

16 December 2020

George Kent (M) Bhd 9MFY21 Within Expectations

3QFY21 CNP of RM10.6m lifted 9MFY21 CNP to RM23.1m, in line with our/consensus expectation at 66%/71%. A depleting construction order-book coupled with the potential termination from LRT3 turnkey role weighs heavily on the group. With unchanged estimates, we maintain our UNDERPERFORM rating but with a higher TP of RM0.56 after rolling valuation base year to FY22.

Within expectations. 3QFY21 (Aug – Oct 20) CNP of RM10.6m lifted 9MFY21 CNP to RM23.1m, in line with our/consensus expectation at 66%/71% of forecast, respectively. No dividends declared as expected.

Highlights. 3QFY21 CNP of RM10.6m was up 22% QoQ on the back of 12% growth in revenue as water metering orders picked up significantly along with the gradual recovery of the economy. Dissecting segmentally, its water metering business saw revenue surging 55% QoQ which lifted PBT by a whopping 93%. That said, its engineering segment's revenue contribution was down 23% possibly due to lockdown compliance. Meanwhile, 9MFY21 CNP of RM23.1m was down 34% YoY, no thanks to the Covid-19 pandemic.

Current construction order-book stands at RM3.6b, of which the bulk (of >95%) is actually derived from LRT3 at RM3.5b providing visibility for the next four years. Note that we have factored in zero replenishment for 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.

Potentially out of LRT3. Over the weekend, the Edge reported that GKENT could possibly be terminated and replaced from its current LRT3 turnkey role under the MRCB-GKENT partnership. While these are mere speculations for the time being, we note that our FY22 earnings forecast could see a 37% downside to RM33m from the omission of LRT3 contributions.

Maintain UNDERPERFORM with higher TP of RM0.56 (from RM0.51) after rolling valuation base year to FY22 on unchanged PBV of 0.55x or -1SD below mean. Our rating is premised on its depleting order-book coupled with bleak replenishment prospects.

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

UNDERPERFORM ↔

Price:	RM0.770
Target Price:	RM0.560 ↑
Expected Capital Gain:	-33.8%
Expected Divd. Yield:	2.1%
Expected Total Return:	-31.7%

KLCI Index 1674.02

Stock Information

Bloomberg Ticker	GKEN MK Equity
Bursa Code	3204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	526.0
Market Cap (RM m)	405.0
Par value per share (RM)	0.50
52-week range (H)	1.00
52-week range (L)	0.43
Free Float	54%
Beta	1.2
3-mth avg daily vol:	1,627,766

Major Shareholders

Star Wealth Investment Limited	15.0%
Tan Swee Bee	8.3%
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
Net Profit	42	35	52
Core PATAMI	42	35	52
Consensus	61	33	48
Earnings Revision	0%	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)	0.8	0.8	0.7
PER (x)	10.3	12.4	8.2
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 (%)	3.2	2.1	4.4

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	4.1%	4.1%	-19.8%
Relative (%)	-1.3%	-5.3%	-26.5%

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Results Highlights

FYE Jan (RM'm)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Turnover	78.9	70.2	12%	72.9	8%	188.4	253.4	-26%
EBITDA	16.8	13.6	24%	15.6	8%	35.2	47.8	-26%
Depreciation	-0.7	-1.7	-57%	-3.6	-80%	-3.5	-3.6	-3%
EBIT	16.1	11.9	35%	11.9	35%	31.7	44.2	-28%
Interest inc/(exp)	-0.2	-0.5	-59%	0.5	-149%	-0.7	1.6	-146%
Associates/JV	0.2	0.2	-19%	0.3	-30%	0.7	0.6	24%
Exceptional items	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Forex gain/(loss)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Pretax profit	16.1	11.6	38%	12.6	27%	31.7	46.3	-31%
Taxation	-5.4	-2.9	88%	-2.4	127%	-8.6	-11.5	-25%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit after tax	10.6	8.7	22%	10.3	4%	23.1	34.8	-34%
Minority interest	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
PATAMI	10.6	8.7	22%	10.3	4%	23.1	34.8	-34%
Core PATAMI	10.6	8.7	22%	10.3	4%	23.1	34.8	-34%
DPS (sen)	0.0	1.0		1.0		1.0	2.5	
EBIT margin	20%	17%		16%		17%	17%	
Pretax margin	20%	17%		17%		17%	18%	
NP margin	20%	17%		17%		17%	18%	
CNP margin	13%	12%		14%		12%	14%	
EPS (sen)	2.0	1.6		1.9		4.4	6.5	
Core EPS(sen)	2.0	1.6		1.9		4.4	6.5	
BV/share (RM)	1.0	0.9		0.9		1.0	0.9	
Net gearing (x)	-0.24	-0.28		-0.29		-0.24	-0.29	
Effective tax	34%	25%		19%		27%	25%	

Source: Company, Kenanga Research

Segmental Breakdown

External Revenue	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Engineering	29.5	38.4	-23%	39.9	-26%	89.4	160.2	-44%
Metering	49.4	31.8	55%	33.0	50%	98.9	93.2	6%
Pre-tax Segmentation								
Engineering	8.5	9.5	-11%	8.9	-4%	19.7	42.3	-53%
Metering	13.3	6.9	93%	6.0	123%	22.2	15.3	45%
Pre-tax margins								
Engineering	29%	25%		22%		22%	26%	
Metering	27%	22%		18%		22%	16%	

Source: Company, 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	3.76	9,450.9	Y	07/2021	17.8	13.8	15.7	1.1	1.1	7.8%	1.6%	4.10	OP	
GEORGE KENT (MALAYSIA) BHD	0.770	405.0	Y	01/2021	10.3	12.4	8.2	0.8	0.8	6.7%	2.1%	0.560	UP	
HOCK SENG LEE BERHAD	0.970	533.0	Y	12/2020	9.6	18.7	9.1	0.7	0.6	3.4%	1.0%	1.20	OP	
IJM CORP BHD	1.75	6,337.2	Y	03/2021	18.8	27.3	21.6	0.6	0.6	3.1%	1.7%	2.20	OP	
KERJAYA PROSPEK GROUP BHD	1.04	1,286.9	Y	12/2020	8.6	14.2	9.8	1.3	1.2	8.8%	2.9%	1.25	OP	
KIMLUN CORP BHD	0.820	289.8	Y	12/2020	4.8	34.2	6.3	0.4	0.4	1.2%	0.6%	0.960	OP	
MITRAJAYA HOLDINGS BHD	0.285	235.9	Y	12/2020	N.A.	23.8	16.8	0.3	0.3	1.3%	0.0%	0.215	MP	
MUHIBBAH ENGINEERING (M) BHD	0.950	459.3	Y	12/2020	12.0	N.A.	17.6	0.4	0.4	-6.1%	0.0%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.90	2,449.8	Y	12/2020	18.6	35.2	15.3	4.0	3.7	10.9%	1.3%	2.45	OP	
WCT HOLDINGS BHD	0.500	701.6	Y	12/2020	4.6	16.9	9.1	0.2	0.2	2.6%	0.0%	0.475	OP	
Simple Average					11.7	21.8	12.9	1.0	0.9	4.0%	1.1%			

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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