

13 July 2018

## George Kent (M) Bhd Back On Track

We feel reaffirmed with GKENT's prospect following a recent conversation with management. They remained focused in the execution of their on-going projects while looking for acquisition targets to complement its metering division. Furthermore, the LRT3 project is back on track with the government giving the green light for the construction of the new line. No changes to FY19-20E earnings. Maintain OUTPERFORM with an unchanged SoP-driven Target Price of RM2.20.

**Green light on LRT3.** Yesterday, Ministry of Finance (MOF) gave the green light for the construction works on LRT3 as they managed to lower the total cost from RM31.6b to RM16.6b after working relentlessly with GKENT-MRCB JV to come up with the cost reduction plan within a short span of time. We are positive on the news as it provides clarity to the market on the fate of LRT3 which could be shelved due to its high cost. However, management indicated that they are still working closely with the government on the PDP structure which has yet to be finalized.

**Strong flows for metering.** As for its metering division, it owns the largest brass forging plant in South-East Asia East Asia with a capacity of 3.0m annum, meters per annum which are exported to 42 countries worldwide and also locally where they managed to clinch a RM45.0m contract to supply water meters to Selangor over two years. Apart from traditional brass meters, we believe that its proprietary Automated Meter Reading (AMR) or SMART Metering solution would be the next big hit for the sector as it could assist the government in resolving non-revenue water issues in the future given their ability to provide customers with real-time access to water consumption data. We believe that with demand outstripping supply, we do not rule out that its metering division could potentially grow faster than our assumed 10% growth in FY19.

**Outlook.** Currently, its outstanding order-book inclusive of LRT3 stands at RM5.3b (based on previous budget of RM9.0b). While GKENT-MRCB JV is still in discussion with the government on the PDP structure, we believe that their outstanding order-book would be revised upwards as the current cost for LRT3 now stands at RM16.6b as compared to our assumptions of RM9.0b. To recap, we highlighted in our previous report dated 13-June-2018 that we are expecting the total cost for LRT3 to hover closer to RM14.0-15.0b, and unlikely to be scrapped. We laud the government for their relentless hard work and ability to conclude the revised plan for LRT3 within a short span of time for the benefit of the rakyat as the new line is expected to serve a two-million population upon completion. As for its metering division, management is actively looking for opportunities or acquisition targets to expand their footprint South-East Asia.

**Earnings estimates unchanged.** Post results, we made no changes to our FY19-20E earnings for the time being pending more information on the potential change in PDP structure.

**Maintain OUTPERFORM.** We reiterate our OUTPERFORM call but with an unchanged SoP-driven Target Price of RM2.20. We see deep value emerging in the stock, arising from the recent sell-down due to the negative news flow in the construction as several mega infrastructure projects were scrapped since the change in government, and we believe that the stock should re-rate given that they have received the green light from government to proceed with LRT3. Our current TP of RM2.20 is based on; (i) 10x FY19E PER for metering, (ii) 9x FY19 PER for construction, (iii) NPV of 6% PDP fees based on RM9b cost, and (iv) 30% discount to 1Q19 net cash, implying FY19E PER of 8.8x. **Key downside risks** to our call are: (i) lower-than-expected margins, and (ii) delay in construction works.

## OUTPERFORM ↔

Price: RM1.29  
Target Price: RM2.20 ↔

Expected Capital Gain: RM0.91 70.5%  
Expected Divd. Yield: RM0.09 6.8%  
Expected Total Return: RM1.00 77.3%

KLCI Index 1,703.57

### Stock Information

Bloomberg Ticker	GKENT MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	559.3
Market Cap (RM m)	721.5
Par value per share (RM)	0.50
52-week range (H)	4.47
52-week range (L)	0.98
Free Float	73%
Beta	1.7
3-mth avg daily vol:	9,261,585

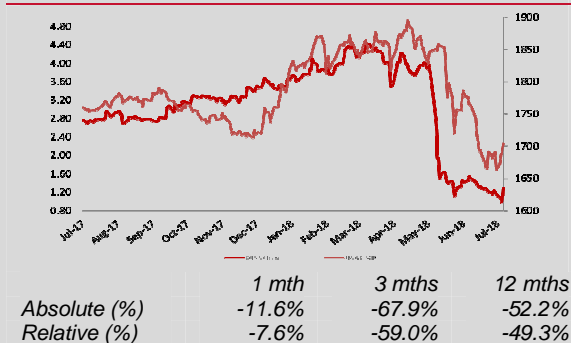
### Major Shareholders

Star Wealth Investment Limited	14.1%
Tan Swee Bee	7.8%
Tan Kay Hock	4.8%

### Summary Earnings Table

FY Jan (RM m)	2018A	2019E	2020E
Turnover	617.0	751.5	799.3
EBIT	152.6	137.2	145.6
PBT	160.3	187.9	196.3
<b>Net Profit</b>	<b>124.4</b>	<b>141.0</b>	<b>147.2</b>
<b>Core PATAMI</b>	<b>136.4</b>	<b>141.0</b>	<b>147.2</b>
Consensus	n.a.	134.7	143.0
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	22.1	25.0	26.1
Core EPS growth (%)	22.9%	13.3%	4.4%
NDPS (sen)	9.5	8.8	9.1
NTA per share (RM)	0.8	1.0	1.2
Price to NTA (x)	1.5	1.3	1.1
PER (x)	5.8	5.2	4.9
Debt-to-Equity ratio (x)	-0.8	-0.8	-0.9
Return on Asset (%)	14.6%	13.7%	12.8%
Return on Equity (%)	26.4%	25.1%	22.4%
Net Div. Yield (%)	7.4%	6.8%	7.1%

### Share Price Performance



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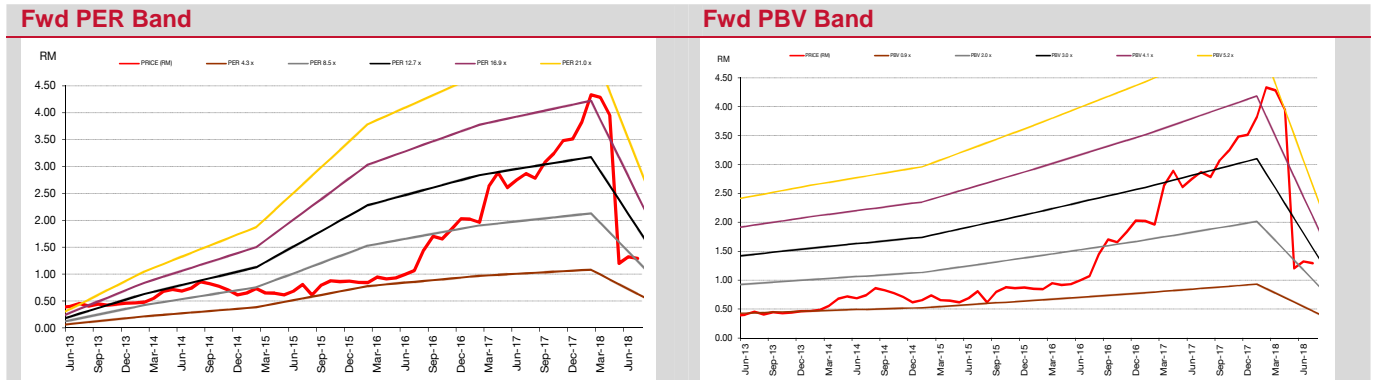
<b>Sum-Of-Parts</b>				
<b>Division</b>	<b>Stake</b>	<b>Value at Stake</b>	<b>Valuation/Discount Applied</b>	<b>(RM'm)</b>
Metering	100%	231.4	10.0	231.4
Construction	100%	604.7	9.0	604.7
NPV of PDP	100%	175.4		175.4
FY19E Net Cash	100%	343.5	30%	240.5
<b>Total</b>		1355.1		1252.0
Shares Outstanding				563.3
<b>Target Price (RM)</b>				<b>2.20</b>

Source: Company, Kenanga Research

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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	752	799	<b>Growth (%)</b>					
EBITDA	63	121	141	142	150	Revenue	52%	12%	3%	22%	6%
Depreciation	-4	0	-5	-5	-5	EBITDA	148%	193%	116%	101%	106%
EBIT	59	121	153	137	146	EBIT	52%	106%	26%	-10%	6%
Int. Expense	-1	-1	2	0	0	Pre-tax Income	75%	70%	33%	17%	4%
Associates/JV	0	0	18	51	51	Net Income	78%	102%	23%	13%	4%
Except. Items	15	0	-12	0	0	Core Net Income	78%	102%	35%	3%	4%
PBT	71	120	160	188	196	<b>Profitability (%)</b>					
Taxation	-21	-21	-36	-47	-49	EBITDA Margin	12%	20%	23%	19%	19%
MI/Perps	0	0	0	0	0	EBIT Margin	11%	20%	25%	18%	18%
Net Profit	50	101	124	141	147	PBT Margin	13%	20%	26%	25%	25%
Core Net Profit	50	101	136	141	147	Net Margin	9%	17%	20%	19%	18%
						Core Net Margin	9%	17%	22%	19%	18%
						Effective Tax Rate	-29%	-17%	-22%	-25%	-25%
						ROE	16%	25%	26%	25%	22%
						ROA	7%	11%	14%	13%	12%
						<b>DuPont Analysis</b>					
						Net margin (%)	9%	17%	20%	19%	18%
						Assets Turnover (x)	0.8	0.7	0.6	0.7	0.7
						Leverage Factor (x)	2.1	2.3	2.0	1.9	1.8
						ROE (%)	16%	25%	26%	25%	22%
						<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	-395.0	-473.3	-564.5
						Net Debt/Equity (x)	-0.7	-0.9	-0.8	-0.8	-0.9
						<b>Valuations</b>					
						Core EPS (sen)	8.9	18.0	24.2	25.0	26.1
						FD Core EPS (sen)	8.9	18.0	24.2	25.0	26.1
						NDPS (sen)	3.7	3.7	9.5	8.8	9.1
						BV/share (RM)	0.57	0.71	0.84	1.00	1.17
						Core PER (x)	14.5	7.2	5.3	5.2	4.9
						FD Core PER (x)	14.5	7.2	5.3	5.2	4.9
						Net Div. Yield (%)	3%	3%	7%	7%	7%
						PBV (x)	2.26	1.82	1.54	1.29	1.10
						EV/EBITDA (x)	4.05	2.09	1.80	1.79	1.69

Source: Kenanga Research



Source: Bloomberg, 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.			
<b>STOCKS UNDER COVERAGE</b>																	
EVERSENDAI CORP BHD	0.940	734.1	N	12/2018	1.8%	-5.7%	14.1%	-2.2%	10.6	9.3	9.5	0.8	0.7	7.8%	1.9%	0.720	UP
GAMUDA BHD	3.38	8,341.8	Y	07/2018	20.0%	5.0%	14.8%	13.1%	13.6	11.8	10.5	2.1	2.1	17.7%	3.6%	4.35	OP
GEORGE KENT (MALAYSIA) BHD	1.29	721.5	Y	01/2019	21.8%	6.4%	13.3%	4.4%	3.9	3.4	3.3	1.2	1.0	32.0%	6.8%	2.20	OP
HOCK SENG LEE BERHAD	1.40	769.3	Y	12/2018	31.5%	13.7%	48.3%	12.7%	17.5	11.8	10.5	1.1	1.1	9.4%	1.8%	1.40	MP
IJM CORP BHD	1.81	6,571.9	Y	03/2019	11.9%	1.8%	16.3%	8.0%	15.9	13.6	12.6	0.7	0.7	4.9%	2.9%	2.20	OP
KERJAYA PROSPEK GROUP BHD	1.48	1,838.1	Y	12/2018	32.9%	7.9%	22.8%	8.6%	6.7	5.5	5.0	1.0	0.9	17.6%	2.1%	1.60	MP
KIMLUN CORP BHD	1.31	420.0	Y	12/2018	-3.2%	9.0%	-0.3%	2.9%	5.8	5.8	5.7	0.7	0.6	11.3%	4.1%	1.80	OP
MITRAJAYA HOLDINGS BHD	0.480	429.9	Y	12/2018	-3.6%	-6.6%	19.9%	-12.9%	6.4	5.3	6.1	0.6	0.5	10.7%	4.2%	0.475	MP
MUHIBBAH ENGINEERING (M) BHD	2.88	1,383.4	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	11.3	8.8	8.2	1.4	1.2	14.8%	2.8%	4.15	OP
SUNWAY CONSTRUCTION GROUP BH	1.80	2,326.0	Y	12/2018	0.1%	43.8%	31.3%	9.5%	17.4	13.2	12.1	4.7	4.0	32.6%	3.9%	1.95	MP
WCT HOLDINGS BHD	0.830	1,152.0	Y	12/2018	20.8%	13.9%	28.4%	14.6%	12.1	9.5	8.3	0.5	0.5	5.0%	0.0%	1.35	OP
<b>Simple Average</b>					<b>3.8%</b>	<b>12.3%</b>	<b>21.7%</b>	<b>4.9%</b>	<b>11.0</b>	<b>8.9</b>	<b>8.3</b>	<b>1.3</b>	<b>1.2</b>	<b>14.9%</b>	<b>3.0%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.385	204.7	Y	12/2018	N.A.	N.A.	N.A.	N.A.	7.0	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.
BINA PURI HOLDINGS BHD	0.240	69.0	Y	12/2018	N.A.	N.A.	N.A.	N.A.	22.3	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	N.A.
GABUNGAN AQRS BHD	1.23	559.5	Y	12/2018	77.5%	21.0%	48.7%	30.0%	11.6	7.8	6.0	1.2	1.5	15.8%	2.5%	1.88	BUY
GADANG HOLDINGS BHD	0.680	450.0	Y	05/2018	21.6%	28.7%	-6.0%	15.4%	4.5	4.8	4.1	0.7	0.6	13.7%	4.0%	1.04	BUY
JAKS RESOURCES BHD	1.28	698.8	Y	12/2018	90.5%	-22.4%	-38.5%	6.7%	5.5	9.0	8.4	0.9	0.9	10.7%	0.0%	1.60	BUY
MUDAJAYA GROUP BHD	0.490	289.0	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.
PINTARAS JAYA BHD	2.56	424.6	Y	06/2018	-41.5%	49.6%	-47.4%	43.3%	11.7	22.3	15.5	1.3	1.3	5.8%	7.8%	2.85	NEUTRAL
PESONA METRO HOLDINGS	0.275	191.1	Y	12/2018	27.4%	2.5%	-3.0%	37.6%	10.0	10.3	7.5	1.2	1.0	10.5%	4.7%	0.28	SELL
PROTASCO BHD	0.470	232.6	Y	12/2018	3.8%	11.1%	10.6%	16.3%	8.3	7.5	6.4	0.6	0.6	7.7%	7.4%	0.54	SELL
TRC SYNERGY BHD	0.440	211.4	Y	12/2018	17.2%	15.4%	16.7%	29.6%	7.0	6.0	4.6	0.5	0.5	8.4%	4.5%	0.51	NEUTRAL

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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