

27 September 2019

George Kent (M) Bhd Focus On Metering Expansion

Recently, we came back from GKENT's briefing feeling reassured with our call and its prospects as management's focus and outlook remain intact with no changes to FY20-21E earnings. Maintain OP with an unchanged SoP-driven TP of RM1.15. We also wish to highlight that GKENT did announced a 1.5 sen dividend in its recent results release, in line with our expectation of 3.6 sen for FY20, which was not reflected in our Results Note dated 25th September 2019.

Construction division. Management is hopeful that the design for LRT3 can be finalised by year-end, while renegotiating a new contract with its work package contractors. Upon completion of its redesign, management hopes to resume work in full-swing by early 2020. As for future jobs, management is actively 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 constantly been looking for opportunities to grow its metering division organically or through strategic tie-ups and acquisitions. We remain excited with the prospects of their metering division in the near term premised on management's effort to: (i) increase their product range by introducing multi-jet, D-class volumetric and Solid-State meters in the future, and (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 overseas as part of their strategy to expand their footprint beyond South-East Asia.

Earnings review. No changes to our FY20-21E earnings. However, we wish to highlight that GKENT did announced a dividend of 1.5 sen in its recent results release, in line with our FY20 expectation of 3.6 sen, which was not reflected in our Results Note dated 25th September 2019.

OUTPERFORM maintained. We reiterate our OUTPERFORM call and an unchanged SoP-driven Target Price of RM1.15 that is based on valuation base-year of FY21E 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.

OUTPERFORM ↔

Price: RM1.05
Target Price: RM1.15 ↔

Expected Capital Gain: RM0.10 9.5%
Expected Divd. Yield: RM0.04 3.4%
Expected Total Return: RM0.14 12.9%

KLCI Index 1,593.00

Stock Information

Bloomberg Ticker	GKENT MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	538.5
Market Cap (RM m)	565.4
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:	2,205,228

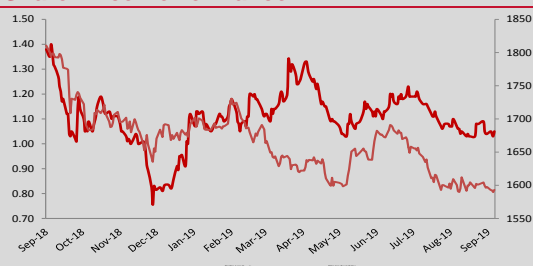
Major Shareholders

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
Net Profit	85	60	83
Core PATAMI	78	60	83
Consensus	N.A.	58	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)	7.5	9.8	7.1
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	3.4	4.7

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-4.5%	-5.4%	-25.0%
Relative (%)	-4.1%	-0.4%	-13.8%

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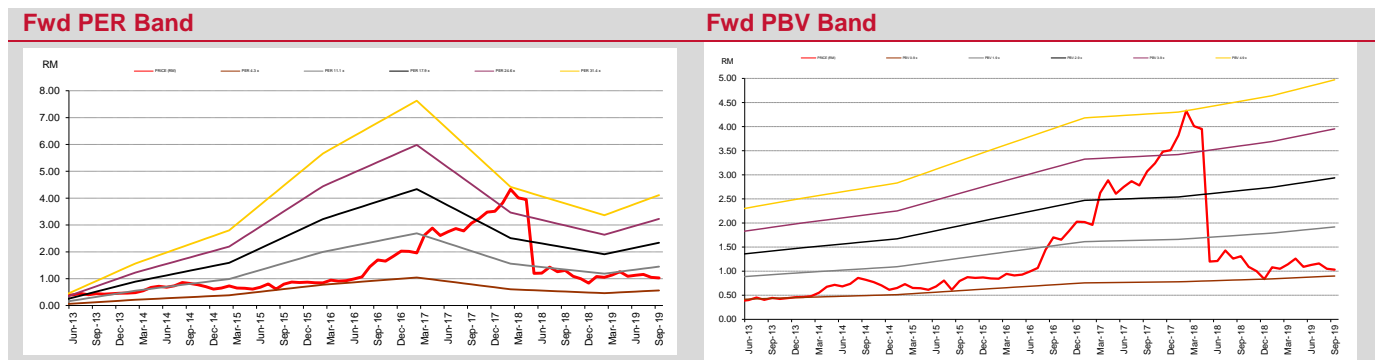


Sum-Of-Parts			
Division	Valuation/Discount Applied	Net Profit	Market Cap (RM'm)
Metering	10.0	25.5	254.6
Construction	7.0	54.1	378.4
Sub-total			633.0
Co. Discount			0.0
Total			633.0
Shares Outstanding			556.8
Target Price			1.15
Implied FY21E PER			7.8

Source: Company, Kenanga Research

Income Statement						Financial Data & Ratios					
FY Jan (RM'm)	2017A	2018A	2019A	2020E	2021E	FY Jan (RM'm)	2017A	2018A	2019A	2020E	2021E
Revenue	599	617	431	493	492	Revenue	12%	3%	-30%	14%	0%
EBITDA	121	159	109	174	166	EBITDA	194%	131%	69%	159%	96%
Depreciation	-4	-5	-5	-5	-5	EBIT	100%	32%	-33%	62%	-4%
EBIT	117	154	104	169	162	Pre-tax Income	90%	20%	-21%	-37%	38%
Int. Expense	7	2	3	2	2	Net Income	102%	23%	-32%	-30%	38%
Associates/JV	0	0	13	4	27	Core Net Income	102%	35%	-43%	-24%	38%
Except. Items	20	-12	7	0	0						
PBT	134	160	126	80	110	Profitability (%)					
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%
						DuPont Analysis					
						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%
						Leverage					
						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
						Valuations					
						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)	5.8	4.3	7.5	9.8	7.1
						FD Core PER (x)	13.2	5.8	4.3	7.5	9.8
						Net Div. Yield (%)	6.4%	9.2%	6.7%	3.4%	4.7%
						PBV (x)	1.46	1.23	1.21	1.11	1.01
						EV/EBITDA (x)	3.13	2.39	3.48	2.19	2.28

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.			
STOCKS UNDER COVERAGE																	
GAMUDA BHD	3.65	9,026.5	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	11.0	13.3	15.4	1.2	1.1	8.7%	3.3%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.05	565.4	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.5	9.8	7.1	1.2	1.1	11.0%	3.4%	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	2.21	8,021.1	Y	03/2020	22.8%	2.0%	11.0%	2.2%	19.2	17.3	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	1.24	421.4	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.6	6.7	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	2.53	1,222.9	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.5	7.7	7.4	1.1	1.0	13.4%	2.8%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.08	2,681.9	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	19.3	22.0	17.2	4.4	4.1	19.4%	2.6%	1.45	UP
WCT HOLDINGS BHD	0.895	1,261.9	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	9.8	11.4	9.6	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average					4.9%	4.3%	-11.9%	31.1%	11.2	21.7	13.5	1.3	1.2	9.4%	2.2%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.355	212.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	14.5	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	1.26	621.7	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	0.675	491.4	Y	05/2020	7.4%	11.6%	45.5%	12.3%	11.3	7.8	0.0	0.6	N.A.	9.5%	2.2%	0.783	SELL
JAKS RESOURCES BHD	0.750	482.3	Y	12/2019	90.0%	-47.0%	644.8%	-21.2%	31.4	4.2	0.0	0.5	0.5	13.5%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.195	115.0	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	0.210	145.9	Y	12/2019	12.1%	9.5%	166.6%	13.6%	17.7	6.6	0.0	0.8	N.A.	11.7%	4.8%	0.310	BUY
PROTASCO BHD	0.240	116.7	Y	12/2019	-4.5%	3.4%	381.8%	6.0%	N.A.	9.3	0.0	0.4	0.4	3.8%	5.0%	0.225	SELL
TRC SYNERGY BHD	0.490	235.4	Y	12/2019	15.8%	23.6%	70.8%	29.9%	11.3	6.6	0.0	0.6	0.5	8.5%	6.5%	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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