

26 March 2019

George Kent (M) Bhd FY19 Results In Line

FY19 CNP of RM78.3m came in within expectations making up 105%/96% of our/consensus full-year estimates. A third interim dividend of 3.5 sen was declared, bringing full-year dividend declared to 7.0 sen which is above our expectation of 5.0 sen. No changes to FY20E earnings, introduces FY21E CNP of RM109.3m. Maintain MARKET PERFORM with an unchanged SoP-driven Target Price of RM1.15.

Results in line. FY19 CNP of RM78.3m came in within expectations making up 105%/96% of our/consensus full-year estimates. A third interim dividend of 3.5 sen was declared, bringing full-year dividend declared to 7.0 sen which is above our expectations of 5.0 sen.

Results highlight. FY19 CNP fell 43%, YoY attributable to: (i) sharp decrease in revenue (-30%), (ii) decline in associate and joint venture contribution (-27%), and (iii) higher effective tax rate of 33% (+11ppt). The decline in revenue is due to the decline in billings for its construction division coupled with slower sales in its metering division. The decline in associate contribution is due to the project cost review on LRT3, which resulted in a temporary halt in work progress for that project. QoQ, its 4Q19 CNP improved by 7% backed by revenue growth of 11% thanks to its construction division's revenue growth of 22% which we believe could be due to the handover of LRT2 project.

Outlook. For LRT3, the current progress is still at c.10%, but management remains optimistic in meeting the construction timeline as it has been rescheduled to 2024. Currently, management is expecting the redesign of the project to be completed by 2HCY19 and is hopeful that work will progress to full swing once its sub-contractor receives the final designs' approval and proceeds with works on the stations.

As for its metering division, management is excited as they are doubling their effort in promoting their smart metering solutions to various state governments and countries within the South-East Asia region. Its smart meters are an add-on to existing meters that offers fixed network reading or mobile network reading allowing water players to bill customers effortlessly and we have built the potential into our estimates. However, impact will not be significant in the near term.

Earnings estimates unchanged. Post results, we made no changes to our FY20E CNP, while introducing our FY21E CNP of RM109.3m.

Maintain MARKET PERFORM. We maintain our MARKET PERFORM call with an unchanged Target Price of RM1.15. We believe that its outlook is improving but still highly dependent on the execution of LRT3. Our TP implies FY20E PER of 7.8x which is in-line with our ascribed multiple of 6.0-11.0x within the construction space.

Risks for our call are: (i) higher/lower-than-expected margins, and (ii) ahead of schedule/delay in construction works.

MARKET PERFORM ↔

Price: RM1.09
Target Price: RM1.15 ↔

Expected Capital Gain: RM0.060 +5.5%
Expected Div. Yield: RM0.050 +4.6%
Expected Total Return: RM0.110 +10.1%

KLCI Index 1,649.15

Stock Information

Bloomberg Ticker	GKEN MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	538.6
Market Cap (RM m)	587.1
Par value per share (RM)	0.50
52-week range (H)	4.31
52-week range (L)	0.76
Free Float	72%
Beta	2.1
3-mth avg daily vol:	7,077,763

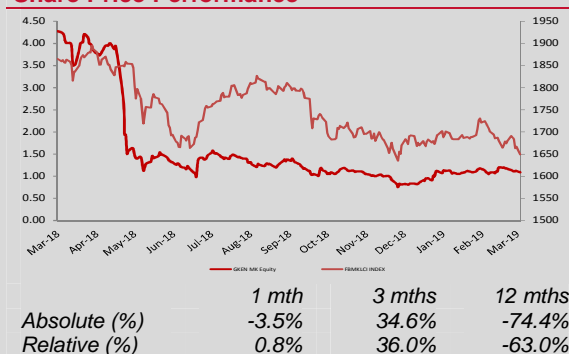
Major Shareholders

Star Wealth Investment Limited	14.7%
Tan Swee Bee	8.1%
Tan Kay Hock	5.0%

Summary Earnings Table

FY Jan (RM m)	2019A	2020E	2021E
Turnover	431	493	492
EBIT	104	169	162
PBT	126	109	146
Net Profit	85	82	109
Core PATAMI	78	82	109
Consensus	n.a.	70	61
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	14.1	14.7	19.6
Core EPS growth (%)	-43%	5%	33%
NDPS (sen)	7.0	5.0	6.6
NTA per share (RM)	0.9	1.0	1.1
Price to NTA (x)	1.3	1.1	1.0
PER (x)	7.8	7.4	5.6
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	10%	10%	12%
Return on Equity (%)	18%	15%	18%
Net Div. Yield (%)	6.4%	4.5%	6.1%

Share Price Performance



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Results Highlights

	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
FYE Jan (RM'm)								
Turnover	114.5	103.6	11%	172.9	-34%	430.7	617.0	-30%
EBITDA	42.7	29.7	44%	66.6	-36%	109.1	157.3	-31%
Depreciation	-1.2	-1.3	-3%	-1.3	-5%	-5.0	-4.7	7%
EBIT	41.5	28.4	46%	65.3	-36%	104.1	152.6	-32%
Interest inc/(exp)	1.2	-0.9	-243%	0.4	185%	2.5	1.5	63%
Associates/JV	-5.9	4.3	-237%	9.3	-164%	13.2	18.1	-27%
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	-0.7	2.8	-124%	-9.5	-93%	6.6	-12.0	-155%
Pretax profit	36.2	34.7	4%	65.5	-45%	126.4	160.3	-21%
Taxation	-17.9	-14.1	27%	-13.7	31%	-41.5	-35.9	16%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	18.2	20.6	-11%	51.9	-65%	84.9	124.4	-32%
Minority interest	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
PATAMI	18.2	20.6	-11%	51.9	-65%	84.9	124.4	-32%
Core PATAMI	18.9	17.7	7%	61.3	-69%	78.3	136.4	-43%
DPS (sen)	3.5	1.5		5.0		7.0	9.5	
EBIT margin	36%	27%		38%		24%	25%	
Pretax margin	32%	34%		38%		29%	26%	
NP margin	32%	34%		38%		29%	26%	
CNP margin	17%	17%		35%		18%	22%	
EPS (sen)	3.3	3.7		9.2		15.3	22.1	
Core EPS(sen)	3.4	3.2		10.9		14.1	24.2	
BV/share (RM)	0.9	0.9		0.8		0.9	0.8	
Net gearing (x)	-0.4	-0.4		-1.0		-0.4	-1.0	
Effective tax	50%	41%		21%		33%	22%	

Source: Company, Kenanga Research

Segmental Breakdown

	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
External Revenue								
Engineering	79.6	65.1	22%	119.1	-33%	297.7	444.1	-33%
Metering	34.9	38.4	-9%	33.3	5%	133.1	152.4	-13%
Pre-tax Segmentation								
Engineering	38.9	24.8	57%	74.0	-47%	114.0	154.5	-26%
Metering	5.6	10.2	-45%	5.5	2%	28.4	36.2	-22%
Pre-tax margins								
Engineering	49%	38%		62%		38%	35%	
Metering	16%	27%		17%		21%	24%	

Source: Company, Kenanga Research

Sum-Of-Parts

Division	Valuation/Discount Applied	Net Profit	Market Cap (RM'm)
Metering	10.0	23.1	231.4
Construction	7.0	59.0	412.8
Sub-total			644.2
Co. Discount			0.0
Total			644.2
Shares Outstanding			556.8
Target Price			1.15
Implied PE			7.8

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	0.495	386.6	Y	12/2019	-7.3%	-3.2%	-10.9%	-2.1%	6.1	6.9	7.0	0.4	0.4	5.6%	0.0%	0.490	UP
GAMUDA BHD	2.84	7,009.6	Y	07/2019	-20.8%	0.3%	-27.7%	1.2%	8.6	11.8	11.7	0.9	0.9	7.7%	4.2%	3.05	MP
GEORGE KENT (MALAYSIA) BHD	1.09	587.1	Y	01/2020	14.4%	-0.3%	4.9%	33.1%	7.8	7.4	5.6	1.3	1.1	15.4%	4.5%	1.15	MP
HOCK SENG LEE BERHAD	1.45	796.8	Y	12/2019	16.0%	11.2%	28.1%	5.6%	14.8	11.6	11.0	1.0	1.0	8.6%	1.7%	1.25	UP
IJM CORP BHD	2.13	7,724.0	Y	03/2019	9.6%	5.1%	-10.9%	26.7%	18.8	21.1	16.7	0.8	0.8	3.8%	2.4%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.24	1,531.5	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.1	10.0	9.8	1.6	1.4	14.9%	2.4%	1.20	MP
KIMLUN CORP BHD	1.21	401.6	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.3	6.4	6.3	0.6	0.6	9.0%	3.0%	1.30	MP
MITRAJAYA HOLDINGS BHD	0.370	327.4	Y	12/2019	-4.7%	-7.3%	1.8%	-8.4%	9.9	9.7	10.6	0.4	0.4	4.0%	4.1%	0.260	UP
MUHIKBAH ENGINEERING (M) BHD	2.96	1,426.3	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	8.8	9.0	8.6	1.3	1.1	14.8%	2.4%	3.20	MP
SUNWAY CONSTRUCTION GROUP BHD	1.83	2,364.8	Y	12/2019	12.0%	2.2%	3.7%	3.6%	17.0	16.4	15.8	3.9	3.6	22.7%	3.5%	1.40	UP
WCT HOLDINGS BHD	0.820	1,132.1	Y	12/2019	16.5%	4.2%	15.0%	4.7%	9.0	7.8	7.5	0.4	0.3	4.5%	0.0%	0.850	MP
Simple Average					5.8%	0.6%	1.1%	6.7%	10.8	10.7	10.0	1.1	1.0	10.1%	2.6%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.510	305.0	Y	12/2019	N.A	N.A	N.A	N.A	20.8	N.A	N.A	0.7	N.A	N.A	N.A	N.A	SELL
BINA PURI HOLDINGS BHD	0.185	70.5	Y	12/2019	N.A	N.A	N.A	N.A	135.6	N.A	N.A	0.3	N.A	N.A	N.A	N.A	SELL
GABUNGAN AQRS BHD	1.24	595.4	Y	12/2019	41.6%	18.2%	33.7%	19.9%	9.4	7.0	0.0	1.2	1.4	16.0%	4.4%	1.69	BUY
GADANG HOLDINGS BHD	0.640	423.5	Y	05/2019	3.7%	11.9%	-19.9%	6.9%	4.4	5.5	0.0	0.6	N.A	5.9%	3.9%	0.685	NEUTRAL
JAKS RESOURCES BHD	0.760	444.3	Y	12/2019	46.5%	-31.1%	483.1%	16.7%	29.4	5.0	0.0	0.5	0.5	11.0%	0.0%	0.775	BUY
MUDAJAYA GROUP BHD	0.350	206.5	Y	12/2019	N.A	N.A	N.A	N.A	N.A	N.A	N.A	0.8	N.A	N.A	N.A	N.A	SELL
PINTARAS JAYA BHD	2.16	358.3	Y	06/2019	99.1%	9.6%	65.9%	16.7%	23.1	13.9	0.1	1.2	1.1	8.2%	9.4%	2.38	NEUTRAL
PESONA METRO HOLDINGS	0.225	156.4	Y	12/2019	35.2%	-1.5%	218.7%	-9.5%	18.9	5.9	0.0	0.9	N.A	14.0%	6.7%	0.270	BUY
PROTASCO BHD	0.255	124.4	Y	12/2019	0.0%	7.9%	369.2%	31.2%	N.A.	9.5	0.0	0.4	0.4	3.6%	9.0%	0.185	SELL
TRC SYNERGY BHD	0.645	309.9	Y	12/2019	17.6%	7.7%	58.1%	15.5%	14.9	9.4	0.0	0.8	0.7	7.7%	3.6%	0.750	BUY

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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