

20 December 2018

George Kent (M) Bhd 9M19 Below Expectations

9M19 CNP of RM59.4m came in below expectations, making up only 68% of both our and consensus full-year estimates. Second interim dividend of 1.5 sen declared, bringing year-to-date dividends declared to 3.5 sen. Lowered FY19-20E earnings by 15-13% after factoring slower billings progress and cutting our replenishment assumption by RM350.0m. Maintain MARKET PERFORM with a lower SoP-driven Target Price of RM0.845 (previously, RM1.20).

Below expectations. 9M19 CNP of RM59.4m came in below expectations, making up only 68% of our and consensus full-year estimates. We believe the negative deviation is mainly due to lower-than-expected construction billings progress for its other on-going projects, i.e. hospitals. Second interim dividend of 1.5 sen declared, bringing year-to-date dividends declared to 3.5 sen, which we deem as in line with our full-year expectation of 5.5 sen.

Results highlight. Its 9M19 revenue registered a decline of 29%, dragging its CNP down by 21%, YoY. Revenue for its engineering division dropped by 33%, as they did not have any project handovers as compared to the previous year, and as for its metering division, it was primarily due to slower sales, which we believe could be due to the change in government. QoQ, 3Q19 CNP is down by 22% underpinned by: (i) lower revenue (-8%) as its construction division saw a decline in revenue of 18%, (ii) decrease in associate contribution (-19%) due to the cost review of LRT3, and (iii) a sharp increase in the effective tax rate to 41% (+23ppt) due to taxes that were under-provisioned in previous years.

Outlook. Recently, GKENT-MRCB JV has successfully negotiated with the government to convert their PDP role for LRT3 into a fixed price contract of RM11.9b, and we are positive with that outcome as it is still higher than our assumption of RM9.0b, bringing its outstanding order-book to c.RM5.5b. While its near-term prospects seem less exciting arising from the delays in LRT3, we believe this particular project would be one of GKENT-MRCB JV's strongest job-profile in the future should they are able to complete it with at a lower cost and within schedule, which would strengthen their foothold in the rail infrastructure scene in the future.

Earnings estimates review. Post results, we reduced our FY19-20E earnings by 15%-13%, respectively, after factoring in slower billings from its existing projects and we have also removed our order-book replenishment assumptions by RM350.0m, as we expect GKENT to focus on the execution of LRT3. As a result of our cut in earnings, our dividend is lowered from 5.5 to 5.0 sen.

Maintain MARKET PERFORM. Following our earnings review, we lowered our SoP-driven Target Price to RM0.845 (previously, RM1.20) as we included LRT3 as part of its construction division (previously, under PDP) coupled with a company holding discount of 20%. Our TP implies FY19E PER of 6.3x, in-line with our ascribed multiple of 6.0-10.0x within the construction space.

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.

MARKET PERFORM ↔

Price: **RM0.830**
Target Price: **RM0.845** ↓

Expected Capital Gain: **RM0.015** 1.8%
Expected Divd. Yield: **RM0.050** 6.0%
Expected Total Return: **RM0.650** 7.8%

KLCI Index 1,655.66

Stock Information

Bloomberg Ticker	GKEN MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	542.2
Market Cap (RM m)	450.0
Par value per share (RM)	0.50
52-week range (H)	4.47
52-week range (L)	0.76
Free Float	72%
Beta	2.0
3-mth avg daily vol:	5,149,691

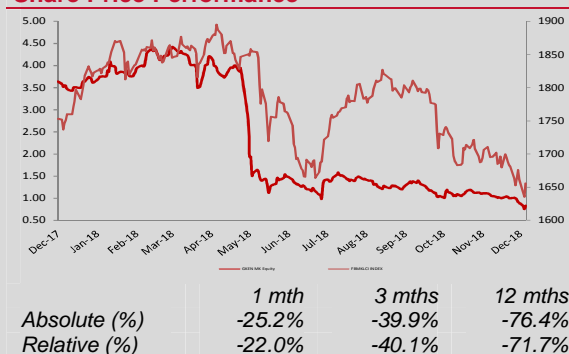
Major Shareholders

Star Wealth Investment Limited	14.6%
Tan Swee Bee	8.0%
Tan Kay Hock	5.0%

Summary Earnings Table

FY Jan (RM m)	2018A	2019E	2020E
Turnover	617	468	493
EBIT	154	119	125
PBT	160	100	109
Net Profit	124	75	82
Core PATAMI	136	75	82
Consensus		88	78
Earnings Revision		-15%	-13%
Core EPS (sen)	24.3	13.3	14.6
Core EPS growth (%)	35%	-45%	10%
NDPS (sen)	9.5	5.0	5.0
NTA per share (RM)	0.8	0.9	1.0
Price to NTA (x)	1.0	0.9	0.8
PER (x)	3.4	6.2	5.7
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	14%	8%	8%
Return on Equity (%)	26%	14%	14%
Net Div. Yield (%)	11.5%	6.0%	6.1%

Share Price Performance



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Results Highlights

	3Q19	2Q19	QoQ	3Q18	YoY	9M19	9M18	YoY
FYE Jan (RM'm)								
Turnover	103.6	112.9	-8%	127.1	-19%	316.2	444.1	-29%
EBITDA	27.2	22.7	20%	34.8	-22%	63.9	88.9	-28%
Depreciation	-1.3	-1.3	-1%	-1.2	1%	-3.8	-3.4	11%
EBIT	26.0	21.4	21%	33.6	-23%	60.1	85.5	-30%
Interest inc/(exp)	1.6	1.3	22%	1.2	29%	3.7	2.9	28%
Associates/JV	4.3	5.3	-19%	4.6	-5%	19.1	8.9	115%
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	2.8	1.8	57%	-2.6	-207%	7.3	-2.5	-391%
Pretax profit	34.7	29.9	16%	36.7	-5%	90.3	94.8	-5%
Taxation	-14.1	-5.3	167%	-8.0	76%	-23.6	-22.2	6%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	20.6	24.6	-16%	28.7	-28%	66.7	72.5	-8%
Minority interest	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
PATAMI	20.6	24.6	-16%	28.7	-28%	66.7	72.5	-8%
Core PATAMI	17.7	22.8	-22%	31.3	-43%	59.4	75.1	-21%
DPS (sen)	1.5	2.0		2.0		3.5	4.5	
EBIT margin	25%	19%		26%		19%	19%	
Pretax margin	34%	26%		29%		29%	21%	
NP margin	34%	26%		29%		29%	21%	
CNP margin	17%	20%		25%		19%	17%	
EPS (sen)	3.7	4.4		5.1		11.9	12.9	
Core EPS(sen)	3.2	4.0		5.6		10.6	13.3	
BV/share (RM)	0.9	0.9		0.8		0.9	0.8	
Net gearing (x)	-0.4	-0.6		-0.8		-0.4	-0.8	
Effective tax	41%	18%		22%		26%	23%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q19	2Q19	QoQ	3Q19	YoY	9M19	9M18	YoY
External Revenue								
Engineering	65.1	79.9	-18%	65.1	0%	218.0	325.0	-33%
Metering	38.4	33.0	16%	38.4	0%	98.2	119.1	-18%
Pre-tax Segmentation								
Engineering	24.8	29.0	-14%	24.8	0%	75.1	80.5	-7%
Metering	10.2	6.5	57%	10.2	0%	22.8	30.7	-26%
Pre-tax margins								
Engineering	38%	36%		38%		34%	25%	
Metering	27%	20%		27%		23%	26%	

Source: Company, Kenanga Research

Sum-Of-Parts

Division	Valuation Multiple / Discount Applied	Net Profit	Market Cap (RM'm)
Metering	10.0x	23.1	231.4
Construction	7.0x	51.7	362.1
Sub-total			593.5
Co. Discount	20%		-118.7
Total			474.8
Shares Outstanding			561.9
Target Price			0.845
Implied PER (x)			6.3

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	0.540	421.7	Y	12/2018	-7.7%	-6.4%	-13.0%	-6.1%	6.1	7.1	7.5	0.6	0.4	6.9%	0.0%	0.505	UP
GAMUDA BHD	2.23	5,503.7	Y	07/2019	-20.8%	0.3%	-27.7%	1.2%	6.7	9.3	9.2	0.7	0.7	7.7%	5.4%	3.05	OP
GEORGE KENT (MALAYSIA) BHD	0.830	450.0	Y	01/2019	-24.1%	5.3%	-45.1%	9.7%	3.4	6.2	5.7	1.0	0.9	14.4%	6.0%	0.845	MP
HOCK SENG LEE BERHAD	1.35	741.8	Y	12/2018	18.0%	18.6%	31.3%	17.7%	15.9	12.1	10.3	1.0	0.9	8.1%	1.6%	1.30	MP
IJM CORP BHD	1.55	5,621.2	Y	03/2019	10.1%	4.7%	9.8%	9.8%	13.7	12.5	11.4	0.6	0.6	4.7%	3.1%	1.85	MP
KERJAYA PROSPEK GROUP BHD	1.03	1,273.7	Y	12/2018	32.9%	7.9%	16.9%	6.1%	10.3	8.8	8.3	1.6	1.4	16.8%	3.0%	1.40	OP
KIMLUN CORP BHD	1.11	368.4	Y	12/2018	-3.8%	5.8%	-24.5%	1.3%	5.2	6.9	6.8	0.6	0.6	8.4%	3.6%	1.15	MP
MITRAJAYA HOLDINGS BHD	0.250	221.3	Y	12/2018	-28.0%	-1.7%	-46.6%	10.9%	3.2	5.9	5.4	0.3	0.3	5.2%	6.0%	0.290	UP
MUHIKBAH ENGINEERING (M) BHD	2.75	1,324.6	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	10.8	8.4	7.9	1.3	1.2	14.8%	2.5%	4.15	OP
SUNWAY CONSTRUCTION GROUP BHD	1.36	1,757.5	Y	12/2018	11.6%	1.4%	3.7%	-3.1%	13.2	12.7	13.1	3.2	2.9	24.0%	5.1%	1.30	UP
WCT HOLDINGS BHD	0.680	938.8	Y	12/2018	9.6%	30.7%	6.7%	20.5%	8.4	7.8	6.5	0.3	0.3	3.8%	0.0%	1.10	OP
Simple Average					-2.4%	6.6%	-5.5%	6.8%	8.8	8.9	8.4	1.0	0.9	10.5%	3.3%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.295	176.4	Y	12/2018	N.A.	N.A.	N.A.	N.A.	6.0	N.A.	N.A.	0.6	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.175	59.3	Y	12/2018	N.A.	N.A.	N.A.	N.A.	19.1	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	0.700	334.3	Y	12/2018	64.4%	19.4%	48.0%	30.5%	7.0	4.7	0.0	0.7	0.9	17.2%	7.1%	1.73	BUY
GADANG HOLDINGS BHD	0.500	330.9	Y	05/2019	12.7%	11.4%	-4.3%	-2.9%	3.4	3.6	0.0	0.5	0.4	10.5%	5.6%	0.775	BUY
JAKS RESOURCES BHD	0.460	251.1	Y	12/2018	38.1%	10.2%	-62.4%	69.7%	2.0	5.3	0.0	0.3	0.3	6.7%	0.0%	0.775	BUY
MUDAJAYA GROUP BHD	0.280	165.2	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.5	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.36	391.4	Y	06/2019	115.0%	1.5%	91.4%	1.7%	25.2	13.2	0.1	1.2	1.2	9.1%	8.6%	2.43	NEUTRAL
PESONA METRO HOLDINGS	0.175	121.6	Y	12/2018	22.8%	16.5%	-25.9%	84.5%	6.3	8.6	0.0	0.7	N.A.	10.3%	8.6%	0.280	BUY
PROTASCO BHD	0.205	101.2	Y	12/2018	-15.0%	8.7%	-102.5%	4.8%	3.6	N.A.	0.0	0.3	0.3	-0.2%	4.4%	0.190	SELL
TRC SYNERGY BHD	0.520	249.9	Y	12/2018	4.6%	19.4%	-30.3%	39.9%	8.3	11.9	0.0	0.6	0.6	5.1%	3.8%	0.620	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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