

1 July 2020

Kerjaya Prospek Group

1QFY20 Within Our Expectation

By Lum Joe Shen I lumjs@kenanga.com.my

1QFY20 CNP came in within our expectation (25%) but below consensus (19%). The shortfall against consensus is likely due to street under-estimating the severe MCO impact on top-line and margins. Overall, we continue to like KERJAYA for their: (i) strong replenishment prowess, (ii) growing net cash despite growing top-line, and (iii) appealing ex-cash FY21E PER of 7.5x. Maintain OP and SoP-derived TP of RM1.45.

Within our but below consensus expectation. 1QFY20 CNP of RM26m came within our full-year expectation at 25%, but below consensus' at 19%. Consensus may have underestimated the impact of MCO which led to lower-than-expected margins and progress billings. No dividends as expected. We have stripped out: (i) losses from quoted investments worth RM3.0m and (ii) allowance of ECL worth RM0.8m to derive our core profit.

Construction progress affected by MCO. 1QFY20 CNP of RM26.2m was down 37% QoQ on lower revenue (-21%) from two weeks of MCO disruption and higher effective tax rates (+11ppt). Likewise, 1QFY20 CNP was down 12% YoY for the same reasons.

Earnings visibility remains strong. Forward earnings will be driven by construction order-book of RM3.7b (as of March-2020) which provides 3.5x cover. YTD, KERJAYA has secured contracts valued at RM1.0b, in line to hit our target replenishment of RM1.3b backed by a tender-book worth RM3.5b. Our target is slightly more conservative vs. management's target replenishment of RM1.5b.

2QFY20 would be the worst, but still profitable. In 2QFY20, which was when the MCO was at its peak, KERJAYA effectively only operated at one-third (1/3) of their normal level. After idling for the whole of April, most of their jobs have re-started work in May. Nonetheless, work progress was only at 30% of optimum level at the onset before gradually ramping up to a current rate of 90% (as of June-20). We are projecting 2QFY20 to register profit of c.RM10m before normalising back in 3QFY20.

Collections so far so good. While KERJAYA's clientele are private developers which may be facing tight cash flows during this hard times management provided assurance that so far all their clients have not asked for works to be slowed down and payments have been prompt. Net cash remains healthy at RM191m (vs RM210m in 4Q19).

No change to earnings post 1QFY20 results.

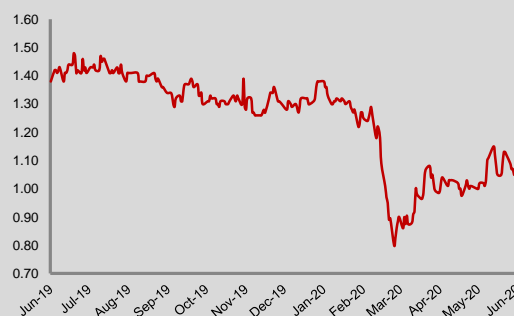
Maintain OUTPERFORM with an unchanged SoP-derived TP of RM1.45. This is anchored by its construction segment of which we have attached a PE multiple of 12x (at 3-year mean) on FY21E earnings. We like KERJAYA for: (i) its strong replenishment prowess, (ii) growing net cash position despite growing top-line and (iii) trading at an appealing ex-cash FY21E PER of 7.5x.

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

OUTPERFORM ↔

Price : RM1.07
Target Price : RM1.45 ↔

Share Price Performance



KLCI 1,500.97
YTD KLCI chg -5.5%
YTD stock price chg -18.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPG MK EQUITY
Market Cap (RM m)	1,313.4
Shares Outstanding	1,227.5
52-week range (H)	1.49
52-week range (L)	0.79
3-mth avg daily vol:	287,778
Free Float	16%
Beta	1.3

Major Shareholders

Egovision Sdn Bhd	50.6%
Amazing Parade Sdn Bhd	20.5%
Employees Provident Fund Board	5.8%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	1,055.3	1,254.9	1,294.3
EBIT	194.7	140.8	203.1
PBT	185.8	140.8	203.1
Net Profit (NP)	140.1	105.6	152.3
Core net profit	150.7	105.6	152.3
Consensus (NP)	n.a.	138.3	167.5
Earnings Revision	n.a.	n.a.	n.a.
FD EPS (sen)	12.1	8.5	12.3
FD EPS growth (%)	7	-30	44
DPS (sen)	3.5	3.0	2.1
FD PER (x)	8.8	12.6	8.7
FD BVPS (RM)	0.83	0.89	0.98
Net Gearing (x)	N.C	N.C	N.C
Dividend Yield (%)	3.2	2.8	2.0



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Result Highlight

FYE Dec (RM m)	1Q20	4Q19	QoQ	1Q19	YoY
Revenue	211.8	268.4	-21%	264.2	-20%
COGS	-169.3	-210.8	-20%	-216.7	-22%
GP	42.6	57.6	-26%	47.4	-10%
Other Income/expense	3.4	3.0	14%	8.8	-61%
Admin	-12.4	-8.2	51%	-10.2	21%
EBIT	33.6	52.4	-36%	46.1	-27%
Finance costs	-0.3	-5.7	-95%	-0.1	158%
PBT	33.3	46.7	-29%	45.9	-27%
Taxation	-11.0	-10.5	5%	-10.8	2%
PAT	22.3	36.2	-38%	35.2	-37%
MI	0.0	0.0	200%	0.1	-88%
PATAMI	22.3	36.2	-38%	35.1	-36%
Exceptional Items	3.8	5.1	-24%	-5.5	169%
CNP	26.2	41.3	-37%	29.6	-12%
DPS (sen)	1.5	1.5	0%	0	n.a.
GP margin	20%	21%		18%	
EBIT margin	16%	20%		17%	
Pretax margin	16%	17%		17%	
CNP margin	12%	15%		11%	
Effective tax	-33%	-22%		-23%	

Source: Kenanga Research

Segmental Breakdown

External Revenue	1Q20	4Q19	QoQ	1Q19	YoY
Construction	211.8	260.1	-19%	247.0	-14%
Manufacturing	0.0	0.2	-95%	0.0	-77%
Property development	0.0	8.1	-100%	17.1	-100%
Investment	0.0	0.0	n.a.	0.0	n.a.
	211.8	268.4	-21%	264.2	-20%
Operating Profit					
Construction	21.5	31.9	-33%	28.2	-24%
Manufacturing	0.0	0.9	-101%	1.5	-101%
Property development	0.0	1.5	-98%	2.1	-98%
Investment	1.5	-1.9	178%	1.6	-5%
Others	0.2	0.0	655%	0.0	541%
Elimination	-0.9	3.8	-122%	1.8	-147%
Total PAT	22.3	36.2	-38%	35.1	-36%
PAT Margins					
Construction	10%	12%		11%	
Manufacturing	-82%	417%		3185%	
Property development	n.a.	19%		12%	
Total	11%	13%		13%	

Source: Kenanga Research

SoP Valuations

Segment	Method	Value (RM m)	Per Share (RM)
Construction	FY21E of 12x (3yr mean)	1755	1.41
Property	FY21E of 6x	43.7	0.04
Market Cap/ TP		1798.8	1.45

Source: Kenanga Research

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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.		
STOCKS UNDER COVERAGE													
GAMUDA BHD	3.64	9,149.2	Y	07/2020	12.4	18.5	13.3	1.1	1.0	5.6%	1.6%	4.10	OP
GEORGE KENT (MALAYSIA) BHD	0.620	328.1	Y	01/2020	8.3	10.0	6.6	0.7	0.6	6.7%	2.6%	0.510	UP
HOCK SENG LEE BERHAD	1.04	571.5	Y	12/2020	10.3	19.6	9.3	0.7	0.7	3.5%	1.0%	1.25	OP
IJM CORP BHD	1.81	6,569.3	Y	03/2021	15.0	34.2	28.7	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	0.190	158.8	Y	12/2020	N.A.	N.A.	N.A.	0.2	0.2	-3.9%	0.0%	0.200	MP
MUHIKBAH ENGINEERING (M) BHD	0.935	452.0	Y	12/2020	11.8	16.4	6.0	0.4	0.4	2.3%	1.1%	1.15	OP
SUNWAY CONSTRUCTION GROUP BHD	1.88	2,424.0	Y	12/2020	18.4	34.8	15.2	3.9	3.7	10.9%	1.3%	2.45	OP
WCT HOLDINGS BHD	0.480	670.0	Y	12/2020	4.4	N.A.	15.5	0.2	0.2	-0.2%	0.0%	0.460	UP
Simple Average					10.4	19.4	12.1	1.0	0.9	4.1%	1.8%		

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 E-mail: research@kenanga.com.my

