

24 May 2023

# Kerjaya Prospek Group

## Green Shoots of Earnings Recovery

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**KERJAYA's 1QFY23 results met expectations. YoY, it reported a slight improvement in EBIT as contributions from new projects secured at better rates (reflecting the higher cost of various inputs) more than offset higher labour cost. YTD, it has secured RM0.5b worth of jobs, on track to meet our full-year target of RM1.5b. We maintain our forecasts, TP of RM1.50 and OUTPERFORM call.**

**Within expectations.** 1QFY23 core net profit of RM29.4m only made up 20% each of both our full-year forecast and the full-year consensus estimate. However, we consider the results within expectations as we expect strong quarters ahead as: (i) progress billings from its RM4.5b order book accelerate, and (ii) it will put onto the market two new property projects with immediate contributions. 1QFY23 dividend declared of 2.0 sen is on track to meet our full-year forecast of 6.0 sen.

**YoY,** 1QFY23 turnover eased 1% due to slower progress of works despite the higher number of jobs on hand. Nonetheless, EBIT improved 2% as contributions from new projects secured at better rates (reflecting the higher cost of various inputs) more than offset the higher labour cost. Due to marginally higher financing costs and effective tax rate (+1ppt), core net profit came in flat.

**QoQ,** 1QFY23 turnover increased 3% from higher progress of construction work activities. Nonetheless, gross profit contracted 21% from a high base in the preceding quarter (due to recognition of certain lumpy cost savings). Core net profit rose 2% on higher other incomes but offset by lower administrative and financing costs, as well as a reduced effective tax rate.

YTD, KERJAYA has secured RM533.4m worth of jobs, on track to meet our RM1.5b target (vs company's more conservative target of RM1.2b). It has strong replenishment prospects from: (i) building jobs by its sister companies i.e. E&O and KPPROP, (ii) industrial warehouse/factories, and (iii) MNC factories from its JV with Samsung.

Meanwhile, it will put onto the market by 2HFY23 two new property projects, i.e. Monterez Shah Alam and Yakin Land with a total GDV of RM630m. As it has already started the sub-structure works, buyers could be billed almost immediately upon launching.

We maintain our forecasts and SoP-TP of RM1.50, valuing its construction business at 13x forward PER, at a discount to 14x-18x we ascribed to mid-sized and large contractors (i.e. GAMUDA, IJM and SUNCON), as KERJAYA's focus is on high-rise building jobs of which prospects are currently weighed down by oversupply, both in the office as well as residential segments. There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us (see Page 4).

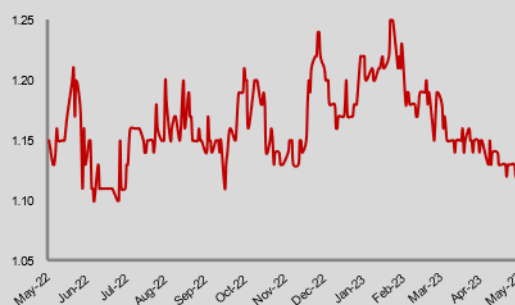
We continue to like KERJAYA for: (i) its innovative construction solutions and lean cost structure that translate to above-average margins, (ii) its hands-on management team and track record of strong execution, and (iii) its ability to consistently win external jobs and the availability of job orders from related parties (E&O, KPPROP). Maintain **OUTPERFORM**.

**Risks to our call include:** (i) further deterioration in the prospects for building jobs, (ii) rising input costs, and (iii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD).

# OUTPERFORM ↔

**Price:** RM1.11  
**Target Price:** RM1.50 ↔

### Share Price Performance



KLCI	1,411.54
YTD KLCI chg	-5.6%
YTD stock price chg	-5.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPG MK Equity
Market Cap (RM m)	1,399.8
Shares Outstanding	1,261.1
52-week range (H)	1.28
52-week range (L)	1.08
3-mth avg daily vol:	146,164
Free Float	19%
Beta	0.6

### Major Shareholders

Egovision Sdn Bhd	49.8%
Amazing Parade Sdn Bhd	20.3%
Employees Provident Fund Board	7.2%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	1,125.6	1,435.5	1,566.2
EBIT	153.8	200.2	226.4
PBT	153.7	200.2	228.4
<b>Net Profit (NP)</b>	<b>115.4</b>	<b>151.2</b>	<b>173.3</b>
<b>Core net profit</b>	<b>115.4</b>	<b>151.2</b>	<b>173.3</b>
Consensus (NP)	-	145.0	167.3
Earnings Revision	-	-	-
FD EPS (sen)	9.30	12.17	13.95
FD EPS growth (%)	32	31	15
DPS (sen)	6.0	6.0	6.0
FD PER (x)	11.9	9.1	8.0
FD BVPS (RM)	0.97	1.05	1.14
Net Gearing (x)	N.C	N.C	N.C
Dividend Yield (%)	5.4	5.4	5.4

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Results Highlight								
FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Revenue	297.2	288.7	3%	300.6	-1%	297.2	300.6	-1%
COGS	-255.1	-235.3	8%	-260.1	-2%	-255.1	-260.1	-2%
<b>GP</b>	<b>42.2</b>	<b>53.4</b>	-21%	<b>40.5</b>	4%	<b>42.2</b>	<b>40.5</b>	4%
Other Income/expense	7.4	-0.8	n.a.	5.9	26%	7.4	5.9	26%
Admin	-10.4	-13.6	-24%	-8.0	30%	-10.4	-8.0	30%
<b>EBIT</b>	<b>39.2</b>	<b>39.0</b>	0%	<b>38.4</b>	2%	<b>39.2</b>	<b>38.4</b>	2%
Finance costs	-0.1	-0.2	-38%	0.3	-145%	-0.1	0.3	-145%
<b>PBT</b>	<b>39.0</b>	<b>38.8</b>	1%	<b>38.7</b>	1%	<b>39.0</b>	<b>38.7</b>	1%
Taxation	-9.6	-10.1	-4%	-9.3	3%	-9.6	-9.3	3%
<b>PAT</b>	<b>29.4</b>	<b>28.7</b>	2%	<b>29.4</b>	0%	<b>29.4</b>	<b>29.4</b>	0%
MI	0.0	0.0	1300%	0.0	n.a.	0.0	0.0	n.a.
<b>Net Profit</b>	<b>29.4</b>	<b>28.7</b>	2%	<b>29.4</b>	0%	<b>29.4</b>	<b>29.4</b>	0%
Exceptional Items	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Core Net Profit</b>	<b>29.4</b>	<b>28.7</b>	2%	<b>29.4</b>	0%	<b>29.4</b>	<b>29.4</b>	0%
DPS (sen)	2.0	3.0	-33%	2	0%	2.0	2.0	0%
GP margin	14%	18%		13%		14%	13%	
EBIT margin	13%	13%		13%		13.2%	13%	
Pretax margin	13%	13%		13%		13%	13%	
CNP margin	10%	10%		10%		10%	10%	
Effective tax	-25%	-26%		-24%		-25%	-24%	

Source: Kenanga Research

Segmental Breakdown								
External Revenue	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Construction	296.8	287.4	3%	297.7	0%	297	298	0%
Manufacturing	0.0	0.3	-100%	0.0	-100%	0	0	-100%
Property development	0.0	0.0	n.m.	2.9	n.m.	0	3	-100%
Investment	0.5	1.0	-54%	0.0	n.a.	0	0	n.a.
	<b>297.2</b>	<b>288.7</b>	3%	<b>300.6</b>	-1%	<b>297</b>	<b>301</b>	-1%
<b>Operating Profit</b>								
Construction	29.3	33.2	-12%	28.2	4%	29	28	4%
Manufacturing	0.1	0.0	429%	0.0	400%	0	0	400%
Property development	-0.2	-0.5	-63%	0.4	-143%	0	0	-143%
Investment	1.0	22.2	-95%	2.3	-56%	1	2	-56%
Others	0.0	6.4	-100%	0.0	n.a.	0	0	n.a.
Elimination	-0.8	-32.6	-97%	-2.1	-60%	-1	-2	-60%
<b>Total PAT</b>	<b>29.4</b>	<b>28.7</b>	2%	<b>28.9</b>	2%	<b>29</b>	<b>29</b>	2%
<b>PAT Margins</b>								
Construction	10%	12%		9%		10%	9%	
Manufacturing	n.m.	6%		450%		n.a.	450%	
Property development	n.a.	n.m.		n.m.		n.a.	14%	
<b>Total</b>	<b>10%</b>	<b>10%</b>		<b>10%</b>		<b>10%</b>	<b>10%</b>	

Source: Kenanga Research

KERJAYA's SOP Valuation			
Segment	Valuation		Basis
	(RM m)	(RM/share)	
Construction	1,772	1.43	FY23F of 13x
Property	88.9	0.07	30% discount to RNAV
<b>Valuation</b>	<b>1,860.9</b>	<b>1.50</b>	

Source: Kenanga Research

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### Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)		ROE (%)		Net Div. (sen)		Net Div. Yld. (%)	
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
GAMUDA BHD	OP	4.15	5.15	24.10%	11,040.0	Y	07/2023	35.0	43.6	7.4%	24.7%	11.4	9.2	1.2	10.4%	50.0	12.0%				
IJM CORP BHD	MP	1.57	1.67	6.37%	3,647.0	Y	03/2023	8.6	9.2	26.2%	6.9%	18.4	17.2	0.6	3.8%	6.0	3.8%				
KERJAYA PROSPEK GROUP BHD	OP	1.11	1.50	35.14%	1,407.0	Y	12/2023	12.2	14.0	31.0%	14.6%	9.1	8.0	1.3	14.6%	6.0	5.4%				
KIMLUN CORP BHD	OP	0.770	1.12	45.45%	272.0	Y	12/2023	12.9	15.6	18.9%	20.5%	6.3	5.1	0.4	6.6%	2.0	2.6%				
SUNWAY CONSTRUCTION GROUP BHD	OP	1.69	2.13	26.04%	2,185.0	Y	12/2023	12.6	13.2	19.4%	4.8%	13.3	12.7	3.2	24.9%	5.0	3.0%				
WCT HOLDINGS BHD	OP	0.420	0.600	42.86%	596.0	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.7	11.4	0.2	2.7%	0.5	1.2%				
<b>Simple Average</b>					<b>19,147.0</b>					<b>12.8%</b>	<b>18.7%</b>	<b>12.0</b>	<b>10.1</b>	<b>0.8</b>	<b>6.5%</b>						

Source: Bloomberg, Kenanga Research

**Stock ESG Ratings:**

	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	
	Management/Workforce Diversity	★	★	★	
	Accessibility & Transparency	★	★	★	★
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	
<b>SPECIFIC</b>	Migrant Worker Welfare	★	★	★	☆
	Waste Disposal/Pollution Control	★	★	★	
	Work Site Safety	★	★	★	☆
	Environmentally Friendly Construction Technology	★	★	★	☆
	Supply Chain Auditing	★	★	★	
	Energy Efficiency	★	★	★	★
	<b>OVERALL</b>		★	★	★

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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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