

07 November 2017

George Kent (M) Bhd Metering its Success!

We initiate coverage on GKENT with an OUTPERFORM call and TP of RM3.65 with an implied discount of 7% to its SoP-value of RM3.93, which implies FY18E P/E of 16.2x. We like the company for: (i) its unique role as Project Delivery Partner (PDP) for LRT3, which anchors pre-tax profits of at least RM270m for 3-4 years, (ii) upside to PDP share where every RM1.0b upward revision to LRT3's base cost of RM9.0b adds 4-5 sen to our SOP, (iii) strong RM5.9b orderbook with upside from upcoming rail projects, (iv) strong balance sheet of RM0.66 net cash per share to support ~3% DPS yields, (v) superior ROEs (26%) and net margins (19%). We estimate FY18E/19E earnings +24%/+12% with rising recognitions from LRT3 and modest RM500m orderbook replenishments.

Steady earnings stream supported by PDP fees... Looking ahead, GKENT's mid to long-term prospects remain promising given a steady earnings stream backed by its massive order-book of RM5.9b of which RM1.4b is from its external order-book while the remaining RM4.5b are from LRT3 which they are entitled for 6% PDP fees. Based on the 6% PDP fees alone, GKENT has theoretically locked in cumulative pre-tax income of RM270.0m (40%-36% of FY18E-19E) for the next 3-4 years as the construction works for LRT3 commences.

Potential upside on PDP fees? We believe that LRT3 would definitely see a higher revision in construction cost due to higher building material and labour. For example, steel prices were hovering at RM1.6k/mt last year while it has shot up by c.60% to RM2.6k/mt currently. If we were to assume similar increase in construction costs as per the increase in steel prices, we reckon that LRT3 cost could potentially go up to the range of c.RM14.0-15.0b. While we are still unable to confirm the total project cost until all the contracts are awarded, every RM1.0b increase in LRT3 project cost would represent RM30.0m additional pre-tax profits to its existing locked-in PDP fees pre-tax profits of RM270.0m (based on RM9.0b contract size). (Refer to Financial Analysis section for sensitivity analysis.)

Strong war chest of RM0.66/share. Unlike peers whose net gearing ranges between 0.5x-0.8x, GKENT's net cash/equity at 0.93x is the best amongst its peers despite its smaller market capitalization. This is unwarranted given its anchored PDP role in LRT3 – similar to bigger boys like IJM and Gamuda. GKENT has the ability to raise RM550.0-650.0m cash by increasing its net gearing up to 0.5x-0.6x for mega projects or acquisitions in the future with lower odds of cash-calls.

Leader in water metering products. GKENT's bread-and-butter water metering division is a major manufacturer and supplier of water metering products with existing annual capacities of 2.5m metering products (vs. 1.8m actual production in FY17). Going forward, we expect steady, albeit modest 10% growth on steady 20% margins to keep this division a marginal 13-16% contributor in FY18E-19E.

Estimates FY18-19E earnings to grow 24%/12% to RM126.1m-/RM141.0m, backed by annual construction order-book replenishment of RM500.0m, (ii) 6% PDP fees based on LRT3 cost of RM9.0b, (iii) 10% growth for metering division and (iv) stable net margins from 19%. Our FY18E estimates are 21% above consensus but even then, we see upside from upward revision to LRT3's cost.

Initiate with OUTPERFORM with key re-rating catalysts being potential cost escalation in LRT3 project. Our TP of RM3.63 is based on i) 14x FY19 P/E for metering, ii) 17x FY19 P/E for construction, iii) NPV of 6% PDP fees based on RM9b cost, iv) 30% disc to net cash. Implied FY18/FY19 PER of 16.2x/14.5x is not excessive given its net cash position. (Kindly refer to Valuation and Recommendation section for further details).

OUTPERFORM

Price: RM3.24
Target Price: RM3.65

Expected Capital Gain: RM0.41 +12.7%
Expected Divd. Yield: RM0.078 +2.4%
Expected Total Return: RM0.488 +15.1%

KLCI Index 1742.29

Stock Information

Bloomberg Ticker	GKEN MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	No
Issued shares	563.3
Market Cap (RM m)	1,825.0
Par value per share (RM)	0.50
52-week range (H)	3.32
52-week range (L)	1.67
Free Float	73%
Beta	1.0
3-mth avg daily vol:	1,392,554

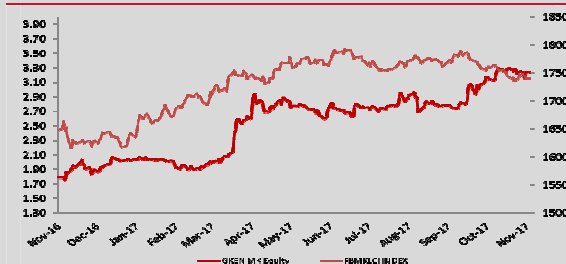
Major Shareholders

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

Summary Earnings Table

FY Jan (RM m)	2017A	2018E	2019E
Turnover	599.0	660.3	751.5
EBIT	121.0	118.4	138.9
PBT	120.3	168.1	187.9
Net Profit	101.3	126.1	141.0
Core PATAMI	101.3	126.1	141.0
Consensus	n.a.	104.5	115.0
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	18.0	22.4	25.0
Core EPS growth (%)	102.3%	24.5%	11.8%
NDPS (sen)	3.7	7.8	8.8
NTA per share (RM)	0.7	0.9	1.0
Price to NTA (x)	4.5	3.8	3.2
PER (x)	18.0	14.4	12.9
Debt-to-Equity ratio (x)	-0.9	-0.8	-0.8
Return on Asset (%)	12.7%	14.7%	13.5%
Return on Equity (%)	25.3%	26.2%	24.6%
Net Div. Yield (%)	1.2%	2.4%	2.7%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	3.2%	10.5%	81.3%
Relative (%)	4.4%	12.5%	75.8%

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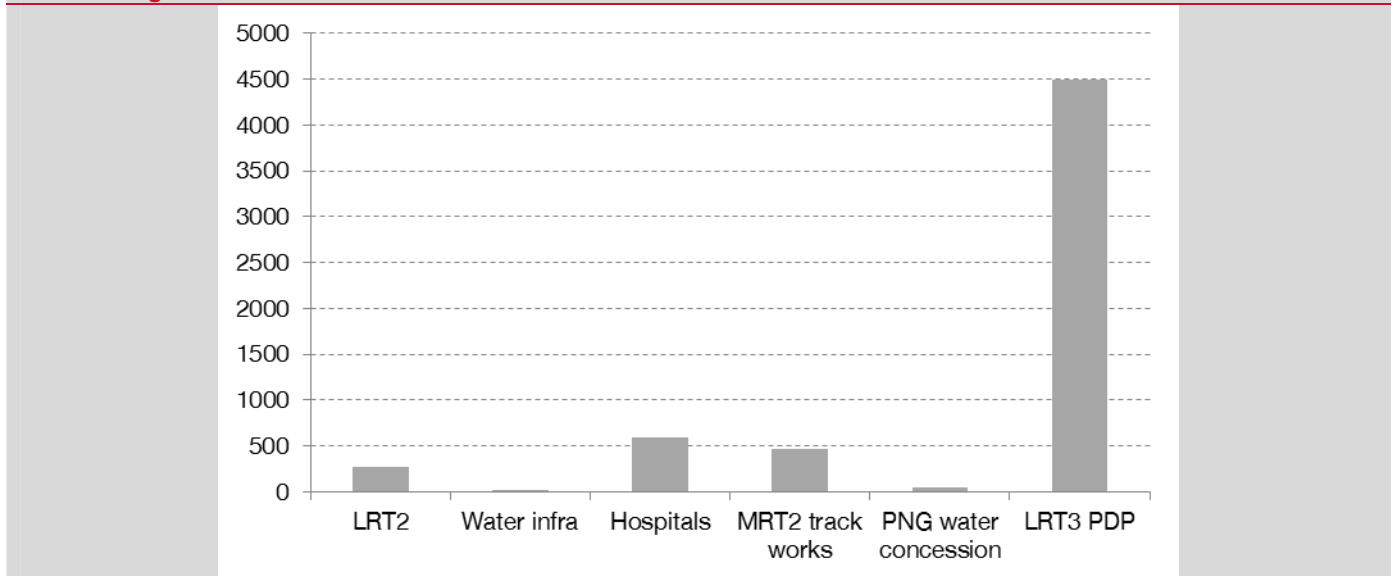
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INVESTMENT MERIT

Dancing with Giants... GKENT, a water metering player in the past, was a small construction player which none in the construction industry would have foreseen them being part of the mega rail infrastructure scene in Malaysia despite their ability in securing LRT2 works back in 2012. Back then, the market was sceptical on their delivery track record as it was their first >RM1.0b construction-related works.

However, GKENT has proven its sceptics wrong when they delivered its LRT2 project on time, and now they are dancing with the bigger players in the construction industry by bagging a few more high-profile jobs such as the PDP role for LRT3 and track works for MRT2. We believe that given its track record in the rail infrastructure project, GKENT would be a strong contender for the upcoming rail projects available in the pipeline, i.e. East Coast Rail Link (RM55.0b), KL-Singapore High Speed Rail (c.RM50.0b), MRT3 (c.RM40.0-50.0b).

Outstanding Orderbook

Source: Company, Kenanga Research

Steady earnings stream supported by PDP fees... Looking ahead, GKENT's mid to long-term prospects remain promising given a steady earnings stream backed by its massive order-book of RM5.9b of which RM1.4b from its external order-book while the remaining RM4.5b are from LRT3 from which they are entitled for 6% PDP fees. Based on the 6% PDP fees alone, GKENT has theoretically locked in pre-tax income of RM270.0m for the next 3-4 years as the construction works for LRT3 commences; notably multiple LRT3 work packages amounting to RM8.7b have been awarded to date. GKENT is now has more bargaining power to bid for construction contracts with higher margins considering their relatively stronger earnings visibility.

LRT3 Projects Allocation

Type of works	Amount (RM'm)	Contractor
LRT3: Light Rail Vehicle (LRV)	1560.0	CRRC Zhuzhou Locomotive Co Ltd (CRRC ZELC) – Siemens Limited China – Tegap Dinamik Sdn Bhd Consortium
LRT3: Package PC2	58.3	MUDAJYA
LRT3: Package TD1	185.9	WCT
LRT3: Package GS03	840.0	WCT
LRT3: Package TD2	760.6	TRC
LRT3: Package GS04	1205.6	GBGAQRS
LRT3: Package GS02	640.0	WCT
LRT3: Package GS07-08	2308.7	SUNCON
LRT3: Package GS01	1160.0	MUDAJYA

Source: Kenanga Research, Bursa Malaysia

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Potential upside on PDP fees? While the existing budget for LRT3 is still at RM9.0b, we do not rule out the potential escalation in construction cost for the entire project given that the project cost of RM9.0b was quoted several years ago. We believe that LRT3 would definitely see a higher revision in construction cost due to higher building material and labour. For example, steel prices were hovering at RM1.6k/mt last year while it has shot up by c.60% to RM2.6k/mt currently. If we were to assume similar increase in construction costs as per the increase in steel prices, we reckon that LRT3 cost could potentially go up to the range of c.RM14.0-15.0b. While we are still unable to confirm the total project cost until all the contracts are awarded, every RM1.0b increase in LRT3 project cost would represent RM30.0m additional pre-tax profits to its existing locked-in PDP fees pre-tax profits of RM270.0m (based on RM9.0b contract size). Based on the recent LRT3 contract awards amounting to RM8.7b, we believe that there is further upside to the initial budgeted cost of RM9.0b as several work packages are still not awarded. (Refer to *Financial Analysis section for sensitivity*)

Strong war chest... We believe that GKENT is able to compete with the big boys, i.e. GAMUDA, WCT, and IJM on the rail infrastructure-related projects given that they have a strong war chest of RM372.9m (as of FY17A) whilst the others are geared at net gearing range of 0.5x-0.8x due to their investment properties and concession assets. GKENT has the ability to raise RM550.0-650.0m cash by increasing its net gearing up to 0.5x-0.6x for mega projects including concessions or acquisitions in the future with lower odds of cash call exercises. To recap, they have not done any cash calls in the past 5 years. (Refer to *Peers Comparison section*).

Leader in water metering products. Apart from its construction and engineering business, GKENT's water metering division is a major manufacturer and supplier of water metering products to many water authorities in various states of Malaysia and also regional countries. Currently, its plant has the capability of producing 2.5m metering products a year and they have produced and sold 1.8m water meter products in FY17. We are expecting its water metering division to grow at a steady pace of 10% per annum backed by strong local and regional demands. To recap, GKENT managed to win a tender bid for the second consecutive time to supply and deliver 650.0k water meters to the Water Supplies Department (WSD) in Hong Kong which would provide the group earnings visibility for the next 3-years. In terms of bottom-line, we are expecting its metering division that makes up 13%-16% of our pre-tax income to grow 3%-10%, YoY in FY18-19E assuming its pre-tax margins remains stable at 20%.

FINANCIAL ANALYSIS

Estimates FY18-19E earnings to grow 24%-12%. Moving forward, we are expecting GKENT to register earnings of RM126.1m-RM141.0m for FY18-19 implying a YoY growth of 24%-12%. Our estimates and earnings growth are backed by: (i) annual order-book replenishment of RM500.0m for its construction division, and (ii) 6% PDP fees based on LRT3 cost of RM9.0b and also 10% growth in revenue for its metering division due to stable demand from both local and overseas market. We believe that any further upside in our earnings estimates would be premised on the total cost for LRT3 of which we have only factored in RM9.0b. *Kindly refer to our earnings sensitivity table below:*

Sensitivity Analysis for LRT 3 costs							
	Base Case	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
LRT3 Cost (RM'm)	9,000.0	10,000.0	11,000.0	12,000.0	13,000.0	14,000.0	15,000.0
Target Price (RM)	3.63	3.68	3.72	3.77	3.82	3.87	3.92
FY18E Net Profit (RM'm)	126.1	131.7	137.3	143.0	148.6	154.2	159.8
FY19E Net Profit (RM'm)	141.0	146.6	152.2	157.8	163.5	169.1	174.7
FY18E EPS (sen)	22.4	23.4	24.4	25.4	26.4	27.4	28.4
FY19E EPS (sen)	25.0	26.0	27.0	28.0	29.0	30.0	31.0
FY18E PER*	14.6	14.0	13.4	12.9	12.4	11.9	11.5
FY19E PER*	13.1	12.6	12.1	11.7	11.3	10.9	10.5

*Based on last closing price
Source: Kenanga Research, Bloomberg

DIVIDEND POLICY

No dividends policy yet... Over the years of operation, GKENT does not have a formal dividend policy in place. However, in the past five years, they have been consistently paying out dividends with a dividend pay-out ratio range of 37%-56% on its reported net profits. While we do not think that management will introduce a formal dividend policy in the near future, we believe they would be able to sustain a minimum pay-out ratio of 35%, underpinned by its strong net cash position of RM372.9m (as of FY17). Our conservative dividend pay-out ratio assumption of 35% is considered decent amongst the construction players as dividend pay-out ratios for other players range from 20% to 30%. At an assumed DPR of 35%, we expect its FY18-19 yield to be at 2.4%-2.7% compared to its peers' average of 1.8%-2.0%.



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COMPANY OUTLOOK

Rail-related jobs on its radar. Last year was a stellar year for GKENT as they have managed to bag multiple contract awards, i.e. MRT2 system work packages coupled with two hospital jobs totalling to RM1.4b. While management is highly focused on the execution of its existing projects, especially as a PDP partner for LRT3, their eyes are still set on more rail-related infrastructure works in the pipeline like East Coast Rail Link, Southern Double Track, High-Speed Rail, MRT3. We believe that GKENT will be a strong contender in this space given their strong execution track record in LRT2 coupled with their strong partnership with CCC in MRT2 project. To recap, GKENT recently entered into a Pre-Consortium Agreement with Siemens Aktiengesellschaft, Germany and Siemens Pte Ltd, Singapore to bid for the development, financing, construction, technical operations and maintenance of the Kuala Lumpur-Singapore High-Speed Rail.

Stable metering growth backed by strong demand in the region. As for its metering division, GKENT aspires to grow its market share locally, which is their aim to secure more contracts from the Selangor state given that they have finally managed to secure 512.7k meters order from Selangor last year after a 10-year absence from the state. On the international front, they are looking forward to expanding regionally into other neighboring countries like how they penetrated Nepal to supply 70.0k meters last year, and also increase the supply of meters to Elsters and export market through the introduction of newer products, i.e. Multijet Water Meters, Non-Ferrous products, and Smart Metering solutions. Going forward, we are expecting its metering division to grow its production by 10% in FY18 backed by strong demand from both locally and overseas.

Potential merger and acquisitions? GKENT currently has a war chest of RM372.9m (as of FY17A), giving them flexibility to acquire more assets or businesses in the future should the need arises. However, in the near term, we do not expect any acquisition as management indicated that they are still on the look-out for assets/businesses that would be synergistic to its existing core businesses, especially for its metering division.

INDUSTRY OUTLOOK

Construction award flows down year-on-year as expected. As highlighted in our previous strategy report, we are anticipating slower contract flows at the range of RM25.0-30.0b for listed construction players in CY17 which came in within our expectations thus far given that we only saw RM20.5b worth of jobs clinched by listed players in 9MCY17, down by 41%, YoY. In terms of job flow expectations for 4QCY17, we are looking out for news flow from LRT3 (RM9.0b), Pan-Borneo Sabah (RM12.8b), and government housing jobs, while jobs from the private sector would be from projects like Bukit Bintang City Centre and new development launches with beneficiaries such as IJM, SUNCON, GAMUDA, AZRB, GADANG and KERJAYA.

Earnings delivery is critical. We maintain our view that earnings delivery performance is crucial for contractors as they need to execute the slew of contracts won back in CY16 and 1HCY17. Our major concern for contractors is their ability to deliver earnings in CY17 especially after they had enjoyed a good run backed by strong contract award flows which have built in high expectations for the sector. Furthermore, we believe that contractors' earnings risk is heightening due to the rising cost of building material and labour costs.

High-speed rail on the way? It was reported in the news recently that a proposed law to support the building and running of two future rail links between Singapore and Malaysia, including the KL-SG HSR was brought to Singapore's parliament. The draft law entitled "Cross-Border Railways Bill", will provide for the licensing of operators to run train services and maintain railway assets, the appointment of independent safety auditors, funding for projects' construction and more. Furthermore, it was reported in the news that our Prime Minister Dato' Sri Najib Razak indicated the construction works would commence in 2018. We are positive on this particular news flow as the HSR story is one step closer to realisation and it would be a future catalyst for local contractors. However, we are only expecting the construction awards for HSR to take place in the next 1-2 years given the scale of the project and G2G collaboration would require a longer timeline.

RISKS

Delay in construction works. This would probably be one of the key downside risks to our earnings forecasts. However, the group possess excellent track records in delivering projects within the given time frame. To recap, GKENT managed to hand over the LRT2 project on time last year, which was fully operational and launched by our Prime Minister, Dato' Sri Najib Razak on 30th June 2016.

Lower-than-expected margins. This will be highly correlated with the timeliness of project time-keeping, as any further delays in handover of on-going projects will result in cost overruns. For example, the delay in LRT2 works in the past due to development order approval issues have caused participating contractors to incur losses due to cost overruns, which resulted in lower-than-expected margins. That said, any sharp increase in building material costs also pose a threat to margins. Based on our sensitivity analysis, every 1% drop in GKENT construction pre-tax margin would result in 3% reduction in our FY18-19E earnings.

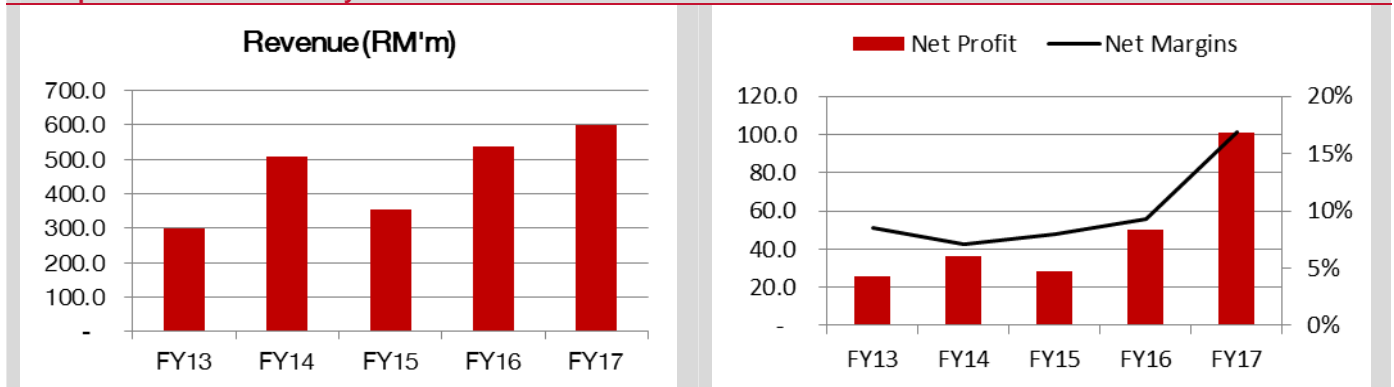
Lower-than-expected orderbook replenishment. For GKENT, we are assuming an orderbook replenishment of RM500.0m per annum for both FY18-19E, a lot lower compared to last year as management indicated that they would be focusing on delivery of its existing orderbook of RM1.4b coupled with its LRT3 PDP contract that amounts to RM4.5b. That said, our assumed orderbook replenishment of RM500.0m per annum is relatively conservative compared to its mid-cap average of RM1.0b.

Other risks include: (i) cut or delay in government spending on infrastructure and affordable housing projects, (ii) global financial crisis, and (iii) cost pressures from rising building material prices and labour costs.



HISTORICAL FINANCIAL ASSESSMENT

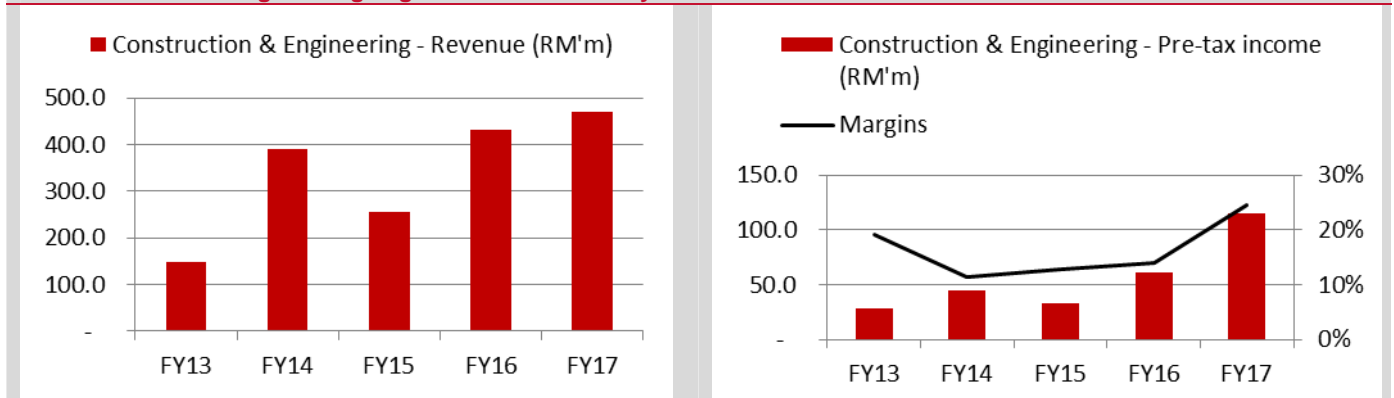
Group Revenue and NP analysis



Source: Company, Kenanga Research

A record making year in 2017... Over the past 5 years, GKENT registered YoY growth that ranges between 32%-102% except for FY15 when they recorded 22% decline in earnings on the back of revenue decreasing by 30%, attributable to both of its division on lower meter orders and lower construction revenue recognition for its projects. However, it was a record making year for GKENT in FY17, as they registered tremendous YoY Net Profit growth of 102% underpinned by: (i) 11% growth in revenue, and (ii) pre-tax margin expansion by 8ppt to 24% driven by both of its construction and metering division.

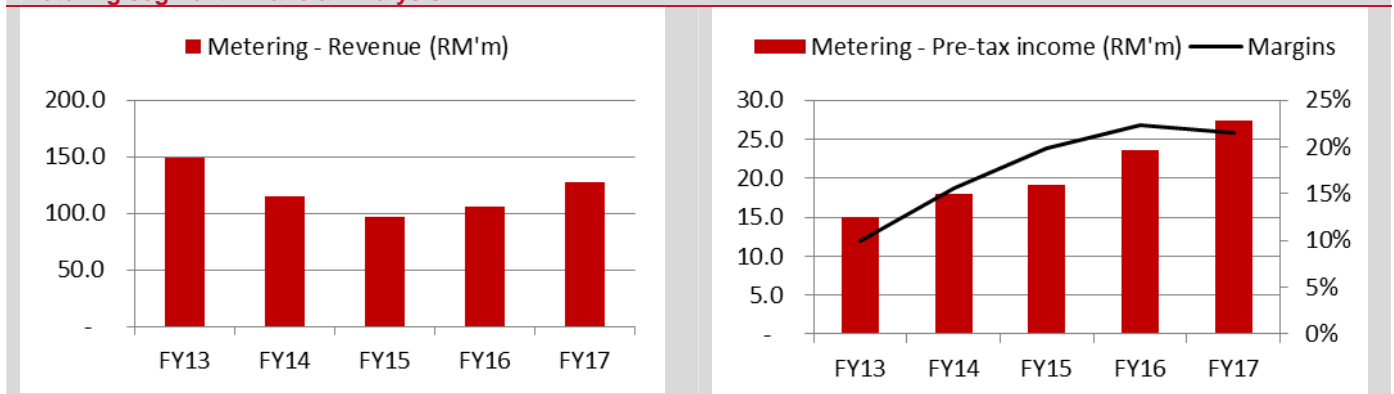
Construction and Engineering segment Financial Analysis



Source: Company, Kenanga Research

On a segmental basis, its construction division managed to maintain an average pre-tax margin averaging 16% in the past 5 years with 2017 being the highest at 24%. GKENT is able to maintain such decent pre-tax margins for its construction division mainly due to their participation in the niche field within the rail infrastructure and water industry, which requires system specialist unlike civil construction works.

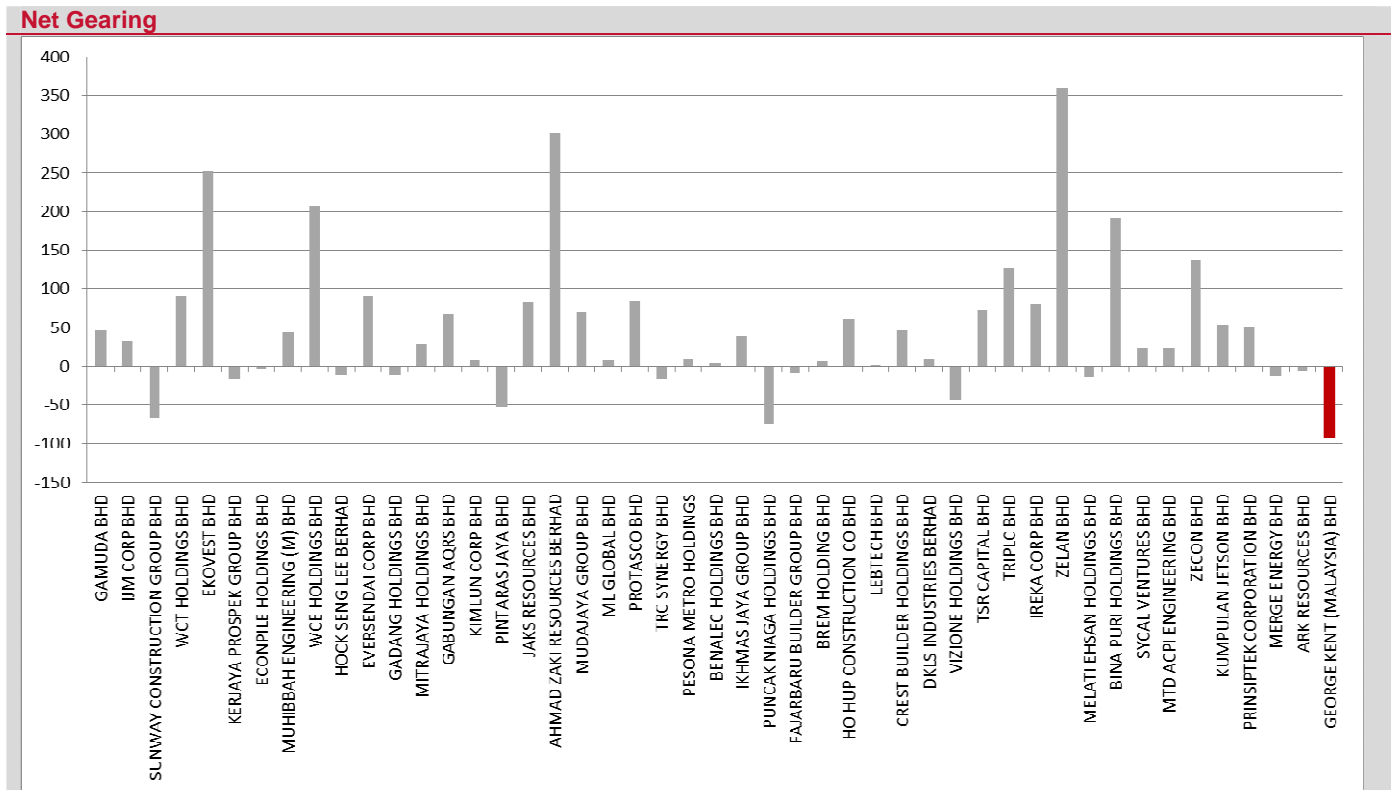
Metering segment Financial Analysis



Source: Company, Kenanga Research

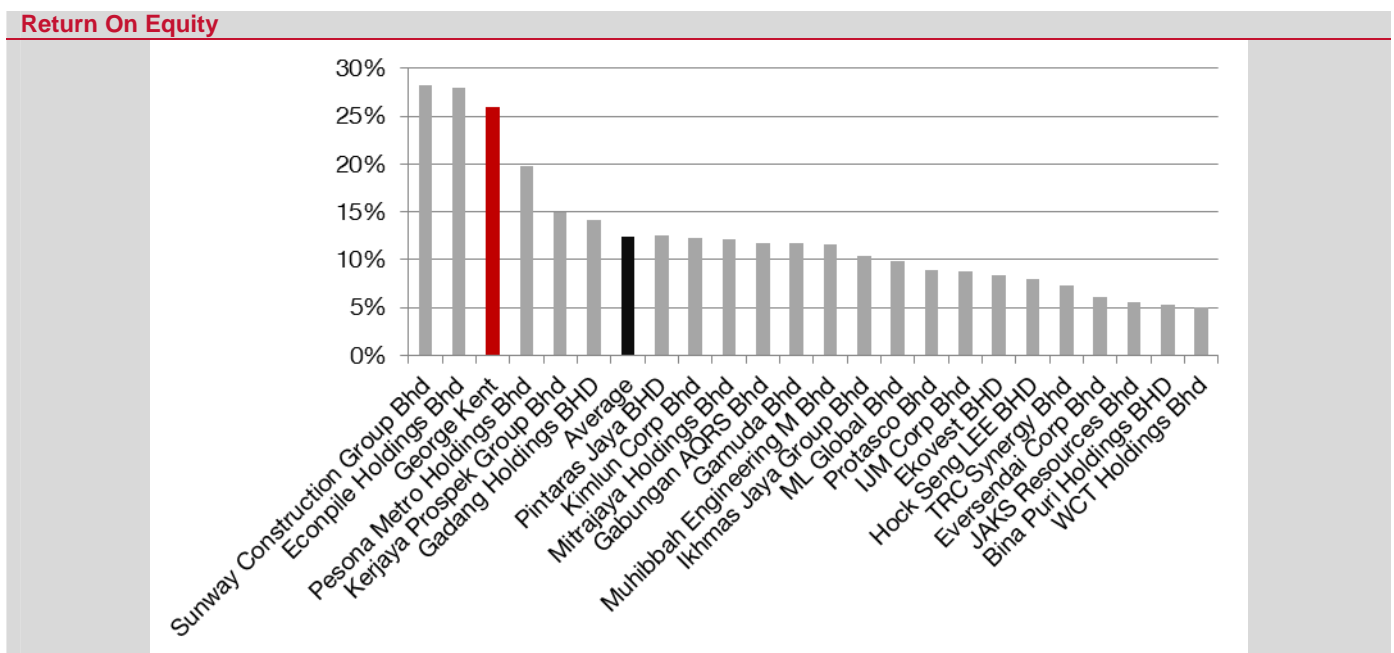
On its metering division, which has been registering steady growth at an average of 16% in terms of pre-tax profit since 2014, it continues to maintain the growth momentum of 16% YoY in 2017. The pre-tax profit growth in its metering division is mainly supported by the growth in revenue of 21% driven by higher demand from both local and overseas coupled with a stable pre-tax margin of 21%. We also note that last year they managed to secure a RM14.7m contract to supply 323.4k PSM water meters to PUB, Singapore, representing their third consecutive win from PUB which we believe is a strong testament for their water meter products.

PEER COMPARISONS



Source: Kenanga Research, Bloomberg

Strong war chest... In the construction sector, there are not many contractors that possess strong balance sheets, especially the big players, i.e. IJM, GAMUDA and WCT; as they are optimally geared between the range of 0.5x-0.8x due to their concession/investment properties/property development businesses. Meanwhile, pure construction players like SUNCON have a strong net cash position. Comparatively, GKENT's net cash to equity ratio of 0.93x is higher than SUNCON's 0.67x based on their last annual audited accounts. Although GKENT's market cap of RM1.8b is relatively smaller compared to the big boys' range of RM3.0b-RM13.0b (IJM, GAMUDA, WCT, SUNCON), we feel GKENT's business model is closer to the big-boys given its role as a PDP partner in LRT3, which is rare for small-mid cap players public infrastructure projects in Malaysia. As highlighted above, GKENT has the ability to raise RM550.0-650.0m cash by by increasing its net gearing up to 0.5x-0.6x for mega projects or acquisitions with lower odds of a cash-call.

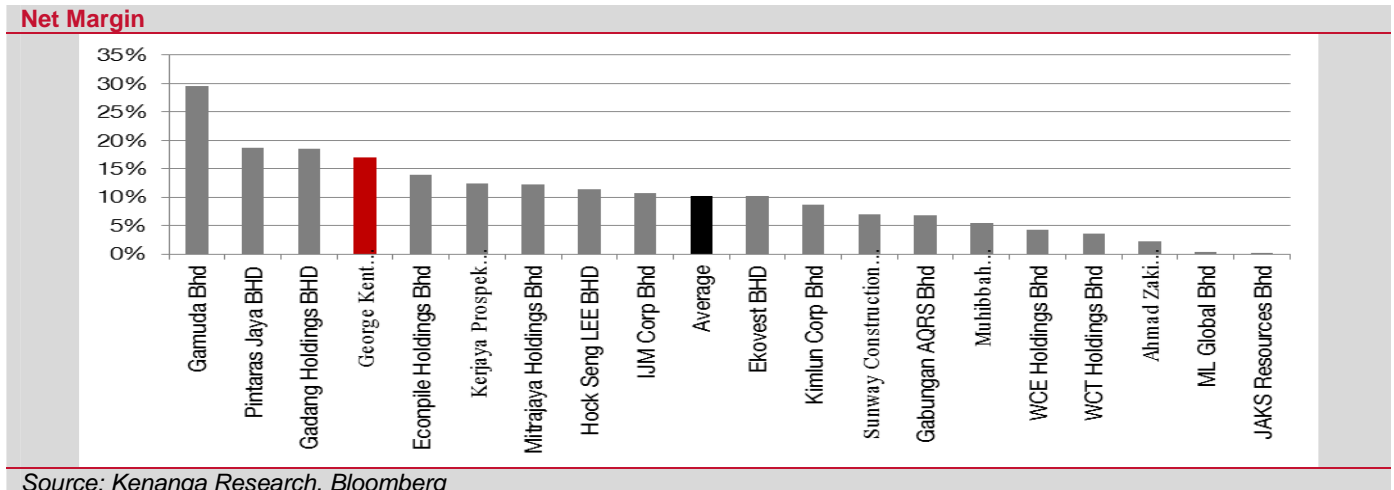


Source: Kenanga Research, Bloomberg

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Attractive ROEs. Apart from its decent margins, GKENT's 1-year FWD ROE of 26.0% is comparable with ECONBHD and SUNCON's ROEs of 28.0%, respectively, which are also both in a net cash position. It is highly compelling compared the sector's average of 11.8% whilst the big boys' ROEs only range between 5.0% and 11.7%. We like the stock for its ability to achieve such decent ROE despite having a smaller outstanding order-book of RM1.4b (exclusive of PDP contract) compared to the other players that have outstanding order-books of RM2.0b-RM5.0b and net cash positions.

Decent growth. In terms of earnings growth, GKENT's FY18/19E growth of +24%/+12% still fares better as compared to the average growth of -4%/19% for the contractors under our coverage, and we are expecting further upside to our growth of +24%/+12% should there be any revision in LRT3 cost of RM9.0b



Decent margins compared to industry standards. Based on last financial year's performance, we can see that GKENT's group net margin of 17% is substantially higher than the average net margin of 10% for contractors with market capitalisation above RM500.0m placing them as the fourth highest in terms of net margin performance amongst construction players given their specialisation in system works, which commands better margins (high-teens) as compared to civil construction works margins (single-digit to low-teens) coupled with decent margins from their metering division. Looking forward, we are expecting GKENT's Core Net margin for FY18-19E to grow to 19%, backed by several factors such as: (i) further improvements in its metering division, and (ii) the commencement of its LRT3 project.

Peer Comparison- Part 1

Company Name	Last Price (06/11/17)	Market Cap (RM m)	Actual	PE Ratio		Net profit Growth (%)	
				1 yrFwd	2 yrFwd	1 Yr Fwd NP Growth	2 Yr Fwd NP Growth
EVERSENDI CORP BHD	1.00	776	-5.4	12.8	11.9	-142%	19%
GAMUDA BHD	5.07	12447	20.5	19.3	16.2	6%	19%
IJM CORP BHD	3.21	11647	21.3	19.6	17.4	9%	12%
KIMLUN CORP BHD	2.38	761	8.8	10.2	9.2	-14%	11%
MUhibbah ENGINEERING (M) BHD	2.86	1374	16.8	14.5	13.9	16%	5%
HOCK SENG LEE BERHAD	1.55	852	15.0	17.2	12.4	-13%	40%
WCT HOLDINGS BHD	1.67	2349	32.0	18.3	16.1	76%	14%
MITRAJAYA HOLDINGS BHD	0.82	641	7.6	10.5	8.7	-28%	21%
SUNWAY CONSTRUCTION GROUP	2.35	3037	25.7	20.9	17.5	23%	19%
KERJAYA PROSPEK GROUP BHD	4.06	2287	23.1	18.2	15.6	27%	17%
Average			16.5	16.1	13.9	-4%	19%
GEORGE KENT (MALAYSIA) BHD	3.24	1825	18.0	14.4	12.9	24%	12%

Source: Company, Kenanga Research

Peer Comparison- Part 2

Company Name	Last Price (06/11/17)	Market Cap (RM m)	Outstanding Orderbook	TP	Rating
EVERSENDI CORP BHD	1.00	776	3200	0.75	Underperform
GAMUDA BHD	5.07	12447	8200	5.45	Market Perform
IJM CORP BHD	3.21	11647	9000	3.48	Market Perform
KIMLUN CORP BHD	2.38	761	1920	2.27	Market Perform
MUhibbah ENGINEERING (M) BHD	2.86	1374	2100	2.94	Market Perform
HOCK SENG LEE BERHAD	1.55	852	2600	1.40	Market Perform
WCT HOLDINGS BHD	1.67	2349	6000	1.83	Market Perform
MITRAJAYA HOLDINGS BHD	0.82	641	1730	0.95	Market Perform
SUNWAY CONSTRUCTION GROUP	2.35	3037	6700	2.29	Market Perform
KERJAYA PROSPEK GROUP BHD	4.06	2287	3150	3.30	Underperform
Average					
GEORGE KENT (MALAYSIA) BHD	3.24	1825	5900	3.65	Outperform

Source: Company, Kenanga Research

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Peer Comparison – Part 3					
Company Name	Last Price (06/11/17)	Market Cap (RM m)	Dividend Payout (%)	Est. Div. yield	FY16/17A Net Gearing
EVERSENDAL CORP BHD	0.98	760	0%	2%	0.9
GAMUDA BHD	5.08	12472	68%	2%	0.5
IJM CORP BHD	3.17	11502	46%	2%	0.4
KIMLUN CORP BHD	2.32	742	22%	3%	0.1
MUHIBBAH ENGINEERING (M) BHD	2.84	1364	23%	2%	0.7
HOCK SENG LEE BERHAD	1.55	852	21%	1%	N.C.
WCT HOLDINGS BHD	1.63	2293	0%	0%	0.9
MITRAJAYA HOLDINGS BHD	0.83	648	39%	2%	0.3
SUNWAY CONSTRUCTION GROUP	2.34	3024	43%	2%	N.C.
KERJAYA PROSPEK GROUP BHD	4.08	2298	30%	1%	N.C.
Average			29%	2%	
GEORGE KENT (MALAYSIA) BHD	3.23	1819	35%	2%	N.C.

Source: Company, Kenanga Research

VALUATION & RECOMMENDATION

Initiating coverage with an OUTPERFORM call and TP of RM3.65. Our Target Price of RM3.65 implies a FY19E PER of 14.5x, with an implied SoP discount of 7% from its SoP value of RM3.93. Our assumptions are as followed:

- We ascribed 14.0x FY19E PER to its metering division earnings. Our 14.0x multiple is in line with the valuation ascribed to one of the leading building material manufacturers in our coverage, i.e. ULICORP where both GKENT and ULICORP are the leading players in their respective field of metering and cable support systems.
- As for its construction division, we ascribed 17.0x FY19E PER to its earnings. We believe that our ascribed multiple of 17.0x, which is higher than SUNCON's applied multiple of 16.0x is justified given GKENT's decent order-book size, earnings growth, and ROE. Most importantly, it is their strong capabilities to deliver above-average construction pre-tax margins of 17% (3-year average) compared to an industry average of 9%, coupled with their ability to land the PDP role for LRT3 while other contractors failed despite their long standing track record in the construction industry.
- That said, we have also factored in the net present value of 6% PDP fees from LRT3 based on estimated cost of RM9.0b with applied WACC of 6%, coupled with FY19E net cash position of RM574.4m. Our sensitivity on the potential increase of costs in LRT3 and the effects on our FY18-19E earnings and Target Price as follows:

Sensitivity							
	Base Case	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
LRT3 Cost (RM'm)	9,000.0	10,000.0	11,000.0	12,000.0	13,000.0	14,000.0	15,000.0
Target Price (RM)	3.63	3.68	3.72	3.77	3.82	3.87	3.92
FY18E Net Profit (RM'm)	126.1	131.7	137.3	143.0	148.6	154.2	159.8
FY19E Net Profit (RM'm)	141.0	146.6	152.2	157.8	163.5	169.1	174.7

Source: Kenanga Research, Bloomberg

- We ascribed 30% discount to our estimated net cash lower compared to the 50% discount applied to players like SUNCON as GKENT has a higher excess cash level. In deriving our excess cash, we compared GKENT's net cash to total asset ratio against GAMUDA's net debt to total asset ratio.

Sum-of-Parts				
Division	Stake	Value at Stake	Valuation/Discount Applied	Value (RM'm)
Metering	100%	324.0	14.0	324.0
Construction	100%	1142.2	17.0	1142.2
NPV of PDP	100%	175.4		175.4
FY19E Net Cash	100%	573.5	30%	401.5
Total		2215.2		2043.1
Implied Discount			7%	
Shares Outstanding				563.3
Target Price/share				3.65

Source: Kenanga Research, Bloomberg

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APPENDIX

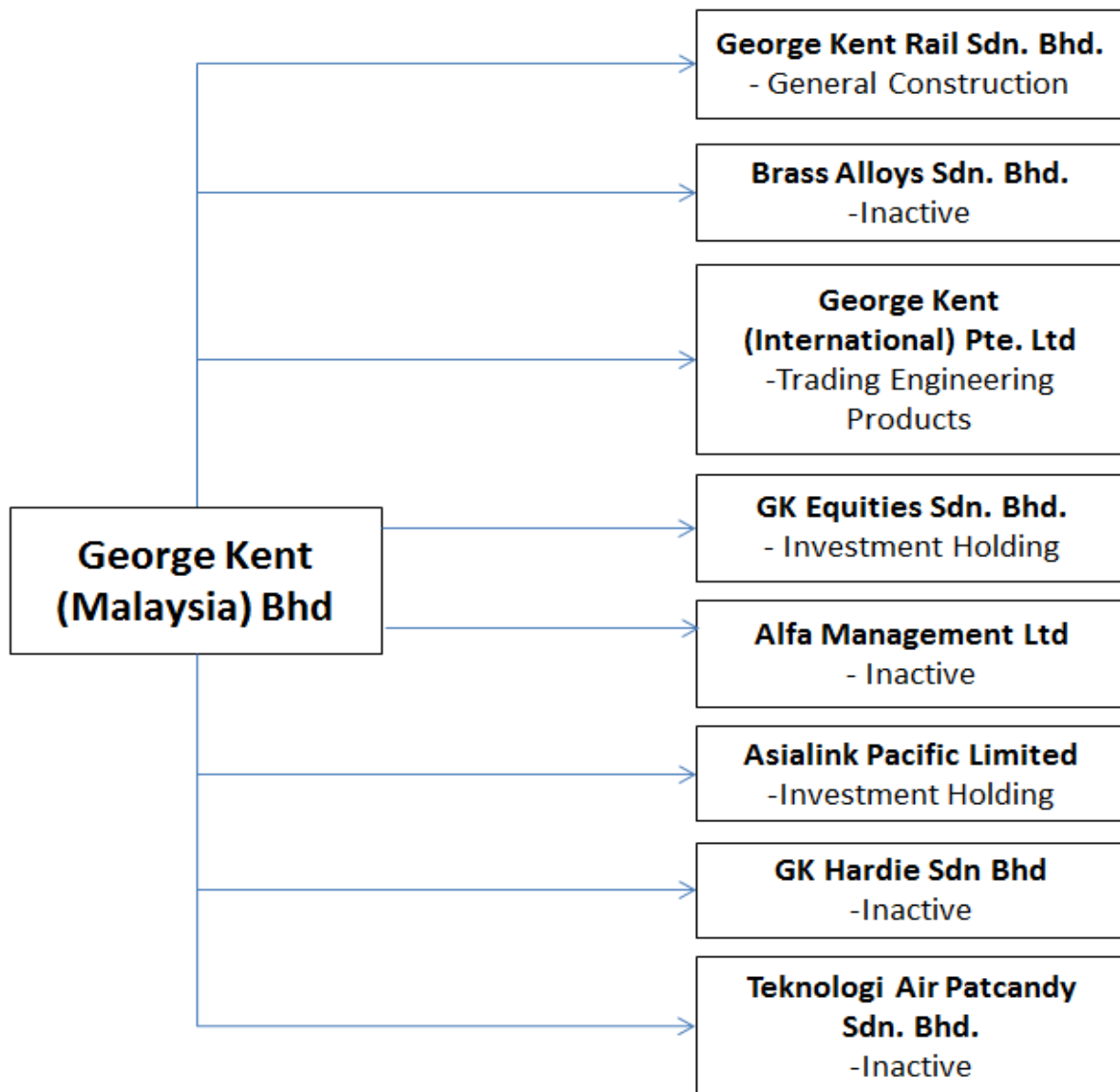
The company was first established on 1936 in Penang, Malaysia as a service branch to its parent company, George Kent Limited, United Kingdom. It was subsequently converted into a public company on 11 July 1969 and it listed its shares on the Kuala Lumpur Stock Exchange (KLSE) in 1974. GKM has five principal activities: manufacturing and marketing of water meters, waterworks fittings, fiberglass reinforced polyester (FRP) panel tanks and a variety of hot-stamped brass products and components; operation of water infrastructure; marketing of industrial measurement and automatic control products, compressed air pumping and heating equipment, valves and pipes and pipeline fittings; design, supply, installation, commissioning and maintenance of instrumentation, process control systems and Scada systems for industry, and building automation and security systems, and mechanical and electrical turnkey water infrastructure project management. GKM exports its manufactured products to Singapore, Thailand, Vietnam, Myanmar, Cambodia, Indonesia, the Philippines, Papua New Guinea, Australia, Hong Kong, Sri Lanka, Kenya, South Africa, South America and the United Kingdom.

Engineering Segment

Specialises in the turnkey construction of water infrastructure and hospital projects, systems work for rail transportation and operation and maintenance services for water treatment facility

Metering Segment

Specialises in the manufacturing and sale of metering products and solutions for residential, industrial and commercial customers

GKENT Group Structure

Source: Company, Kenanga Research

Board of Directors		
Name	Position	Background
Tan Sri Dato' Tan Kay Hock	Chairman/Non-Independent Non-Executive Director	<ul style="list-style-type: none"> Is a lawyer by training and had been called to the Bar by Lincoln's Inn, United Kingdom in 1971. Was admitted as an advocate and solicitor to the Supreme Court of Malaysia and is a non-practicing lawyer Is the chairman and chief executive of Johan Holdings Berhad Was appointed to the Board on 14 January 1982 Is the chairman of the Remuneration Committee and a member of the Audit Committee, Risk Management Committee and Nominating Committee
Puan Sri Datin Tan Swee Bee	Non-Independent Non-Executive Director	<ul style="list-style-type: none"> Is a UK trained Barrister-at-Law from Lincoln's Inn, UK Was admitted as an advocate and solicitor to the Supreme Court of Malaysia and is a non-practicing lawyer Is the group managing director of Johan Holdings Berhad. Was appointed to the Board on 11 October 1989 Is a member of the Remuneration Committee
Ong Seng Pheow	Independent Non-Executive Director	<ul style="list-style-type: none"> Is a Certified Public Accountant (Malaysia) and a member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants Has over 30 years of experience as a public accountant Was a partner of Messrs Ernst & Young from 1984 to 2003 Was appointed to the Board on 13 September 2004 Is the chairman of the Audit Committee and Risk Management Committee Holds directorship in other listed issuer and public companies
Dato' Paduka (Dr.) IR. HJ. Keizrul bin Abdullah	Independent Non-Executive Director	<ul style="list-style-type: none"> Graduated with a Bachelor of Engineering (Honours) in Civil Engineering from University of Malaya in 1975 Is a Registered Professional Engineer Has 39 years of experience in the field of water and water resources engineering Oversaw the development of a Flood Mitigation Master Plan for Kuala Lumpur and managed the SMART Tunnel Project from conception to commissioning Is currently a member of the High-level Experts and Leaders Panel (HELP) on Water and Disasters reporting to the United Nations Secretary General's Special Envoy on Disaster Risk Reduction and Water Was appointed to the Board on 8 December 2009 Is a member of the Audit Committee, Nominating Committee and Remuneration Committee Holds directorship in other listed issuer and public companies
Dato' Ahmad Khairummuza mmil Bin Mohd Yusoff	Independent Non-Executive Director	<ul style="list-style-type: none"> Graduated with a Bachelor of Arts (Economics Honours) from University of Malaya Was a deputy chairman of the Urban Development Authority (UDA) Kuala Lumpur from 1978 to 1981 Was subsequently appointed the director-general, chief executive and board member of UDA in 1981 Held various senior management positions in the Kumpulan Guthrie Berhad Group from May 1986 to 1994 and was the executive director of Kumpulan Guthrie Berhad from May 1986 to December 1987 Was a vice president and a director of HICOM Holdings Berhad from February 1995 to July 2000 and subsequently held the post of group director in the DRB-Hicom Group until March 2006 Was the Director/Chairman of Metrojaya Berhad from 1979 to 2015 Was appointed to the Board on 30 June 2015 Is the chairman of the Nominating Committee Holds directorship in Johan Holdings Berhad
Ooi Chin Khoon	Non-Independent Executive Director	<ul style="list-style-type: none"> Is a member of Malaysian Institute of Accountants Has more than 25 years of experience and knowledge in financial, strategic and operations management covering various industries Was the senior general manager of the company's finance and control department Was appointed to the Board on 28 March 2013 and is responsible for the financial and strategic management of the group

Source: Company; Kenanga Research

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Project Details: Current Projects

Ampong Light Rail Transit (LRT) Line Extension		Proposed Upgrading Hospital Kuala Lipis Phase 2	
Current		Current	
Project Title	Ampong Light Rail Transit (LRT) Line Extension Project	Project Title	Proposed Upgrading Hospital Kuala Lipis Phase 2
Client	Prasarana Malaysia Berhad	Client	Ministry of Health
Contractual Commencement Date	31 July 2012	Contractual Commencement Date	23 October 2014
Contractual Completion Date	Fully operational and officially launched on 30 June 2016	Contractual Completion Date	23 April 2017
Scope of Works	The Engineering, Procurement, Construction, Testing and Commissioning of System Works	Scope of Works	Design, Construction, Equipping, Commissioning and Maintenance of 56 beds Hospital
<i>Sources: Company</i>			

Mount Eriama Water Treatment Plant, Port Moresby		Light Rail Transit Line 3 (LRT 3)	
Current		Current	
Project Title	Mount Eriama Water Treatment Plant, Port Moresby, Papua New Guinea	Project Title	Light Rail Transit Line 3 (LRT 3) from Bandar Utama to Johan Setia
Client	Eda Ranu, Port Moresby Papua New Guinea	Client	Prasarana Malaysia Berhad
Contractual Commencement Date	June 1997	Contractual Commencement Date	4 September 2015
Contractual Completion Date	2019	Contractual Completion Date	2020
Scope of Works	Operation & Maintenance of Mount Eriama Water Treatment Plant	Scope of Works	Procurement and Appointment of Consultants and Contractors including Preparation of Pre-qualification and Tender Documents, Supervision and Management of Consultants and Contractors Appointed to Carry Out the Development of the Entire LRT3 including Design, Value Engineering, Manufacture, Deliver, Install, Test, Commission and Making Good Defects of Systems Works, Track Works and All Other Infrastructure Works with the Aim of Ensuring Delivery of Project
<i>Sources: Company</i>			

MRT Sungai Buloh-Serdang-Putrajaya		District Hospital in Tanjung Karang	
Current		Current	
Project Title	MRT Sungai Buloh-Serdang-Putrajaya Work Package SSP-SY-2014	Project Title	Design and Build 150-Bed District Hospital in Tanjung Karang
Client	MASS Rapid Transit Corporation Sdn Bhd	Client	Public Works Department, Malaysia, Ministry of Works
Contractual Commencement Date	August 2016	Contractual Commencement Date	November 2016
Contractual Completion Date	2022	Contractual Completion Date	November 2020
Scope of Works	Engineering, Procurement, Construction, Testing and Commissioning of Trackworks, Maintenance of Vehicles and Work Trains	Scope of Works	Design & Build 150-bed Medical and Ward Block, 30 Units of Houseman's Quarters, 24 Units of Class "F" and "G" Quarters, 50-Pax Child Nursery Centre, Engineering Block, Cafeteria and Visitor Gallery, 2 Fully Equipped Operating Rooms (OR)
<i>Sources: Company</i>			



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220-Bed Endocrine Hospital, Putrajaya

Current	
Project Title	Design and Build 220-Bed Endocrine Hospital in Precinct 7, Putrajaya
Client	Public Works Department, Ministry of Works
Contractual Commencement Date	December 2016
Contractual Completion Date	January 2020
Scope of Works	Design and Construction of 220-Bed Hospital Extension Complex with Link Bridge to Existing Main Block of Hospital Putrajaya and Multi-Storey Car Park

Sources: Company

Project Details: Completed Projects**Pahang Selangor Raw Water Transfer, Semantan**

Completed	
Project Title	Pahang Selangor Raw Water Transfer, Semantan Intake
Client	Ministry of Energy
Contractual Commencement Date	2 June 2010
Contractual Completion Date	30 May 2014
Scope of Works	Intake, Pumping Station and Related Works

Sources: Company

Panching Water Treatment Works

Completed	
Project Title	Panching Water Treatment Works
Client	East Coast Economic Region (ECER)
Contractual Commencement Date	10 August 2010
Contractual Completion Date	12 August 2013
Scope of Works	Construction and Completion of 160 MLD water Treatment Plant and all Associated Works

Upgrading of Hospital Kuala Lipis

Completed	
Project Title	Proposed Upgrading of Hospital Kuala Lipis
Client	Ministry of Health Malaysia
Contractual Commencement Date	26 February 2009
Contractual Completion Date	25 August 2011
Scope of Works	Design, Construction, Equipping, Commissioning and Maintenance of 106 Beds Hospital

Sources: Company

Upgrading of Port Moresby Water Supply

Completed	
Project Title	Upgrading of Port Moresby Water Supply
Client	Eda Ranu, Port Moresby Papua New Guinea
Contractual Commencement Date	n.a.
Contractual Completion Date	31 June 2006
Scope of Works	Design, Engineering Procurement, Installation, Testing and Commissioning of all M & E Works for 100 MLD Raw Water Booster Pump Station

National Sewerage Project

Completed	
Project Title	National Sewerage Project
Client	Sewerage
Contractual Commencement Date	n.a.
Contractual Completion Date	30 June 2006
Scope of Works	1. Design, Supply, Installation, Testing and Commissioning of Instrumentation and Scada Systems for 5 Sewage Treatment Plants 2. Rehabilitation and Upgrading of the Existing Kuyoh Pumping Station 3. Electrical Installation Works

Sources: Company

Central Kedah (Gurun) Water Supply Project

Completed	
Project Title	Central Kedah (Gurun) Water Supply Project
Client	JBA, Kedah
Contractual Commencement Date	n.a.
Contractual Completion Date	1 November 2005
Scope of Works	Design, Supply, Installation, Testing and Commissioning of Intake Plant and Instrumentation & Scada System

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Sg Muar to Talang Dam Raw Water Transfer Project		Port Moresby Water Supply, Papua New Guinea	
Completed		Completed	
Project Title	Sg Muar to Talang Dam Raw Water Transfer Project	Project Title	Upgrading of Port Moresby Water Supply, Papua New Guinea
Client	JBA, Negeri Sembilan	Client	Eda Ranu, Port Moresby Papua New Guinea
Contractual Commencement Date	n.a.	Contractual Commencement Date	n.a.
Contractual Completion Date	28 February 2005	Contractual Completion Date	31 October 2004
Scope of Works	Design, Engineering, Procurement, Installation, Testing and Commissioning of all M & E Works for 100 MLD Raw Water Intake Plant and Pumping Station	Scope of Works	Design, Engineering, Procurement, Installation, Testing and Commission of all M & E Works for 50 MLD Filtration Plant and Backwash System

Sources: Company

Sg Selangor Water Supply Scheme Phase 3		Sg Selangor Water Supply Scheme Phase 3 Package 2 & 4	
Completed		Completed	
Project Title	Sg Selangor Water Supply Scheme Phase 3 - Rasa Headworks and Bulk Water Transfer Works - Stage 2 Works	Project Title	Sg Selangor Water Supply Scheme Phase 3 Package 2 & 4 - Rasa Headworks and Bulk Transfer Works - Stage 1 Works
Client	Gamuda-KDEB-TSWA JV	Client	Gamuda-KDEB-TSWA JV
Contractual Commencement Date	n.a.	Contractual Commencement Date	n.a.
Contractual Completion Date	31 November 2003	Contractual Completion Date	30 November 2001
Scope of Works	Design, Engineering, Procurement, Construction, Installation, Testing and Commission of the Mechanical and Electrical Works and Associated Civil Works, Major Components of Works is Intake Plant, Raw Water Pumping Plant, 250 MLD Treatment Plant, Treated Water Pumping Plant, Electrical Plant, Instrumentation 7 Scada System C & S Works	Scope of Works	Design, Engineering, Procurement, Construction, Installation, Testing and Commission of the Mechanical and Electrical Works and Associated Civil Works, Major is River Gate, Intake Plant, Raw Water Pumping Station, 250 MLD Treatment Plant, Treated Water Pumping Station, Electrical Plant, Generator Plant (2 x 2.4MW) and Instrumentation & Scada System

Sources: Company

Package 1 - Stage II Sg Linggi Water Treatment Plant		Teluk Bahang Water Supply Project, Penang	
Completed		Completed	
Project Title	Rehabilitation and Upgrading of Water Supply System in Malaysia Package 1 - Stage II Sg Linggi Water Treatment Plant	Project Title	Upgrading of Port Moresby Water Supply, Papua New Guinea
Client	JBA, Negeri Sembilan	Client	PBA, Penang
Contractual Commencement Date	n.a.	Contractual Commencement Date	n.a.
Contractual Completion Date	30 November 2000	Contractual Completion Date	30 September 2000
Scope of Works	Upgrading of the Existing 70 MLD Sg Linggi Water Treatment Plant to a Total Output of 130 MLD and New Intake Works, Pumping Station, Treatment Plant, Ozone Plant, Electrical Plant and Instrumentation	Scope of Works	Design, Supply, Installation and commissioning of 118 MLD New Treatment Plant, Pumping Plant, Electrical Plant and Generator Plant

Sources: Company



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Kuala Pilah Treatment Plant		Sg Kelinchi Pumping Station	
Completed		Completed	
Project Title	Kuala Pilah Treatment Plant	Project Title	Sg Kelinchi Pumping Station and Associated Works
Client	JBA, Negeri Sembilan	Client	JBA, Negeri Sembilan
Contractual	n.a.	Contractual	n.a.
Commencement Date		Commencement Date	
Contractual	January 2000	Contractual	1999
Completion Date		Completion Date	
Scope of Works	Turnkey Contract for Design and Construction of Intake Pumping Plant, 6.8 MLD Treatment Plant, Treated Water Pumping Plant, Pipelines	Scope of Works	Design, Supply, Installation, Testing and commissioning of 125 MLD Pumping Plant and Construction of Pumping Station
<i>Sources: Company</i>			

Lat Krabang Booster Pump Station		Sg Batu and Sg Rangkap Water Treatment Plant	
Completed		Completed	
Project Title	Lat Krabang Booster Pump Station	Project Title	Upgrading Works for Sg Batu and Sg Rangkap Water Treatment Plant
Client	Metropolitan Water Works Authority, Bangkok, Thailand	Client	JBA, Selangor
Contractual	n.a.	Contractual	n.a.
Commencement Date		Commencement Date	
Contractual	1998	Contractual	1998
Completion Date		Completion Date	
Scope of Works	Design, Supply, Installation, Testing and commissioning of 2 Variable Speed Driven Pumpsets, 1 Fixed Speed Driven Pumpset, Electrical Plant and Instrumentation & Telemetry System	Scope of Works	Upgrading and Rehabilitation of Sedimentation, Filtration and Chemical Dosing Plants
<i>Sources: Company</i>			

Sg Dua Treatment Plant		Port Moresby Water Supply Bot Project	
Completed		Completed	
Project Title	Sg Dua Treatment Plant	Project Title	Port Moresby Water Supply Bot Project
Client	PBA, Selangor	Client	Eda Ranu, Port Moresby, Papua New Guinea
Contractual	n.a.	Contractual	n.a.
Commencement Date		Commencement Date	
Contractual	1997	Contractual	June 1997
Completion Date		Completion Date	
Scope of Works	Proposed Diesel Engine Driven Stand-by Pumpsets and Ancillary Equipment	Scope of Works	As Operator, Managing the Operation and Maintenance of the Existing 130 MLD Water Treatment Plant Which is to be Upgraded to 270 MLD in Stages
<i>Sources: Company</i>			

Kembangan Restu Sg Selangor Water Supply Scheme		New Gemas Water Supply Project, Negeri Sembilan	
Completed		Completed	
Project Title	Kembangan Restu Sg Selangor Water Supply Scheme, Package E-Contract 7	Project Title	New Gemas Water Supply Project, Negeri Sembilan
Client	JBA, Selangor	Client	JBA, Negeri Sembilan
Contractual	n.a.	Contractual	n.a.
Commencement Date		Commencement Date	
Contractual	1996	Contractual	1995
Completion Date		Completion Date	
Scope of Works	Supply of Instrumentation Panel, Telemetry, Instrumentation System, Cable, Electrical System	Scope of Works	Construction and Commissioning of 43 MLD Water Treatment Plant, River Intakes, Raw Water Pumping Station, Treated Water Pumping Station, Instrumentation, Pipeline and Reservoir
<i>Sources: Company</i>			



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Bernam Estate Treatment Works, Melaka		Sg Selangor Water Supply Scheme Phase 1 – Stage 2	
Completed		Completed	
Project Title	Extension to Bernam Estate Treatment Works, Melaka	Project Title	Sg Selangor Water Supply Scheme Phase 1 - Stage 2, Selangor
Client	Perbadanan Air Melaka (PAM)	Client	JBA, Selangor
Contractual	n.a.	Contractual	n.a.
Commencement Date		Commencement Date	
Contractual	1995	Contractual	1995
Completion Date		Completion Date	
Scope of Works	Design, Supply, Installation, Testing and Commissioning of 54.5 MLD Water Treatment Plant	Scope of Works	Design, Supply, Installation, Testing and Commissioning of Bandscreen and Penstocks, Raw Water Pumpsets, Treated Water Pumpsets, Instrumentation and Telemetry System

Sources: Company

Bentong Water Supply Scheme, Pahang		Sg Selangor Water Supply Scheme Phase 1 - Stage 1	
Completed		Completed	
Project Title	Bentong Water Supply Scheme, Pahang	Project Title	Sg Selangor Water Supply Scheme Phase 1 -Stage 1, Selangor
Client	JBA, Pahang	Client	JBA, Selangor
Contractual	n.a.	Contractual	n.a.
Commencement Date		Commencement Date	
Contractual	1993	Contractual	1993
Completion Date		Completion Date	
Scope of Works	Design, Supply, Installation, Testing and Commissioning of RiverGate, Intake Plant, 45.5 MLD Treatment Plant, Pumping Plant, Electrical Plant, Instrumentation	Scope of Works	Design, Supply, Installation, Testing and Commissioning of River Gates, Intake Plant, Bandscreen, Penstocks, Portal Crane, Sand Ejector Pump System, Raw Water Pump System, Treated Water Pump System, Booster Pump System, Surge Suppression Systems, Instrumentation, Telemetry System, Overhead Crane, Valves and Pipework

Sources: Company

Sg Terip Water Supply Scheme Phase II		Bekalan Air Baru Melaka Stage 1	
Completed		Completed	
Project Title	Sg Terip Water Supply Scheme Phase II	Project Title	Bekalan Air Baru Melaka Stage 1 - Contract No.2
Client	JBA, Negeri Sembilan	Client	PAM, Melaka
Contractual	n.a.	Contractual	n.a.
Commencement Date		Commencement Date	
Contractual	1993	Contractual	1992
Completion Date		Completion Date	
Scope of Works	Design, Supply, Installation, Testing and Commissioning of Treated Water Pumping Plant	Scope of Works	Design, Supply, Erection & Commissioning of Water Treatment Plant

Sources: Company

Sg Layang Water Treatment Works, Johor		Bukit Dumber Booster Pump Station, Penang	
Completed		Completed	
Project Title	Sg Layang Water Treatment Works, Johor	Project Title	Bukit Dumber Booster Pump Station, Penang
Client	JBA, Johor	Client	PBA, Penang
Contractual	n.a.	Contractual	n.a.
Commencement Date		Commencement Date	
Contractual	1992	Contractual	1991
Completion Date		Completion Date	
Scope of Works	Operation and Maintenance of 181 MLD Sg Layang Water Treatment Works and Associated Dams, Pipelines and Reservoir	Scope of Works	Design, Supply, Installation and Commissioning of 45.4 MLD Booster Pump Station.

Sources: Company



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Sg Dua Pumping Station Phase III Extension		Sg Ahning Dam	
Completed		Completed	
Project Title	Sg Dua Pumping Station Phase III Extension, Penang	Project Title	Sg Ahning Dam
Client	PBA, Penang	Client	JBA, Kedah
Contractual Commencement Date	n.a.	Contractual Commencement Date	n.a.
Contractual Completion Date	1990	Contractual Completion Date	1989
Scope of Works	Design, Supply, Installation and Commissioning of 3 Units of Raw Water Pumpset and 4 Units of Treated Water Pumpset	Scope of Works	Design, Supply, Installation and Commissioning of Steel Intake Gates and Power Packs, Steel Frames and Controls, Steel Intake Stoplogs and Diversion Gate, Associated M & E Plant and Equipment in the Draw-off Tower, Energy Dissipation Valves and Isolation Valves, Instrumentation and Telemetry System
<i>Sources: Company</i>			

Seberang Tayor Water	
Completed	
Project Title	Seberang Tayor Water
Client	Kemaman, Terengganu JBA
Contractual Commencement Date	n.a.
Contractual Completion Date	1986
Scope of Works	Supply, Delivery, Installation and Commissioning of 2 Nos. Electric Motor Driven Pumpsets, Instrumentation, Electrical Equipment, Pipework and Ancillary Work
<i>Sources: Company</i>	

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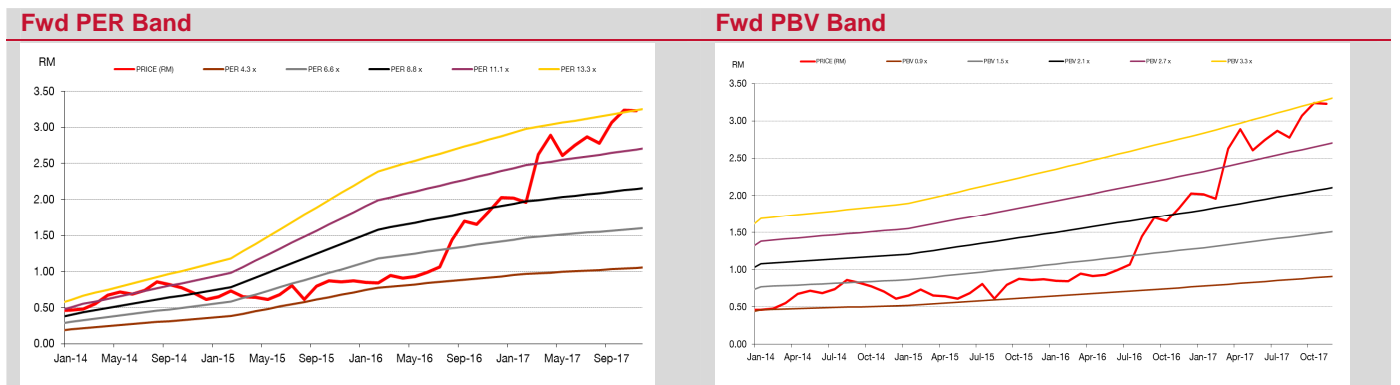
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Income Statement						Financial Data & Ratios					
FY Jan (RMm)	2015A	2016A	2017A	2018E	2019E	FY Jan (RMm)	2015A	2016A	2017A	2018E	2019E
Revenue	353.2	536.2	599.0	660.3	751.5	Growth					
EBITDA	42.3	62.6	121.0	123.0	143.6	Revenue	-28.1%	51.8%	11.7%	10.2%	13.8%
Depreciation	-3.7	-3.9	0.0	-4.6	-4.7	EBITDA	-19.8%	47.9%	93.3%	1.7%	16.8%
EBIT	38.6	58.7	121.0	118.4	138.9	EBIT	-21.3%	52.1%	106.2%	-2.1%	17.3%
Interest Expense	-2.4	-2.9	-2.9	-3.2	-3.9	Pre-tax Income	-21.1%	75.3%	70.2%	39.7%	11.8%
Investing	0.0	0.0	0.0	0.0	0.0	Net Income	-22.4%	78.3%	102.3%	24.5%	11.8%
Associate/JCE	0.0	0.0	0.0	50.6	50.6	Core Net Income	-22.4%	78.3%	102.3%	24.5%	11.8%
Exceptionals/FV	0.0	0.0	0.0	0.0	0.0	Profitability %					
PBT	40.3	70.7	120.3	168.1	187.9	EBITDA Margin	12.0%	11.7%	20.2%	18.6%	19.1%
Taxation	-12.2	-20.6	-20.6	-42.0	-47.0	EBIT Margin	10.9%	10.9%	20.2%	17.9%	18.5%
Minority Interest	0.0	0.0	0.0	0.0	0.0	PBT Margin	11.4%	13.2%	20.1%	25.5%	25.0%
Net Profit	28.1	50.1	101.3	126.1	141.0	Net Margin	8.0%	9.3%	16.9%	19.1%	18.8%
Core Net Profit	28.1	50.1	101.3	126.1	141.0	Effective Tax	30.4%	29.2%	17.1%	25.0%	25.0%
						ROE	9.8%	15.6%	25.3%	26.2%	24.6%
						ROA	5.0%	7.8%	12.7%	14.7%	13.5%
						DuPont Analysis					
						Net margin (%)	8.0%	9.3%	16.9%	19.1%	18.8%
						Assets Turnover (x)	0.6	0.8	0.7	0.7	0.7
						Leverage Factor (x)	2.1	2.1	2.3	2.0	1.9
						ROE (%)	9.8%	15.6%	25.3%	26.2%	24.6%
						Leverage					
						Debt/Asset (x)	0.1	0.0	0.1	0.1	0.1
						Debt/Equity (x)	0.2	0.1	0.1	0.1	0.1
						Net Debt/(Cash)	(105.5)	(214.3)	(372.9)	(397.6)	(483.3)
						Net Debt/Equity (x)	-0.4	-0.7	-0.9	-0.8	-0.8
						Valuations					
						Core EPS (sen)	5.0	8.9	18.0	22.4	25.0
						NDPS (sen)	2.8	3.7	3.7	7.8	8.8
						NTA/sh (RM)	0.51	0.57	0.71	0.86	1.02
						Core PER (x)	64.8	36.3	18.0	14.4	12.9
						Net Div. Yield (%)	0.9%	1.2%	1.2%	2.4%	2.7%
						PNTA (x)	6.3	5.7	4.5	3.8	3.2
						EV/EBITDA (x)	40.5	25.6	12.0	11.6	9.3

Balance Sheet					
FY Jan (RMm)	2015A	2016A	2017A	2018E	2019E
Fixed Assets	121.3	121.1	128.4	127.7	123.4
Intangibles	0.0	0.0	0.0	0.0	0.0
Other FA	30.3	30.5	39.5	38.1	35.4
Inventories	41.7	47.9	43.1	42.3	48.7
Receivables	191.3	198.0	229.0	284.2	319.2
Other CA	55.5	43.4	39.2	39.2	39.2
Cash	163.8	241.6	430.2	454.9	540.6
Total Assets	606.4	682.7	909.7	986.7	1106.8
Payables	224.1	211.2	187.6	182.6	211.1
ST Borrowings	53.0	26.1	56.4	56.4	56.4
Other ST Liability	33.6	121.8	261.2	261.2	261.2
LT Borrowings	5.4	1.2	1.0	1.0	1.0
Other LT Liability	3.2	0.5	3.6	3.6	3.6
Minority Int.	485.8	360.3	361.6	361.6	361.6
Net Assets	287.2	322.0	400.0	482.0	573.6
Share Capital	150.2	150.2	187.8	187.8	187.8
Reserves	20.4	21.9	28.0	28.0	28.0
Retained Earnings	116.6	149.9	184.3	266.3	357.9
Total Equity	287.2	322.0	400.0	482.0	573.6

Cashflow Statement					
FY Jan (RMm)	2015A	2016A	2017A	2018E	2019E
Operating CF	-65.0	30.3	52.1	72.2	134.3
Investing CF	-2.9	-7.0	-7.4	-2.4	2.3
Financing CF	3.3	-30.7	8.5	-45.0	-50.9
Change In Cash	-64.6	-7.4	53.2	24.7	85.6
Free CF	-52.7	44.9	74.8	110.4	180.8

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (06/11/17)	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	1.00	776	-5.5	13.1	12.1	2%	6%	0.8	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	73.0
GAMUDA BHD	5.07	12447	20.4	19.3	16.1	2%	10%	1.6	700.6	741.7	885.4	6%	19%	5.45	Market Perform	6.1
IJM CORP BHD	3.21	11647	21.5	19.8	17.6	2%	6%	1.2	539.1	585.8	656.1	9%	12%	3.48	Market Perform	0.3
KIMLUN CORP BHD	2.38	761	9.0	10.4	9.4	2%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	14.4
MUHIBBAH ENGINEERING (M) BHD	2.86	1374	16.9	14.6	14.0	2%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	28.3
HOCK SENG LEE BERHAD	1.55	852	15.0	17.2	12.4	1%	7%	1.1	56.5	49.4	69	-13%	40%	1.40	Market Perform	-3.1
WCT HOLDINGS BHD	1.67	2349	32.7	18.8	16.5	0%	5%	1.0	84.8	149	169.4	76%	14%	1.83	Market Perform	-2.9
MITRAJAYA HOLDINGS BHD	0.82	641	7.5	10.5	7.5	2%	12%	1.1	97.3	70.3	98.3	-28%	40%	0.94	Outperform	-26.2
SUNWAY CONSTRUCTION GROUP	2.35	3037	25.8	21.0	17.5	2%	25%	5.2	117.7	145.2	173.1	23%	19%	2.29	Market Perform	38.2
KERJAYA PROSPEK GROUP BHD	4.06	2287	22.9	18.1	15.5	1%	15%	2.8	100	126.7	148.1	27%	17%	3.30	Underperform	87.1
GEORGE KENT (MALAYSIA) BHD	3.24	1825	18.0	14.5	12.9	2%	26%	3.8	101.3	126.1	141	24%	12%	3.65	Outperform	59.9
<i>Average</i>			16.8	16.1	13.8											
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	1.15	680	-2.3	16.1	11.7	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	26.4
PROTASCO	1.15	488	9.4	8.3	8.1	5%	15%	1.3	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	1.8
PINTARAS JAYA	4.00	660	36.8	15.5	13.0	4%	12%	1.9	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	13.6
GABUNGAN AQRS	1.98	862	34.2	20.8	9.9	1%	12%	2.4	22.6	37.2	77.9	65%	109%	1.6	Not Rated	118.8
GADANG HOLDINGS	1.22	803	4.2	4.6	4.4	2%	27%	1.2	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	16.2
AZRB	1.14	606	20.3	9.6	7.6	n.a.	15%	1.4	27.2	57.4	73	111%	27%	1.35	Trading Buy	79.5
TRC SYNERGY	0.78	372	12.5	11.3	14.2	3%	8%	0.9	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	103.9
BINA PURI	0.38	100	89.4	6.0	6.0	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-13.8
PESONA	0.54	375	17.7	10.0	7.3	4%	22%	2.3	20	35.3	48.5	77%	37%	0.49	Take Profit	-10.7
JAKS	1.48	729	0.9	10.5	7.6	0%	12%	1.2	736	61.9	85.4	-92%	38%	1.54	Not Rated	45.1
<i>Average</i>			22.3	11.3	9.0											

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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Published and printed by:

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