

25 September 2019

## George Kent (M) Bhd

### Results Broadly In-line

1H20 CNP of RM24.6m makes up 41%/40% of our and consensus full-year estimates. We deem the results to be within expectation as GKENT's results are generally weaker in first half. No dividends declared as expected. No changes to FY20-21E earnings. Upgrade to OP (from MP) with unchanged SoP-driven TP of RM1.15.

**Results broadly in-line.** 1H20 CNP of RM24.6m makes up 41%/40% of our and consensus full-year estimates. We deem the results to be within expectation as GKENT's results are generally weaker in first half, coupled with the fact that LRT3's work progress has yet to pick up pace. No dividends declared as expected.

**Results highlight.** 1H20 CNP fell 41% YoY, attributable to: (i) decrease in revenue (-15%), (ii) significantly lower contribution from associate and joint-venture contributions, (iii) higher effective tax rate of 27% (+10ppt). The decline in revenue was due to the decline in billings for its construction division while lower contribution from associate's contribution was due to the project cost review on LRT3, which resulted in a temporary halt in work progress. **QoQ**, its 2Q20 CNP decreased by 18% mainly due to higher effective tax rate of 30% (+5ppt).

**Outlook.** For LRT3, we believe the current progress is still at c.10%, but management remains optimistic in meeting the construction timeline as it has been rescheduled to 2024. As for its metering division, management is 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-ons to existing meters offer fixed network reading or mobile network reading, allowing water players to bill customers effortlessly and we have built the potential into our estimates.

**Earnings estimates unchanged.** Post results, no changes to FY20-21E earnings.

**Upgrade to OUTPERFORM from MARKET PERFORM** due to the recent retracement in share price with an unchanged Target Price of RM1.15. We believe 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 for the construction space.

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

# OUTPERFORM ↑

**Price:** RM1.04  
**Target Price:** RM1.15 ↔

**Expected Capital Gain:** RM0.11 +10.6%  
**Expected Div. Yield:** RM0.04 +3.5%  
**Expected Total Return:** RM0.15 +14.1%

**KLCI Index** 1,592.33

#### 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)	560.2
Par value per share (RM)	0.50
52-week range (H)	1.41
52-week range (L)	0.76
Free Float	51%
Beta	1.9
3-mth avg daily vol:	2,206,859

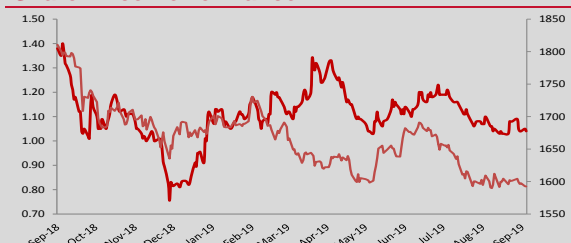
#### Major Shareholders

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.	61	70
Earnings Revision	N.A.	0%	0%
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)	1.2	1.1	1.0
PER (x)	7.4	9.7	7.0
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 (%)	6.7	3.5	4.8

#### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-5.5%	-7.1%	-23.0%
Relative (%)	-4.4%	-2.1%	-11.7%

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**Results Highlights**

	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
<b>FYE Jan (RM'm)</b>	<b>97.7</b>	<b>82.8</b>	<b>18%</b>	<b>112.9</b>	<b>-13%</b>	<b>180.5</b>	<b>212.7</b>	<b>-15%</b>
<b>Turnover</b>	<b>14.0</b>	<b>18.2</b>	<b>-23%</b>	<b>21.4</b>	<b>-35%</b>	<b>32.2</b>	<b>34.2</b>	<b>-6%</b>
<b>EBIT</b>	0.6	0.5	12%	1.3	-55%	1.1	2.1	-48%
Interest inc/(exp)	1.2	-0.8	-242%	5.3	-78%	0.3	14.8	-98%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	0.0	0.0	n.m.	1.8	-100%	0.0	4.5	-100%
Forex gain/(loss)	<b>15.8</b>	<b>17.9</b>	<b>-12%</b>	<b>29.9</b>	<b>-47%</b>	<b>33.7</b>	<b>55.6</b>	<b>-39%</b>
<b>Pretax profit</b>	-4.7	-4.4	7%	-5.3	-11%	-9.1	-9.5	-4%
Taxation	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Deferred tax	<b>11.1</b>	<b>13.5</b>	<b>-18%</b>	<b>24.6</b>	<b>-55%</b>	<b>24.6</b>	<b>46.1</b>	<b>-47%</b>
<b>Profit after tax</b>	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Minority interest	<b>11.1</b>	<b>13.5</b>	<b>-18%</b>	<b>24.6</b>	<b>-55%</b>	<b>24.6</b>	<b>46.1</b>	<b>-47%</b>
<b>PATAMI</b>	<b>11.1</b>	<b>13.5</b>	<b>-18%</b>	<b>22.8</b>	<b>-51%</b>	<b>24.6</b>	<b>41.6</b>	<b>-41%</b>
<b>Core PATAMI</b>	0.0	0.0		2.0		0.0	2.0	
DPS (sen)	14%	22%		19%		18%	16%	
EBIT margin	16%	22%		26%		19%	26%	
Pretax margin	16%	22%		26%		19%	26%	
NP margin	11%	16%		20%		14%	20%	
CNP margin	2.1	2.5		4.4		4.6	8.2	
EPS (sen)	2.1	2.5		4.0		4.6	7.4	
Core EPS(sen)	0.9	0.9		0.9		0.9	0.9	
BV/share (RM)	-0.3	-0.4		-0.6		-0.3	-0.6	
Net gearing (x)	30%	25%		18%		27%	17%	
Effective tax								

Source: Company, Kenanga Research

**Segmental Breakdown**

	2Q20	1Q20	QoQ	2Q20	YoY	1H20	1H19	YoY
<b>External Revenue</b>								
Engineering	68.9	51.4	34%	68.9	0%	120.3	152.9	-21%
Metering	28.8	31.4	-8%	28.8	0%	60.2	59.8	1%
<b>Pre-tax Segmentation</b>								
Engineering	17.0	16.4	4%	17.0	0%	33.4	50.3	-34%
Metering	4.3	5.0	-13%	4.3	0%	9.3	12.6	-26%
<b>Pre-tax margins</b>								
Engineering	25%	32%		25%		28%	33%	
Metering	15%	16%		15%		15%	21%	

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
<b>Sub-total</b>			<b>644.2</b>
Co. Discount			0.0
<b>Total</b>			<b>644.2</b>
Shares Outstanding			556.8
<b>Target Price</b>			<b>1.15</b>
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.			
<b>STOCKS UNDER COVERAGE</b>																	
GAMUDA BHD	3.56	8,804.0	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	10.7	13.0	15.0	1.2	1.1	8.7%	3.4%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.04	560.2	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.4	9.7	7.0	1.2	1.1	11.0%	3.5%	1.15	OP
HOCK SENG LEE BERHAD	1.33	730.9	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.6	11.1	9.4	0.9	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.20	7,984.8	Y	03/2020	22.8%	2.0%	11.0%	2.2%	19.1	17.2	16.9	0.8	0.8	4.7%	2.3%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.36	1,676.7	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.2	10.9	10.7	1.7	1.5	14.9%	2.2%	1.20	UP
KIMLUN CORP BHD	1.23	418.0	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.5	6.6	6.5	0.6	0.6	9.0%	3.5%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.280	249.1	Y	12/2019	-14.7%	-9.7%	-94.7%	210.5%	5.6	106.6	34.3	0.3	0.3	0.3%	0.0%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.50	1,208.4	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.4	7.6	7.3	1.1	1.0	13.4%	2.8%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.03	2,617.4	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	18.8	21.4	16.8	4.3	4.0	19.4%	2.7%	1.45	UP
WCT HOLDINGS BHD	0.910	1,283.0	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	10.0	11.6	9.7	0.4	0.4	3.4%	0.0%	0.815	UP
<b>Simple Average</b>					<b>4.9%</b>	<b>4.3%</b>	<b>-11.9%</b>	<b>31.1%</b>	<b>11.2</b>	<b>21.6</b>	<b>13.4</b>	<b>1.3</b>	<b>1.2</b>	<b>9.4%</b>	<b>2.2%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.365	218.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	14.9	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.130	49.6	Y	06/2019	N.A.	N.A.	N.A.	N.A.	95.3	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRs BHD	1.27	626.7	Y	12/2019	10.2%	44.5%	9.6%	37.1%	10.2	9.3	0.0	1.2	1.3	13.5%	3.8%	1.76	BUY
GADANG HOLDINGS BHD	0.700	509.6	Y	05/2020	7.4%	11.6%	45.5%	12.3%	11.7	8.1	0.0	0.6	N.A.	9.5%	2.1%	0.783	SELL
JAKS RESOURCES BHD	0.775	498.4	Y	12/2019	90.0%	-47.0%	644.8%	-21.2%	32.5	4.4	0.0	0.5	0.5	13.5%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.200	118.0	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	3.34	554.0	Y	06/2020	11.9%	2.8%	60.3%	2.9%	21.2	13.2	0.1	1.7	1.6	12.7%	5.7%	3.82	NEUTRAL
PESONA METRO HOLDINGS	0.220	152.9	Y	12/2019	12.1%	9.5%	166.6%	13.6%	18.5	6.9	0.0	0.8	N.A.	11.7%	4.5%	0.310	BUY
PROTASCO BHD	0.245	119.2	Y	12/2019	-4.5%	3.4%	381.8%	6.0%	N.A.	9.5	0.0	0.4	0.4	3.8%	4.9%	0.225	SELL
TRC SYNERGY BHD	0.485	233.0	Y	12/2019	15.8%	23.6%	70.8%	29.9%	11.2	6.5	0.0	0.5	0.5	8.5%	6.6%	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%

**\*\* The Expected Total Return might contain rounding discrepancy.**

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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