

24 June 2020

## George Kent (M) Bhd 1QFY21 Within Expectations

Despite 1QFY21 only making up 12%/10% of our/consensus full-year forecast, we deem the results as within expectation bearing in mind that the quarter (Feb – April 2020) absorbed the full brunt of MCO at its peak. We expect the coming quarters to fare better as manufacturing utilization rates and construction activities returns to normalcy. Maintain Underperform with an unchanged TP of RM0.51.

**Within expectations.** Despite 1QFY21 only making up 12%/10% of our/consensus full-year forecast, we deem the results as within expectation bearing in mind that the quarter (Feb - April 2020) absorbed the full brunt of MCO at its peak – and we expect the coming quarters to gradually perform better. No dividends as expected.

**MCO impacted performance.** 1QFY21 CNP was down 45% QoQ from lower revenue (-52%) on the back of fixed expenses – leading to weaker pretax margins from both its engineering (-16ppt) and metering (-8ppt) segments given that half the quarter (18<sup>th</sup> March till April 30<sup>th</sup> 2020) was pretty much idle due to the MCO. Likewise, CNP declined 72% YoY from the same reasons.

**Construction works has re-commenced in June.** After getting all its foreign workers on-site tested for Covid-19, the two hospital projects (in Putrajaya and Tanjung Karang) under GKENT have re-commenced works on 9<sup>th</sup> and 11<sup>th</sup> June, respectively. Meanwhile, its metering division fully re-started its operations on 4<sup>th</sup> May 2020.

**Current construction order-book stood at RM4.6b** (95% derived from LRT3 at RM4.35b) providing visibility for the next 4 years. Note that we have factored in zero replenishment for GKENT in FY21-22 as they have yet to secure any new construction projects since Dec 2016.

**No change to earnings.** Post results, we leave our estimates unchanged.

**Maintain UNDERPERFORM on unchanged TP of RM0.51 (based on PBV of 0.55x or -1SD from mean).** Our rating is premised on the fact that the group's revenue and profit have been declining due to its depleting order-book while prospect to replenish construction contracts remains bleak.

**Risks for our call are:** (i) higher-than-expected margins, and (ii) higher than expected contract replenishments.

## UNDERPERFORM ↔

Price: **RM0.660**  
Target Price: **RM0.510** ↔

Expected Capital Gain: **-22.7%**  
Expected Divd. Yield: **3.8%**  
Expected Total Return: **-18.9%**

KLCI Index 1,507.04

### Stock Information

Bloomberg Ticker	GKEN MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	563.3
Market Cap (RM m)	349.3
Par value per share (RM)	0.50
52-week range (H)	1.27
52-week range (L)	0.43
Free Float	50%
Beta	1.5
3-mth avg daily vol:	3,300,907

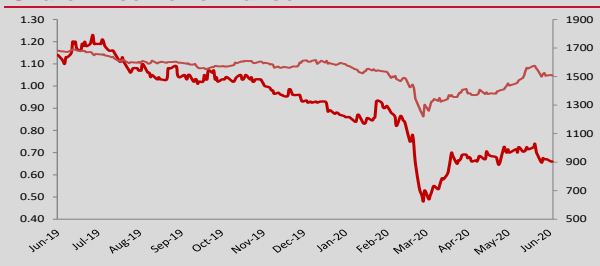
### Major Shareholders

Star Wealth Investment Limited	14.9%
Tan Swee Bee	8.2%
Tan Kay Hock	5.1%

### Summary Earnings Table

FY Jan (RM m)	2020A	2021E	2022E
Turnover	336	259	357
EBIT	54	38	50
PBT	57	49	75
<b>Net Profit</b>	<b>42</b>	<b>35</b>	<b>52</b>
<b>Core PATAMI</b>	<b>42</b>	<b>35</b>	<b>52</b>
Consensus	61	37	54
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	7.5	6.2	9.4
Core EPS growth (%)	-47	-17	51
NDPS (sen)	2.5	1.6	3.4
NTA per share (RM)	0.9	1.0	1.0
Price to NTA (x)	0.7	0.7	0.6
PER (x)	8.8	10.6	7.0
Debt-to-Equity ratio (x)	0.1	0.1	0.0
Return on Asset (%)	5	4	7
Return on Equity (%)	8	6	9
Net Div. Yield (%)	3.8	2.4	5.1

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	0.8%	26.9%	-42.1%
Relative (%)	-6.9%	6.7%	-32.3%

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24 June 2020

**Results Highlights**

	1Q21	4Q20	QoQ	1Q20	YoY
<b>FYE Jan (RM m)</b>					
<b>Turnover</b>	<b>39.3</b>	<b>82.4</b>	-52%	<b>82.8</b>	-53%
EBITDA	4.8	11.6	-59%	19.3	-75%
Depreciation	-1.2	-1.8	-34%	-1.1	7%
<b>EBIT</b>	<b>3.6</b>	<b>9.8</b>	-63%	<b>18.2</b>	-80%
Interest inc/(exp)	0.0	0.1	-74%	0.5	-94%
Associates/JV	0.3	0.4	-18%	-0.8	141%
Exceptional items	0.0	0.0	n.a.	0.0	n.a.
Forex gain/(loss)	0.0	0.0	n.a.	0.0	n.a.
<b>Pretax profit</b>	<b>4.0</b>	<b>10.4</b>	-61%	<b>17.9</b>	-78%
Taxation	-0.3	-3.6	-92%	-4.4	-93%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.
<b>Profit after tax</b>	<b>3.7</b>	<b>6.8</b>	-45%	<b>13.5</b>	-72%
Minority interest	0.0	0.0	n.a.	0.0	n.a.
<b>PATAMI</b>	<b>3.7</b>	<b>6.8</b>	-45%	<b>13.5</b>	-72%
<b>Core PATAMI</b>	<b>3.7</b>	<b>6.8</b>	-45%	<b>13.5</b>	-72%
DPS (sen)	0.0	0.0		0.0	
EBIT margin	9%	12%		22%	
Pretax margin	10%	13%		22%	
NP margin	10%	13%		22%	
CNP margin	9%	8%		16%	
EPS (sen)	0.7	1.3		2.5	
Core EPS(sen)	0.7	1.3		2.5	
BV/share (RM)	0.9	0.9		0.9	
Net gearing (x)	-0.3	-0.4		-0.4	
Effective tax	7%	35%		25%	

Source: Company, Kenanga Research

**Segmental Breakdown**

	1Q21	4Q20	QoQ	1Q20	YoY
<b>External Revenue</b>					
Engineering (Construction)	21.5	52.1	-59%	51.4	-58%
Metering (Manufacturing)	17.8	30.3	-41%	31.4	-43%
<b>Pre-tax Segmentation</b>					
Engineering (Construction)	1.7	12.6	-86%	16.4	-90%
Metering (Manufacturing)	2.0	5.9	-66%	5.0	-60%
<b>Pre-tax margins</b>					
Engineering (Construction)	8%	24%		32%	
Metering (Manufacturing)	11%	19%		16%	

Source: Company, Kenanga Research

24 June 2020

## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>														
GAMUDA BHD	3.56	8,948.2	Y	07/2020	12.2	15.3	12.6	1.0	1.0	6.6%	3.4%	4.30	OP	
GEORGE KENT (MALAYSIA) BHD	0.660	349.3	Y	01/2020	8.8	10.6	7.0	0.7	0.7	6.7%	2.4%	0.510	UP	
HOCK SENG LEE BERHAD	1.07	588.0	Y	12/2020	10.6	20.2	9.6	0.7	0.7	3.5%	0.9%	1.25	OP	
IJM CORP BHD	1.80	6,533.0	Y	03/2020	14.9	34.0	28.6	0.7	0.7	2.3%	1.7%	2.00	MP	
KERJAYA PROSPEK GROUP BHD	1.07	1,313.4	Y	12/2020	8.8	12.6	8.7	1.4	1.2	10.2%	2.9%	1.45	OP	
KIMLUN CORP BHD	0.740	251.5	Y	12/2020	4.1	9.5	5.2	0.4	0.3	3.8%	6.4%	1.00	OP	
MITRAJAYA HOLDINGS BHD	0.205	172.2	Y	12/2020	N.A.	N.A.	N.A.	0.2	0.3	-3.9%	n.a.	0.200	MP	
MUHIBBAH ENGINEERING (M) BHD	0.950	459.3	Y	12/2020	12.0	16.7	6.1	0.4	0.4	2.3%	1.1%	1.15	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.89	2,436.9	Y	12/2020	18.5	35.0	15.2	3.9	3.7	10.9%	1.3%	2.45	OP	
WCT HOLDINGS BHD	0.510	711.9	Y	12/2020	9.4	91.1	11.0	0.2	0.2	0.2%	n.a.	0.550	MP	
<b>Simple Average</b>					<b>11.0</b>	<b>27.2</b>	<b>11.6</b>	<b>1.0</b>	<b>0.9</b>	<b>4.3%</b>	<b>2.5%</b>			

Source: Bloomberg, Kenanga Research

24 June 2020

**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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