

27 September 2018

George Kent (M) Bhd Dragged by LRT3 Project Review

1H19 CNP of RM41.6m came in below expectations at 29%/31% of our/consensus estimates. The 2.0 sen dividend declared is lower than our full-year expectation of 8.8 sen. No changes to FY19-20E earnings. Maintain **OUTPERFORM** with an unchanged SoP-driven Target Price of RM2.20 but looking to review our earnings/call/TP post results briefing.

Below expectations. 1H19 CNP of RM41.6m (excluding forex gains of c.RM4.5m) came in below expectations, making up only 29%/31% of our and consensus estimates. We believe the disappointment stemmed from the on-going project review on LRT3, which led to a lower contribution from the project. The 2.0 sen dividend declared was also short of our full-year expectation of 8.8 sen.

Results highlight. 1H19 CNP only dipped 5% YoY despite a steep drop in revenue (-33%) as the impact was well cushioned by higher contribution from associates/joint-ventures which increased substantially by 242% thanks to the contribution from LRT3 coupled with a lower effective tax of 17%. The drop in revenue was driven by both its construction and metering divisions, which we believe could be due to the timing of the billings for on-going projects and meter orders. QoQ, 2Q19 CNP grew 21% backed by the improvement in revenue (+13%) from both divisions, i.e. engineering and metering coupled with improvements in operating margin by 6ppt to 19% which we believe could be from variation orders from the LRT2 project.

Outlook. To-date, the total construction cost for LRT3 is still under review by the government, as it had exceeded the initial budgeted cost of RM9.0b to RM16.6b. While the final outcome from the government on the review of the project cost is pending, there is a significant downside risk to GKENT's earnings prospect as they are unable to proceed with the project which makes up the bulk of its outstanding order-book of c.RM5.2b.

Earnings estimates to be reviewed. For now, we make no changes to our FY19-20E earnings, but we are looking to lower our earnings after getting more clarity from management in a results briefing today.

Maintain OUTPERFORM. We keep our OUTPERFORM call on GKENT with an unchanged SoP-driven Target Price of RM2.20 for the time being, but look to review our recommendation and TP as we have get more clarity in the results briefing.

Key downside risks for our call are: (i) lower-than-expected margins, (ii) delay in construction works, and (iii) scrapping of LRT3 project by the government.

OUTPERFORM ↔

Price: RM1.37
Target Price: RM2.20 ↔

Expected Capital Gain: RM0.83 60.6%
Expected Divd. Yield: RM0.09 6.4%
Expected Total Return: RM0.92 67.0%

KLCI Index 1,798.72

Stock Information

Bloomberg Ticker	GKEN MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	556.7
Market Cap (RM m)	762.7
Par value per share (RM)	0.50
52-week range (H)	4.47
52-week range (L)	0.98
Free Float	73%
Beta	1.8
3-mth avg daily vol:	11,586,310

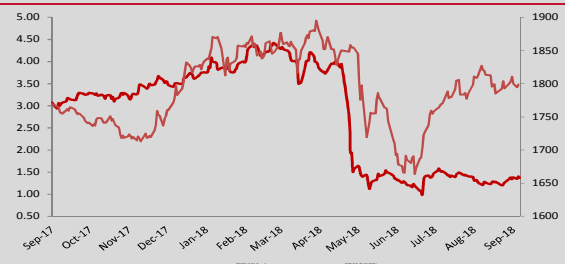
Major Shareholders

Star Wealth Investment Limited	14.2%
Tan Swee Bee	7.8%
Tan Kay Hock	4.8%

Summary Earnings Table

FY Jan (RM m)	2018A	2019E	2020E
Turnover	617	752	799
EBIT	154	194	206
PBT	160	188	196
Net Profit	124	141	147
Core PATAMI	124	141	147
Consensus	n.a.	135	143
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	22.1	25.1	26.2
Core EPS growth (%)	23%	13%	4%
NDPS (sen)	9.5	8.8	9.2
NTA per share (RM)	0.8	1.0	1.2
Price to NTA (x)	1.6	1.4	1.2
PER (x)	6.2	5.5	5.2
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	13%	12%	12%
Return on Equity (%)	26%	25%	22%
Net Div. Yield (%)	7.0%	6.4%	6.7%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	7.9%	6.2%	-55.2%
Relative (%)	8.4%	6.0%	-57.1%

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Results Highlights

	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
FYE Jan (RM'm)	112.9	99.8	13%	187.6	-40%	212.7	317.0	-33%
Turnover	22.7	14.0	63%	29.2	-22%	36.7	54.1	-32%
EBITDA	-1.3	-1.2	3%	-1.1	14%	-2.5	-2.2	17%
Depreciation	21.4	12.7	69%	28.1	-24%	34.2	51.9	-34%
EBIT	1.3	0.8	52%	0.9	40%	2.1	1.7	27%
Interest inc/(exp)	5.3	9.4	-44%	2.7	99%	14.8	4.3	242%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	1.8	2.7	-32%	1.3	35%	4.5	0.1	3515%
Forex gain/(loss)	29.9	25.7	16%	33.0	-10%	55.6	58.1	-4%
Pretax profit	-5.3	-4.2	27%	-7.7	-31%	-9.5	-14.2	-33%
Taxation	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Deferred tax	24.6	21.5	14%	25.4	-3%	46.1	43.9	5%
Profit after tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Minority interest	24.6	21.5	14%	25.4	-3%	46.1	43.9	5%
PATAMI	22.8	18.9	21%	24.0	-5%	41.6	43.7	-5%
Core PATAMI	0.0	0.0		0.0		2.0	2.5	
DPS (sen)	19%	13%		15%		16%	16%	
EBIT margin	26%	26%		18%		26%	18%	
Pretax margin	26%	26%		18%		26%	18%	
NP margin	20%	19%		13%		20%	14%	
CNP margin	4.4	3.8		4.5		8.2	7.8	
EPS (sen)	4.0	3.3		4.3		7.4	7.8	
Core EPS(sen)	0.9	0.8		0.8		0.9	0.8	
BV/share (RM)	-0.6	-0.7		-0.9		-0.6	-0.9	
Net gearing (x)	18%	16%		23%		17%	24%	
Effective tax								

Source: Company, Kenanga Research

Segmental Breakdown

	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
External Revenue	79.9	73.0	9%	147.9	-46%	152.9	242.8	-37%
Engineering	33.0	26.8	23%	39.7	-17%	59.8	74.2	-19%
Metering								
Pre-tax Segmentation								
Engineering	29.0	21.3	36%	26.3	10%	50.3	48.3	4%
Metering	6.5	6.1	7%	9.3	-30%	12.6	19.0	-34%
Pre-tax margins								
Engineering	36%	29%		18%		33%	20%	
Metering	20%	23%		24%		21%	26%	

Source: Company, Kenanga Research

Sum-Of-Parts

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

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																	
EVERSENDI CORP BHD	0.785	613.1	N	12/2018	-4.1%	-4.3%	2.1%	1.0%	9.7	9.5	9.4	1.0	0.6	8.0%	0.0%	0.665	UP
GAMUDA BHD	3.09	7,626.3	Y	07/2018	20.0%	5.0%	14.9%	7.4%	10.9	9.5	8.8	1.0	1.0	10.4%	4.4%	4.30	OP
GEORGE KENT (MALAYSIA) BHD	1.37	762.7	Y	01/2019	21.8%	6.4%	13.3%	4.4%	6.2	5.5	5.2	1.6	1.4	25.0%	6.4%	2.20	OP
HOCK SENG LEE BERHAD	1.38	758.3	Y	12/2018	18.0%	18.6%	31.4%	17.7%	16.3	12.4	10.5	1.0	1.0	8.1%	1.6%	1.30	UP
IJM CORP BHD	1.83	6,644.5	Y	03/2019	11.9%	3.8%	12.4%	9.7%	16.2	14.4	13.1	0.7	0.7	4.8%	2.8%	2.15	OP
KERJAYA PROSPEK GROUP BHD	1.41	1,750.4	Y	12/2018	32.9%	7.9%	16.9%	6.1%	14.1	12.0	11.3	2.2	1.9	16.8%	2.2%	1.50	MP
KIMLUN CORP BHD	1.26	418.2	Y	12/2018	-9.5%	6.5%	-14.1%	7.4%	5.9	6.9	6.4	0.7	0.6	9.5%	3.6%	1.60	OP
MITRAJAYA HOLDINGS BHD	0.415	371.6	Y	12/2018	-16.4%	-9.9%	-28.5%	7.4%	5.3	7.4	6.9	0.5	0.5	6.8%	4.8%	0.395	UP
MUHIBBAH ENGINEERING (M) BHD	2.98	1,434.5	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	11.7	9.1	8.5	1.4	1.3	14.8%	2.8%	4.15	OP
SUNWAY CONSTRUCTION GROUP BHD	1.80	2,326.0	Y	12/2018	11.9%	13.2%	11.6%	17.4%	17.4	15.6	13.3	4.2	3.8	25.6%	3.9%	1.80	UP
WCT HOLDINGS BHD	0.910	1,257.8	Y	12/2018	20.8%	13.9%	28.4%	14.6%	14.2	11.1	9.7	0.6	0.5	5.0%	0.0%	1.35	OP
Simple Average					7.5%	6.1%	10.6%	9.1%	11.4	10.1	9.2	1.4	1.2	12.9%	3.0%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.405	215.3	Y	12/2018	N.A.	N.A.	N.A.	N.A.	7.4	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.215	63.0	Y	12/2018	N.A.	N.A.	N.A.	N.A.	20.3	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	N.A.
GABUNGAN AQRS BHD	1.12	534.9	Y	12/2018	74.5%	17.0%	49.7%	31.1%	11.1	7.4	0.0	1.1	1.3	15.9%	70.4%	1.89	BUY
GADANG HOLDINGS BHD	0.690	456.6	Y	05/2019	19.0%	13.4%	10.0%	0.9%	4.8	4.4	0.0	0.6	0.6	13.7%	4.3%	1.00	BUY
JAKS RESOURCES BHD	1.02	556.9	Y	12/2018	90.5%	-17.2%	-41.3%	8.7%	4.4	7.5	0.0	0.7	0.7	10.4%	0.0%	1.42	BUY
MUDAJAYA GROUP BHD	0.440	259.5	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	2.40	398.1	Y	06/2019	68.1%	26.5%	73.3%	25.1%	25.7	14.8	0.1	1.2	1.3	8.5%	8.5%	2.45	NEUTRAL
PESONA METRO HOLDINGS	0.300	208.5	Y	12/2018	22.0%	19.3%	-25.9%	74.3%	10.9	14.7	0.0	1.1	1.1	8.3%	4.3%	0.325	SELL
PROTASCO BHD	0.375	185.6	Y	12/2018	-0.2%	8.4%	-35.8%	54.0%	6.6	10.3	0.0	0.5	0.5	4.5%	5.6%	0.450	SELL
TRC SYNERGY BHD	0.440	211.4	Y	12/2018	10.0%	15.2%	-7.0%	35.9%	7.0	7.5	0.0	0.5	0.5	6.7%	4.5%	0.490	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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