
Core EPS growth (%)	11%	11%	2%
NDPS (sen)	1.5	3.0	3.0
NTA per Share (RM)	0.5	0.6	0.7
Price to NTA (x)	2.8	2.4	2.0
PER (x)	12.7	11.3	11.1
Debt-to-Equity ratio (x)	0.1	0.1	0.0
Return on Asset (%)	10%	10%	10%
Return on Equity (%)	14%	14%	13%
Net Div. Yield (%)	1.1%	2.1%	2.2%



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Results Highlight

	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
FYE Dec (RM'm)								
Turnover	259.4	264.2	-2%	278.4	-7%	523.5	533.5	-2%
EBITDA	56.9	55.4	3%	54.9	3%	112.3	105.7	6%
Depreciation	-9.4	-9.4	1%	-8.2	15%	-18.8	-15.8	19%
EBIT	47.4	46.1	3%	46.8	1%	93.5	89.8	4%
Interest inc/(exp)	-0.2	-0.1	50%	-0.9	-82%	-0.3	-1.1	-74%
Pretax profit	47.3	45.9	3%	45.9	3%	93.2	88.8	5%
Taxation	-11.5	-10.8	7%	-10.9	5%	-22.3	-21.2	5%
Profit after tax	35.8	35.2	2%	34.9	2%	71.0	67.6	5%
Minority interest	0.1	-0.1	n.m.	0.1	49%	0.1	0.0	n.m.
PATAMI	35.9	35.1	2%	35.0	2%	71.0	67.5	5%
Core PATAMI	35.9	35.1	2%	35.0	2%	71.0	67.5	5%
DPS (sen)	0.0	0.0		1.5		0.0	1.5	
EBIT margin	18.3%	17.4%		16.8%		17.9%	16.8%	
Pretax margin	18.2%	17.4%		16.5%		17.8%	16.6%	
NP margin	18.2%	17.4%		16.5%		17.8%	16.6%	
CNP margin	13.8%	13.3%		12.6%		13.6%	12.7%	
EPS (sen)	2.9	2.8		2.8		5.7	5.4	
Core EPS(sen)	2.9	2.8		2.8		5.7	5.4	
BV/share (RM)	0.8	0.8		0.8		0.8	0.8	
Net gearing (x)	-0.2	-0.2		-0.2		-0.2	-0.2	
Effective tax	24%	23%		24%		24%	24%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
External Revenue								
Construction	242.8	247.0	-2%	256.8	-5%	489.8	482.0	2%
Manufacturing	0.1	0.0	45%	-1.2	-106%	0.1	1.3	-91%
Property Development	16.5	17.1	-3%	22.8	-28%	33.6	50.2	-33%
PAT Segmentation								
Construction	29.2	28.2	4%	26.0	12%	57.4	58.7	-2%
Manufacturing	0.2	1.5	-87%	1.5	-87%	1.7	2.2	-23%
Property Development	3.4	2.1	65%	5.0	-32%	5.5	9.6	-43%
PAT margins								
Construction	12.0%	11.4%	0.6%	10.1%		11.7%	12.2%	
Manufacturing	280.9%	3185.1%		-119.9%		1467.8%	172.0%	
Property Development	20.7%	12.1%		21.9%		16.3%	19.1%	

Source: Company, Kenanga Research

SoP Valuations

Segment	Stake	Method	Value (RM m)
Construction	100%	FY20E of 10x	1431.3
Property	100%	FY20E of 5x	70.8
Total			1502.1
FD shares			1,242.00
		TP	1.20
		Implied PER	9.5

Source: 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	3.63	8,976.3	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	10.9	13.2	15.3	1.2	1.1	8.7%	3.3%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.06	570.9	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.6	9.8	7.1	1.2	1.1	11.9%	3.4%	1.15	MP
HOCK SENG LEE BERHAD	1.35	741.8	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.8	11.2	9.5	1.0	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.30	8,347.7	Y	03/2020	22.8%	2.0%	11.0%	2.2%	20.0	18.0	17.6	0.9	0.8	4.7%	2.2%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.41	1,738.4	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.7	11.3	11.1	1.8	1.6	14.9%	2.1%	1.20	UP
KIMLUN CORP BHD	1.28	434.9	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.8	6.9	6.7	0.6	0.6	9.0%	3.4%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.280	249.1	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	5.6	9.5	10.7	0.3	0.3	3.3%	5.4%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.56	1,237.4	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.6	7.8	7.5	1.1	1.0	13.4%	2.8%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.00	2,578.7	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	18.5	21.1	16.5	4.3	3.9	19.4%	2.7%	1.45	UP
WCT HOLDINGS BHD	0.990	1,395.8	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	10.9	12.6	10.6	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average					5.9%	4.6%	-6.5%	8.9%	11.4	12.2	11.3	1.3	1.2	9.7%	2.7%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.395	236.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	16.1	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.125	47.7	Y	06/2019	N.A.	N.A.	N.A.	N.A.	91.6	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.26	621.7	Y	12/2019	19.3%	37.9%	15.5%	36.2%	10.2	8.8	0.0	1.3	1.3	15.1%	4.6%	1.80	BUY
GADANG HOLDINGS BHD	0.725	527.8	Y	05/2020	7.4%	11.6%	45.5%	12.3%	12.1	8.3	0.0	0.7	N.A.	9.5%	2.1%	0.783	SELL
JAKS RESOURCES BHD	0.760	488.8	Y	12/2019	68.9%	-47.0%	655.6%	-21.2%	32.3	4.3	0.0	0.5	0.5	13.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.285	168.1	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.0	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.95	489.3	Y	06/2019	223.5%	-1.7%	135.7%	-6.4%	31.5	13.4	0.1	1.6	1.5	11.4%	5.5%	2.56	NEUTRAL
PESONA METRO HOLDINGS	0.230	159.8	Y	12/2019	12.1%	9.5%	165.4%	13.7%	19.4	7.3	0.0	1.0	N.A.	11.7%	4.3%	0.310	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%	0.240	SELL
TRC SYNERGY BHD	0.540	259.5	Y	12/2019	15.8%	23.6%	70.8%	29.9%	12.4	7.3	0.0	0.6	0.6	8.5%	5.9%	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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