

30 May 2024

## Kerjaya Prospek Group

### Stable Construction Earnings

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**KERJAYA's 1QFY24 results met expectations. Its 1QFY24 core profit grew 14% YoY on higher construction billings and property sales. We like KERJAYA for making a name in high-rise building jobs locally. We keep our forecasts, TP of RM1.90 and MARKET PERFORM call.**

KERJAYA's 1QFY24 core profit of RM33.6m made up only 19% and 20% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the results within expectations as we expect stronger earnings in coming quarters. It declared a first interim NDPS of 2.5 sen in 1QFY24, on track to meet our full-year forecast of 10 sen.

**YoY.** Its 1QFY24 revenue rose 13% on higher billings from construction (+11%) while property contributed RM7.4m (vs. nil in 1QFY23) from its new project *The Vue @ Monterey*. Correspondingly, its core profit grew by 14%.

**QoQ.** Its 1QFY24 revenue declined 31% due to fewer working days during the quarter on the back of the Chinese New Year break. Its core profit only contracted 6%, we believe, in the absence of lumpy costs and a lower effective tax rate.

The key takeaways from its results briefing are as follows:

- YTD, it has secured six new jobs worth a total of RM978.7m, on track to meet its FY24 job win target of RM1.5b (which is also our assumption). All the six new jobs are related-party transactions (RPT) including three from **E&O (Not Rated)** and one from **KPPROP (Not Rated)**. Currently, its outstanding order book stands at RM4.7b with 26 on-going projects.
- Its current tender book of RM1.5b to RM2.0b comprises mostly high-margin jobs such as building jobs for data centre and semiconductor foundry. For data centre jobs, it intends to start with the smaller-scale ones of which the learning curve is less steep. It has been pre-qualified to bid for Penang airport expansion project worth RM800m to RM1b.
- It sets a property sales target of RM100m in FY24, coming from *Papyrus @ North Kiara* (GDV of RM500m, soft launch in Mar 2024), apart from *The Vue @ Monterey* (GDV of RM300m, a take-up rate of c.70% as at Mar 2024). It guided for a gross margin of 20%

**Forecasts.** Maintained.

**Valuations.** We also keep our SoP-TP of RM1.90 (see Page 3) valuing its construction business at 14x forward PER, at a discount to the 18x we ascribed to large contractors (i.e. GAMUDA, IJM, and SUNCON) given KERJAYA's focus on the high-rise building sector, currently weighed down by oversupply in the office and residential segments. There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us (see Page 5).

## MARKET PERFORM ↔

Price: **RM1.81**  
Target Price: **RM1.90** ↔

### Share Price Performance



KLCI	1,605.35
YTD KLCI chg	10.4%
YTD stock price chg	16.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPG MK Equity
Market Cap (RM m)	2,282.5
Shares Outstanding	1,261.1
52-week range (H)	1.87
52-week range (L)	1.05
3-mth avg. daily vol.	1,100,630
Free Float	21%
Beta	0.5

### Major Shareholders

Egovision Sdn Bhd	49.8%
Amazing Parade Sdn Bhd	20.3%
Employees Provident Fund	5.1%

### Su.0mmary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,457.8	1,653.7	1,859.3
EBIT	178.7	226.4	252.6
PBT	179.1	229.4	255.6
<b>Net Profit (NP)</b>	<b>132.3</b>	<b>176.3</b>	<b>196.2</b>
<b>Core net profit</b>	<b>132.3</b>	<b>176.3</b>	<b>196.2</b>
Consensus (NP)	-	170.3	181.8
Earnings Revision (%)	-	-	-
FD EPS (sen)	11.01	14.19	15.80
FD EPS Growth (%)	18.4	28.9	11.3
DPS (sen)	8.0	10.0	10.0
FD PER (x)	15.8	12.3	11.0
FD BVPS (RM)	1.04	1.14	1.24
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	4.6	5.7	5.7

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**Investment case.** We continue to like KERJAYA for: (i) its innovative and hence high-margin formwork construction method, (ii) its lean and hands-on management team with a strong execution track record, (iii) its strong earnings visibility underpinned by a sizeable outstanding order book and recurring orders from related companies (such as E&O, KPPROP). However, its current share price valuations have reflected its fundamentals. Maintain **MARKET PERFORM**.

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

Income Statement								
FYE Dec (RM m)	1Q FY24	4Q FY23	QoQ Chg	1Q FY23	YoY Chg	1Q FY24	1Q FY23	YoY Chg
Revenue	337.1	489.0	-31%	297.2	13%	337.1	297.2	13%
COGS	-284.3	-433.7	-34%	-255.1	11%	-284.3	-255.1	11%
GP	52.8	55.4	-5%	42.2	25%	52.8	42.2	25%
Other Income/expense	4.2	7.3	-42%	7.4	-43%	4.2	7.4	-43%
Admin	-10.8	-11.8	-8%	-10.4	4%	-10.8	-10.4	4%
EBIT	46.2	50.9	-9%	39.2	18%	46.2	39.2	18%
Finance costs	-0.3	-0.5	-27%	-0.1	192%	-0.3	-0.1	192%
PBT	45.8	50.4	-9%	39.0	17%	45.8	39.0	17%
Taxation	-12.2	-14.5	-15%	-9.6	27%	-12.2	-9.6	27%
PAT	33.6	35.9	-7%	29.4	14%	33.6	29.4	14%
MI	-0.1	-0.21	-74%	-0.014	293%	-0.1	-0.01	293%
Net Profit	33.6	35.7	-6%	29.4	14%	33.6	29.4	14%
Exceptional Items	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Core Net Profit	33.6	35.7	-6%	29.4	14%	33.6	29.4	14%
DPS (sen)	2.5	2.0	25%	2.0	25%	2.5	2.0	25%
GP margin	16%	11%		14%		16%	14%	
EBIT margin	14%	10%		13%		14%	13%	
Pretax margin	14%	10%		13%		14%	13%	
CNP margin	10%	7%		10%		10%	10%	
Effective tax	27%	29%		25%		27%	25%	

Source: Company

Segmental Breakdown								
FYE Dec (RM m)	1Q FY24	4Q FY23	QoQ Chg	1Q FY23	YoY Chg	1Q FY24	1Q FY23	YoY Chg
<b>Revenue</b>								
Construction	329.2	477.7	-31%	296.8	11%	329.2	296.8	11%
Manufacturing	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Property development	7.4	10.6	-31%	0.0	N/A	7.4	0.0	N/A
Investment	0.6	0.7	-14%	0.5	29%	0.6	0.5	29%
	<b>337.1</b>	<b>489.0</b>	<b>-31%</b>	<b>297.2</b>	<b>13%</b>	<b>337.1</b>	<b>297.2</b>	<b>13%</b>
<b>PAT</b>								
Construction	32.7	44.2	-26%	29.3	12%	32.7	29.3	12%
Manufacturing	0.1	0.2	-64%	0.1	-38%	0.1	0.1	-38%
Property development	0.8	1.6	-50%	-0.2	N/A	0.8	-0.2	N/A
Investment	26.1	31.4	-17%	1.0	2441%	26.1	1.0	2441%
Others	0.1	0.2	-56%	0.0	500%	0.1	0.0	500%
Elimination	-26.2	-41.8	-37%	-0.8	3069%	-26.2	-0.8	3069%
<b>Total PAT</b>	<b>33.6</b>	<b>35.7</b>	<b>-6%</b>	<b>29.4</b>	<b>14%</b>	<b>33.6</b>	<b>29.4</b>	<b>14%</b>
<b>PAT Margin</b>								
Construction	10%	9%		10%		10%	10%	
Manufacturing	N/A	N/A		N/A		N/A	N/A	
Property development	11%	15%		N/A		11%	N/A	
<b>Total</b>	<b>10%</b>	<b>7%</b>		<b>10%</b>		<b>10%</b>	<b>10%</b>	

Source: Company

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<b>KERJAYA's SoP Valuation</b>			
<b>Segment</b>	<b>Valuation</b>		<b>Basis</b>
	<b>(RM m)</b>	<b>(RM/share)</b>	
Construction	2,279.2	1.84	14x FY25F PER
Property	74.7	0.06	30% discount to RNAV
<b>Valuation</b>	<b>2,353.9</b>	<b>1.90</b>	

*Source: Kenanga Research*

### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS 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.
<b>Stocks Under Coverage</b>																	
GAMUDA	OP	6.08	6.70	10.2%	16,842.8	Y	07/2024	40.2	50.6	29.7%	25.8%	16.7	13.4	1.5	10.0%	12.0	2.0%
IJM	OP	2.54	2.77	9.1%	8,905.7	Y	03/2025	13.0	14.4	-8.3%	11.2%	27.9	29.8	0.9	5.2%	8.0	3.1%
KERJAYA	MP	1.81	1.90	5.0%	2,282.5	Y	12/2024	14.2	15.8	33.3%	11.3%	14.9	13.0	1.6	13.0%	10.0	5.5%
KIMLUN	MP	1.35	1.47	8.9%	477.0	Y	12/2024	11.9	14.7	493.0%	23.0%	13.6	11.6	0.6	5.5%	1.0	0.7%
SUNCON	MP	3.20	3.16	-1.3%	4,125.9	Y	12/2024	12.7	16.7	-3.2%	31.1%	25.2	24.1	4.2	17.6%	6.0	1.9%
WCT	OP	0.545	0.660	21.1%	772.4	Y	12/2024	2.5	3.0	-85.9%	18.4%	21.6	14.8	0.3	1.2%	0.5	0.9%
<b>Sector Aggregate</b>					<b>33,406.4</b>					<b>40.3%</b>	<b>21.3%</b>	<b>16.7</b>	<b>13.7</b>	<b>1.2</b>	<b>7.3%</b>		<b>2.4%</b>

Source: Kenanga Research

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**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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