

George Kent (M) Bhd

9M18 Broadly Inline

9M18 CNP of RM75.1m makes up 59%/67% of our/street's full-year estimates. We deem it broadly inline as we are expecting a stronger performance in 4Q18. To recap, its 9M17 CNP only made up 55% of FY17 CNP. Second interim dividend of 2.0 sen declared with 9M18 dividend of 4.5 sen, on track to meet our full-year expectation of 7.8 sen. No changes to FY18-19E earnings. Maintain OUTPERFORM with an unchanged SoP-driven Target Price of RM3.65.

Broadly inline. 9M18 CNP of RM75.1m constitutes 59%/67% of our/street's full-year estimates. We deem it as broadly inline as we are expecting a stronger performance in 4Q18. To recap, its 9M17 CNP only forms 55% of its FY17 CNP. Second interim dividend of 2.0 sen declared, bringing 9M18 dividends to 4.5 sen which is on track to meet our full-year expectations of 7.8 sen.

Results highlight. 9M18 CNP grew 32% YoY driven by: (i) revenue growth of 8% backed by its engineering (+3%) and metering (+27%) divisions, (ii) improvements in pre-tax margins to 21% (+2ppt) also due to both divisions above. The improvements in pre-tax margins were also due to higher contribution from its associate/joint-venture (+67%). QoQ, its 3Q18 core PATAMI grew 30% despite revenue declining 32% due to the impressive improvement in pre-tax margin of Engineering segment to 29% (+11ppt), which we believe could be largely due to variation order claims or from advance works done for its on-going projects.

Outlook. We continue to believe that LRT3 will see an upward revision in construction cost of RM9.0b due to higher building material and labour, which would be a key re-rating catalyst for GKENT, as they will be benefiting from the 6% PDP fees. That aside, its outstanding order-book currently stands at RM5.7b (inclusive of LRT3) providing earnings visibility for the next 2-3 years, and coupled with growth in metering division, we believe that GKENT is set to deliver another record high earnings in FY18.

Earnings estimates unchanged. Post results, we made no changes to our FY18-19E CNP estimates as we are expecting a strong performance in 4Q18.

Maintain OUTPERFORM with key re-rating catalysts being potential cost escalation in LRT3 project. Our TP of RM3.65 is based on: (i) 14x FY19E PER for metering, (ii) 17x FY19 PER for construction, (iii) NPV of 6% PDP fees based on RM9b cost, and (iv) 30% discount to net cash. Implied FY18-FY19 PERs of 16.2-14.5x are not excessive given its net cash position.

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

OUTPERFORM ↔

Price: RM3.39
Target Price: RM3.65 ↔

Expected Capital Gain: RM0.26 +7.7%
Expected Div. Yield: RM0.078 +2.3%
Expected Total Return: RM0.338 +10.0%

KLCI Index 1724.84

Stock Information

Bloomberg Ticker	GKEN MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	563.3
Market Cap (RM m)	1,909.5
Par value per share (RM)	0.50
52-week range (H)	3.62
52-week range (L)	1.83
Free Float	73%
Beta	1.1
3-mth avg daily vol:	1,396,461

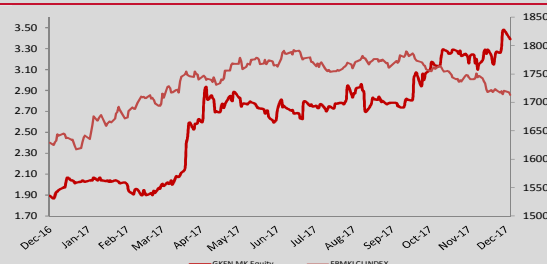
Major Shareholders

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.	111.7	123.7
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)	4.8	4.0	3.3
PER (x)	18.9	15.1	13.5
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 (%)	1.1%	2.3%	2.6%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	4.6%	21.9%	81.6%
Relative (%)	5.6%	24.5%	75.4%

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Results Highlights

FYE Dec (RM'm)	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
Turnover	127.1	187.6	-32%	122.1	4%	444.1	409.8	8%
EBITDA	33.1	28.7	16%	25.2	31%	87.0	67.2	29%
Depreciation	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
EBIT	33.1	28.7	16%	25.2	31%	87.0	67.2	29%
Interest inc/(exp)	0.6	0.3	74%	0.6	-2%	0.3	0.5	-30%
Associates	5.6	2.7	110%	3.1	79%	10.0	6.0	67%
Admin, Distribution, Other	-12.3	-6.5	90%	-8.9	38%	-27.5	-22.8	21%
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	-2.6	1.3	-296%	0.6	-553%	-2.5	2.5	-200%
Pre-tax profit	36.7	33.0	11%	29.6	24%	94.8	76.2	24%
Taxation	-8.0	-7.7	5%	-5.8	38%	-22.2	-17.0	31%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	28.7	25.4	13%	23.7	21%	72.5	59.3	22%
Minority interest	0.0	0.0	-100%	0.0	n.m.	0.0	0.0	-158%
PATAMI	28.7	25.4	13%	23.7	21%	72.6	59.2	23%
Core PATAMI	31.3	24.0	30%	23.2	35%	75.1	56.7	32%
EBIT margin	26%	15%		21%		20%	16%	
Pre-tax margin	29%	18%		24%		21%	19%	
CNP margin	25%	13%		19%		17%	14%	
EPS (sen)	5.1	4.5		4.2		12.9	10.5	
Core EPS(sen)	5.6	4.3		4.1		13.3	10.1	
BV/share (RM)	0.8	0.8		0.6		0.8	0.6	
Net gearing (x)	-0.8	-0.9		-0.6		-0.8	-0.6	
Effective tax	22%	23%		20%		23%	22%	

Source: Company, Kenanga Research

Segmental Breakdown

Turnover Segmentation	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
Metering	44.9	39.7	13%	32.5	38%	119.1	93.6	27%
Engineering	82.1	147.9	-44%	89.6	-8%	325.0	316.2	3%
Pre-tax profits								
Metering	11.7	9.3	25%	7.3	60%	30.7	19.2	60%
Engineering	32.2	26.3	22%	25.5	26%	80.5	66.1	22%
Pre-tax margins								
Metering	26%	24%		22%		26%	21%	
Engineering	39%	18%		28%		25%	21%	

Source: Company, Kenanga Research

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: Company, Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (05/12/17)	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	0.89	691	-4.9	10.4	9.6	2%	7%	0.7	-140.3	65.9	78.4	-147%	19%	0.80	Underperform	53.9
GAMUDA BHD	4.68	11491	18.9	17.8	14.9	3%	10%	1.5	700.6	741.7	885.4	6%	19%	5.45	Market Perform	-2.1
IJM CORP BHD	3.02	10958	20.3	20.8	18.9	2%	5%	1.1	539.1	523.9	578.6	-3%	10%	3.45	Outperform	-5.6
KIMLUN CORP BHD	2.30	737	8.7	11.2	9.1	2%	11%	1.2	81.9	63.9	78.3	-22%	23%	2.27	Market Perform	10.6
MUHIBBAH ENGINEERING (M) BHD	2.73	1311	14.9	10.3	9.6	2%	13%	1.3	87.7	127.4	136.5	45%	7%	3.55	Outperform	22.4
HOCK SENG LEE BERHAD	1.47	808	14.3	16.3	11.8	1%	7%	1.1	56.5	49.4	69	-13%	40%	1.40	Market Perform	-8.1
WCT HOLDINGS BHD	1.53	2152	30.0	17.2	15.1	0%	5%	0.9	84.8	149	169.4	76%	14%	1.83	Outperform	-11.0
MITRAJAYA HOLDINGS BHD	0.77	592	7.0	9.8	7.0	3%	12%	1.0	97.3	70.3	98.3	-28%	40%	0.94	Outperform	-31.7
SUNWAY CONSTRUCTION GROUP	2.37	3063	26.0	21.2	17.7	2%	25%	5.3	117.7	145.2	173.1	23%	19%	2.29	Market Perform	39.4
KERJAYA PROSPEK GROUP BHD	3.99	2250	22.5	17.7	14.7	1%	16%	2.8	100	127.3	152.9	27%	20%	3.40	Underperform	83.9
GEORGE KENT (MALAYSIA) BHD	3.39	1909	18.9	15.1	13.5	2%	26%	3.9	101.3	126.1	141	24%	12%	3.65	Outperform	67.3
<i>Average</i>			16.1	15.3	12.9											
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	0.97	574	-2.0	13.6	9.9	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	6.6
PROTASCO	1.03	437	8.4	7.4	7.2	5%	15%	1.1	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-8.8
PINTARAS JAYA	3.80	627	35.0	14.8	12.3	5%	12%	1.8	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	8.0
GABUNGAN AQRS	1.97	870	34.0	20.7	9.9	1%	12%	2.4	22.6	37.2	77.9	65%	109%	1.6	Not Rated	117.7
GADANG HOLDINGS	1.05	692	3.6	3.9	3.7	3%	27%	1.1	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	0.0
AZRB	1.00	532	17.8	8.4	6.6	n.a.	15%	1.3	27.2	57.4	73	111%	27%	1.35	Trading Buy	57.5
TRC SYNERGY	0.60	286	9.6	8.7	10.9	3%	8%	0.7	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	56.6
BINA PURI	0.34	89	79.9	5.4	5.4	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-23.0
PESONA	0.46	320	15.1	8.5	6.2	5%	25%	2.1	20	35.3	48.5	77%	37%	0.485	Take Profit	-24.0
JAKS	1.42	700	0.8	10.1	7.3	0%	12%	1.2	736	61.933	85.433	-92%	38%	1.54	Not Rated	39.2
<i>Average</i>			20.2	10.1	7.9											

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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