

13 August 2019

## George Kent (M) Bhd Slow But Promising

Recently, we met up with GKENT's management for an update and came back feeling reassured with its prospects. Management is hoping to finalise the design for LRT3 by year-end and resume work in full-swing by early 2020. As for its metering division, we are optimistic with the potential for their smart meters, being an essential part of the Internet of Things trend. Reduced FY20-21E earnings by 27-24%, respectively as we reschedule our billings recognition for LRT3. Maintain MP with an unchanged SoP-driven TP of RM1.15.

**Construction division.** For LRT3, management indicated that they are finalising the design for the project while renegotiating a new contract with its work package contractors. In terms of timeline, management aspires to finalise the design by year-end and resume work in full-swing by early 2020. Apart from its existing construction jobs, management are participating in more water and rail-related projects, i.e. water treatment plants overseas and locally with a total tender book of RM3.5b. The rail projects eyed in the near term are mostly from overseas i.e. Singapore LTA Track Works, and Bangkok Orange Line 2nd Phase Track Works.

**Metering division.** GKENT has always been looking for opportunities to grow its metering division organically or through strategic tie-ups and acquisitions. We are excited with the prospects of their metering division in the near term premised on their effort in (i) increasing their product range by introducing multi-jet, D-class volumetric and Solid-State meters in the future, (ii) expanding market reach by signing long-term license agreement with Honeywell for a license of the technology and know-how to manufacture high-precision water meter measuring components for the V100 and V110 C-Class volumetric water meters, and (iii) introduction of their own Automated Meter Reading (AMR) Solution for the smart meters they hope to roll out into the market by 2020. Lastly, we do not rule out the possibility of acquisition of water-related companies from overseas as part of their strategy to expand their footprint beyond South-East Asia.

**Earnings review.** While we are feeling more positive with GKENT's prospects, we lower our FY20-21E earnings by 27-24% as we were a tad too optimistic with our billings recognition for LRT3 previously.

**MARKET PERFORM maintained.** We reiterate our MARKET PERFORM call and an unchanged SoP-driven Target Price of RM1.15 that is based on valuation base-year of FY21E (previously, FY20E) as we believe its prospects remain promising albeit weakness in earnings. Our TP implies FY21E PER of 7.8x which is in-line with our ascribed multiple of 6.0-11.0x within the construction space.

**Risks to our call are:** (i) higher/lower-than-expected margins, and (ii) delay in construction works.

## MARKET PERFORM ↔

**Price:** RM1.11  
**Target Price:** RM1.15 ↔

**Expected Capital Gain:** RM0.040 3.6%  
**Expected Divd. Yield:** RM0.036 3.2%  
**Expected Total Return:** RM0.076 6.8%

**KLCI Index** 1,615.05

### 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)	597.9
Par value per share (RM)	0.50
52-week range (H)	1.51
52-week range (L)	0.76
Free Float	72%
Beta	1.9
3-mth avg daily vol:	2,637,847

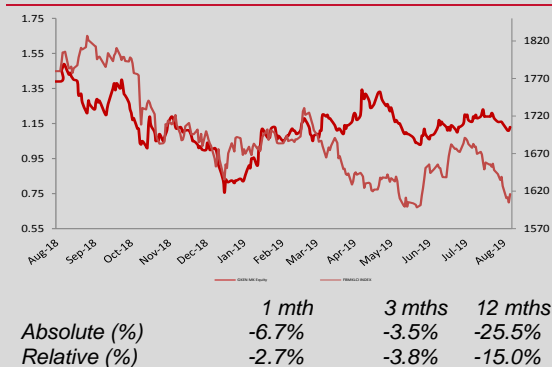
### Major Shareholders

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	80	110
<b>Net Profit</b>	<b>85</b>	<b>60</b>	<b>83</b>
<b>Core PATAMI</b>	<b>78</b>	<b>60</b>	<b>83</b>
Consensus	N.A.	71	78
Earnings Revision	N.A.	-27%	-24%
Core EPS (sen)	14.1	10.7	14.8
Core EPS growth (%)	-43%	-24%	38%
NDPS (sen)	7.0	3.6	5.0
NTA per share (RM)	0.9	0.9	1.0
Price to NTA (x)	1.3	1.2	1.1
PER (x)	7.9	10.3	7.5
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	10%	7%	9%
Return on Equity (%)	18%	11%	14%
Net Div. Yield (%)	6.3%	3.3%	4.5%

### Share Price Performance



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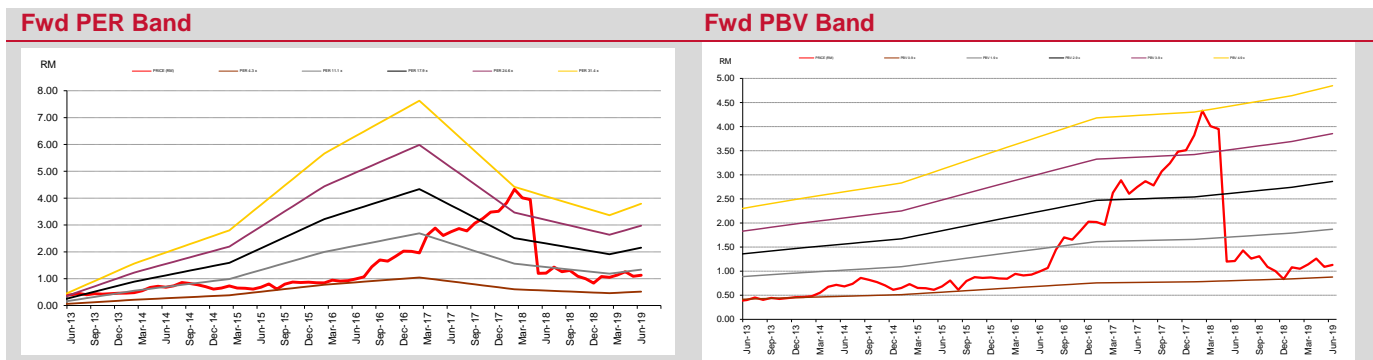
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Sum-Of-Parts			
Division	Valuation/Discount Applied	Net Profit	Market Cap (RM'm)
Metering	10.0	25.5	254.6
Construction	7.0	54.1	378.4
<b>Sub-total</b>			<b>633.0</b>
Co. Discount			0.0
<b>Total</b>			<b>633.0</b>
Shares Outstanding			556.8
<b>Target Price</b>			<b>1.15</b>
Implied FY21E PER			7.8

Source: Company, Kenanga Research

Income Statement						Financial Data & Ratios					
FY Jan (RM'm)	2016A	2017A	2018A	2019E	2020E	FY Jan (RM'm)	2016A	2017A	2018A	2019E	2020E
Revenue	599	617	431	493	492	<b>Growth (%)</b>					
EBITDA	121	159	109	174	166	Revenue	12%	3%	-30%	14%	0%
Depreciation	-4	-5	-5	-5	-5	EBITDA	194%	131%	69%	159%	96%
EBIT	117	154	104	169	162	EBIT	100%	32%	-33%	62%	-4%
Int. Expense	7	2	3	2	2	Pre-tax Income	90%	20%	-21%	-37%	38%
Associates/JV	0	0	13	4	27	Net Income	102%	23%	-32%	-30%	38%
Except. Items	20	-12	7	0	0	Core Net Income	102%	35%	-43%	-24%	38%
PBT	134	160	126	80	110	<b>Profitability (%)</b>					
Taxation	-33	-36	-41	-20	-28	EBITDA Margin	20%	26%	25%	35%	34%
MI/Perps	0	0	0	0	0	EBIT Margin	20%	25%	24%	34%	33%
Net Profit	101	124	85	60	83	PBT Margin	22%	26%	29%	16%	22%
Core Net Profit	101	136	78	60	83	Net Margin	17%	20%	20%	12%	17%
						Core Net Margin	17%	22%	18%	12%	17%
						Effective Tax Rate	-24%	-22%	-33%	-25%	-25%
						ROE	25%	26%	18%	11%	14%
						ROA	11%	14%	10%	7%	9%
						<b>DuPont Analysis</b>					
						Net margin (%)	17%	20%	20%	12%	17%
						Assets Turnover (x)	0.7	0.6	0.5	0.6	0.5
						Leverage Factor (x)	2.3	2.0	1.6	1.6	1.6
						ROE (%)	25%	26%	18%	11%	14%
						<b>Leverage</b>					
						Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
						Net Debt/(Cash)	-372.9	-454.2	-204.6	-183.7	-170.4
						Net Debt/Equity (x)	-0.9	-1.0	-0.4	-0.4	-0.3
						<b>Valuations</b>					
						Core EPS (sen)	18.2	24.5	14.1	10.7	14.8
						FD Core EPS (sen)	18.2	24.5	14.1	10.7	14.8
						NDPS (sen)	6.7	9.6	7.0	3.6	5.0
						BV/share (RM)	0.72	0.85	0.87	0.94	1.04
						Core PER (x)	6.1	4.5	7.9	10.3	7.5
						FD Core PER (x)	13.2	6.1	4.5	7.9	10.3
						Net Div. Yield (%)	6.1%	8.7%	6.3%	3.3%	4.5%
						PBV (x)	1.54	1.30	1.27	1.18	1.07
						EV/EBITDA (x)	3.40	2.60	3.79	2.38	2.48

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>																	
GAMUDA BHD	3.72	9,197.0	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	11.2	13.5	15.7	1.2	1.2	8.7%	3.2%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.11	597.9	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.9	10.3	7.5	1.3	1.2	11.9%	3.3%	1.15	MP
HOCK SENG LEE BERHAD	1.35	741.8	Y	12/2019	18.7%	15.6%	31.4%	10.3%	13.8	10.5	9.5	1.0	0.9	8.8%	1.9%	1.40	MP
IJM CORP BHD	2.35	8,529.2	Y	03/2020	22.8%	2.0%	11.0%	2.2%	20.4	18.4	18.0	0.9	0.8	4.7%	2.1%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.46	1,800.0	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	13.1	12.5	11.7	1.9	1.7	14.9%	2.1%	1.20	UP
KIMLUN CORP BHD	1.31	445.1	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	7.0	7.1	6.9	0.7	0.6	9.0%	3.3%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.315	280.2	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	6.3	10.7	12.1	0.4	0.4	3.3%	4.8%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.65	1,280.8	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.9	8.1	7.7	1.1	1.0	13.4%	2.6%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.12	2,733.4	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	19.7	22.4	17.5	4.5	4.2	19.4%	2.6%	1.45	UP
WCT HOLDINGS BHD	1.10	1,550.5	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	12.1	14.0	11.8	0.5	0.5	3.4%	0.0%	0.815	UP
<b>Simple Average</b>					<b>5.9%</b>	<b>4.6%</b>	<b>-5.7%</b>	<b>8.1%</b>	<b>11.9</b>	<b>12.7</b>	<b>11.8</b>	<b>1.3</b>	<b>1.2</b>	<b>9.7%</b>	<b>2.6%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.390	233.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	15.9	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.145	55.3	Y	06/2019	N.A.	N.A.	N.A.	N.A.	106.3	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRs BHD	1.36	671.1	Y	12/2019	23.3%	38.2%	22.9%	33.6%	11.0	8.9	0.0	1.4	1.4	15.4%	4.3%	1.86	BUY
GADANG HOLDINGS BHD	0.775	564.2	Y	05/2020	7.4%	11.6%	45.5%	12.3%	13.0	8.9	0.0	0.7	N.A.	9.5%	1.9%	0.783	SELL
JAKS RESOURCES BHD	0.755	485.6	Y	12/2019	74.4%	-48.7%	655.6%	-21.2%	32.1	4.2	0.0	0.5	0.5	12.6%	0.0%	0.750	BUY
MUDAJAYA GROUP BHD	0.280	165.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.0	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.70	447.8	Y	06/2019	223.5%	-1.7%	135.7%	-6.4%	28.9	12.2	0.1	1.4	1.4	11.4%	6.0%	2.56	NEUTRAL
PESONA METRO HOLDINGS	0.235	163.3	Y	12/2019	12.1%	9.5%	166.6%	13.6%	19.8	7.4	0.0	1.0	N.A.	11.7%	4.3%	0.310	BUY
PROTASCO BHD	0.265	129.0	Y	12/2019	-1.4%	7.9%	365.8%	31.2%	N.A.	9.8	0.0	0.4	0.4	3.6%	5.3%	0.240	SELL
TRC SYNERGY BHD	0.580	278.7	Y	12/2019	15.8%	23.6%	70.8%	29.9%	13.4	7.8	0.0	0.7	0.6	8.5%	5.5%	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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