

31 May 2019

# Kerjaya Prospek Group

## Results In Line

By Adrian Ng I [adrian.ng@kenanga.com.my](mailto:adrian.ng@kenanga.com.my)

**1Q19 CNP of RM35.1m came within expectations, making up 23%/22% of our/consensus full-year estimates. No dividend was declared. We make no changes to FY19-20E earnings. Upgrade to MP with an unchanged SoP-driven TP of RM1.20.**

**Results inline.** 1Q19 CNP of RM35.1m came in within expectations, making up 23%/22% of our/consensus full-year estimates. No dividend was declared, as expected.

**Results highlight.** 1Q19 CNP improved by 8% YoY driven by improvements in: (i) revenue growth (+4%) from its construction, property division (+10%), (ii) lower financing cost (-29%), and (iii) lower effective tax rate of 23% (-1ppt). In terms of operating performance, we note that the group recorded better operating margin of 17.4% (+0.5ppt) which we believe arose from better billings for higher margin jobs. **QoQ**, 1Q19 CNP grew 3% amid flattish revenue, also due to similar reasons above. Notably, its effective tax rate came down further from 26% to 23%.

**Solid outstanding order-book.** KERJAYA's outstanding order-book remains fairly healthy at RM3.1b providing them at least 3-year's visibility. To date, KERJAYA had won RM873.0m worth of jobs and is on track to meet our FY19E replenishment target of RM1.2b. We believe KERJAYA stands a good chance of winning more contracts in Penang, mainly from E&O's Seri Tanjung Pinang 2 (STP2) project. Going forward, management is looking to launch another property project with an estimated GDV of RM250.0m in Shah Alam.

**Earnings estimates.** Post results, we make no changes to our FY19-20E earnings.

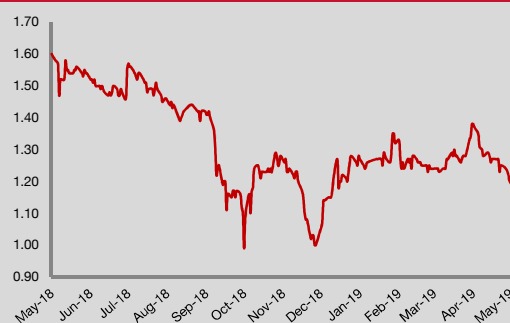
**Upgrade to MARKET PERFORM (from UNDERPERFORM) with an unchanged SoP-derived TP of RM1.20** pegged to unchanged valuation of 10.0x PER on FY20E construction earnings due to price retracement (-11%) since 24-Apr-19. The valuation ascribed to KERJAYA is at the higher-end of our small-mid cap PER range of 6.0-11.0x due to their strong track record of "zero delay" project delivery coupled with superior margins compared to other players. Our SoP-derived TP implies a FY20E PER of 9.5x which is lower than our ascribed 10.0x valuation for its construction division as this is diluted by its property division, which was valued at a lower multiple of 5.0x.

**Risks to our call include:** lower-than-expected job wins, delay in construction progress and lower construction margins.

## MARKET PERFORM

Price : **RM1.23**  
Target Price : **RM1.20** 

### Share Price Performance



KLCI 1,636.50  
YTD KLCI chg -3.2%  
YTD stock price chg 7.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPG MK Equity
Market Cap (RM m)	1,516.9
Shares Outstanding	1,233.2
52-week range (H)	1.61
52-week range (L)	0.99
3-mth avg daily vol:	364,431
Free Float	24%
Beta	1.4

### Major Shareholders

EgovisionSdnBhd	50.4%
Amazing Parade SdnBhd	20.4%
Employees Provident Fund Board	5.6%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	1068.8	1371.5	1310.7
EBIT	190.0	206.6	210.6
PBT	182.4	205.7	209.7
<b>Net Profit</b>	<b>138.4</b>	<b>154.3</b>	<b>157.3</b>
<b>Core PATAMI</b>	<b>138.4</b>	<b>154.3</b>	<b>157.3</b>
Consensus (NP)	n.a.	158.4	172.6
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	11.1	12.4	12.7
Core EPS growth (%)	11%	11%	2%
NDPS (sen)	1.5	3.0	3.0
NTA per Share (RM)	0.5	0.6	0.7
Price to NTA (x)	2.4	2.1	1.8
PER (x)	11.0	9.9	9.7
Debt-to-Equity ratio (x)	0.1	0.1	0.0
Return on Asset (%)	10%	10%	10%
Return on Equity (%)	14%	14%	13%
Net Div. Yield (%)	1.2%	2.4%	2.5%



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## Results Highlight

	1Q19	4Q18	QoQ	1Q18	YoY
<b>FYE Dec (RM'm)</b>					
<b>Turnover</b>	<b>264.2</b>	<b>265.3</b>	<b>0%</b>	<b>255.1</b>	<b>4%</b>
EBITDA	55.4	61.8	-10%	50.7	9%
Depreciation	-9.4	-8.6	9%	-7.6	22%
<b>EBIT</b>	<b>46.1</b>	<b>53.2</b>	<b>-13%</b>	<b>43.1</b>	<b>7%</b>
Interest inc/(exp)	-0.1	-6.8	-98%	-0.2	-29%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.
Exceptional items	0.0	0.0	n.m.	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.
<b>Pretax profit</b>	<b>45.9</b>	<b>46.4</b>	<b>-1%</b>	<b>42.9</b>	<b>7%</b>
Taxation	-10.8	-12.3	-12%	-10.3	4%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.
<b>Profit after tax</b>	<b>35.2</b>	<b>34.1</b>	<b>3%</b>	<b>32.6</b>	<b>8%</b>
Minority interest	-0.1	0.0	43%	-0.1	-45%
<b>PATAMI</b>	<b>35.1</b>	<b>34.0</b>	<b>3%</b>	<b>32.5</b>	<b>8%</b>
<b>Core PATAMI</b>	<b>35.1</b>	<b>34.0</b>	<b>3%</b>	<b>32.5</b>	<b>8%</b>
DPS (sen)	0.0	0.0		0.0	
EBIT margin	17.4%	20.0%		16.9%	
Pretax margin	17.4%	17.5%		16.8%	
NP margin	17.4%	17.5%		16.8%	
CNP margin	13.3%	12.8%		12.7%	
EPS (sen)	2.8	2.7		2.6	
Core EPS(sen)	2.8	2.7		2.6	
BV/share (RM)	0.8	0.8		0.7	
Net gearing (x)	-0.2	-0.2		-0.2	
Effective tax	23%	26%		24%	

Source: Company, Kenanga Research

## Segmental Breakdown

	1Q19	4Q18	QoQ	1Q18	YoY
<b>External Revenue</b>					
Construction	247.0	226.4	9%	225.3	10%
Manufacturing	0.0	0.1	-36%	2.5	-98%
Property Development	17.1	38.8	-56%	27.4	-38%
<b>PAT Segmentation</b>					
Construction	28.2	29.3	-4%	32.7	-14%
Manufacturing	1.5	1.5	-2%	0.7	106%
Property Development	2.1	8.4	-75%	4.6	-55%
<b>PAT margins</b>					
Construction	11.4%	12.9%	-1.5%	14.5%	
Manufacturing	3185.1%	2086.3%		29.1%	
Property Development	12.1%	21.7%		16.7%	

Source: Company, Kenanga Research

## SoP Valuations

Segment	Stake	Method	Value (RM m)
Construction	100%	FY20E of 10x	1431.3
Property	100%	FY20E of 5x	70.8
Total			1502.1
FD shares			1,242.00
		<b>TP</b>	<b>1.20</b>
		<b>Implied PER</b>	<b>9.5</b>

Source: 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.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
EVERSENDAL CORP BHD	0.420	328.0	Y	12/2019	-7.3%	-3.2%	-10.9%	-2.1%	5.2	5.9	6.0	0.3	0.3	5.6%	0.0%	N.A.	CEASED
GAMUDA BHD	3.45	8,517.5	Y	07/2019	-20.8%	0.3%	-27.7%	1.3%	10.4	14.4	14.2	1.1	1.1	7.7%	3.5%	2.85	UP
GEORGE KENT (MALAYSIA) BHD	1.12	603.3	Y	01/2020	14.4%	-0.3%	4.9%	33.1%	8.0	7.6	5.7	1.3	1.2	16.0%	4.4%	1.15	UP
HOCK SENG LEE BERHAD	1.41	774.8	Y	12/2019	18.7%	15.6%	31.6%	10.3%	14.4	11.0	9.9	1.0	0.9	8.8%	1.8%	1.40	MP
IJM CORP BHD	2.11	7,650.8	Y	03/2020	22.8%	2.0%	11.0%	2.2%	18.3	16.5	16.2	0.8	0.8	4.7%	2.4%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.23	1,516.8	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.0	9.9	9.7	1.6	1.4	14.4%	2.4%	1.20	MP
KIMLUN CORP BHD	1.39	461.3	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	7.4	7.5	7.3	0.7	0.7	9.0%	2.6%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.340	302.5	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	6.8	11.5	13.0	0.4	0.4	3.3%	4.4%	0.200	UP
MUHIKBAH ENGINEERING (M) BHD	2.77	1,335.2	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	8.2	8.5	8.1	1.2	1.1	14.8%	2.5%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	1.99	2,571.2	Y	12/2019	-6.1%	21.9%	-12.2%	22.3%	18.4	21.0	17.2	4.2	3.9	19.4%	2.8%	1.40	UP
WCT HOLDINGS BHD	0.945	1,305.5	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	10.4	12.1	10.1	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average					4.7%	3.4%	-4.5%	7.6%	10.8	11.4	10.7	1.2	1.1	9.8%	2.4%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.425	254.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	17.3	N.A.	N.A.	0.6	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.180	68.6	Y	06/2019	N.A.	N.A.	N.A.	N.A.	132.0	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.32	651.1	Y	12/2019	24.2%	27.3%	27.6%	27.4%	10.6	8.3	0.0	1.3	1.4	16.0%	4.4%	1.72	BUY
GADANG HOLDINGS BHD	0.820	542.6	Y	05/2019	11.8%	15.6%	-33.0%	15.9%	5.6	8.4	0.0	0.7	N.A.	8.8%	2.8%	0.890	NEUTRAL
JAKS RESOURCES BHD	0.735	472.7	Y	12/2019	74.4%	-48.7%	655.6%	-21.2%	31.2	4.1	0.0	0.5	0.5	12.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.290	171.1	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.50	414.7	Y	06/2019	224.3%	-2.7%	135.7%	-6.5%	26.7	11.3	0.1	1.3	1.3	11.5%	7.5%	2.56	NEUTRAL
PESONA METRO HOLDINGS	0.235	163.3	Y	12/2019	12.1%	9.5%	131.5%	-0.5%	19.8	8.6	0.0	1.0	N.A.	10.3%	4.3%	0.260	BUY
PROTASCO BHD	0.260	126.6	Y	12/2019	-1.4%	7.9%	365.8%	31.2%	N.A.	9.6	0.0	0.4	0.4	3.6%	5.4%	0.220	SELL
TRC SYNERGY BHD	0.655	314.7	Y	12/2019	18.3%	16.0%	67.3%	24.4%	15.1	9.0	0.0	0.7	0.7	8.2%	3.7%	0.690	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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research