

23 November 2017

# Kerjaya Prospek Group

## 9M17 Inline, New Contract

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**KERJAYA's 9M17 CNP of RM96.2m is within both our and consensus' expectations at 76%. No dividends declared as expected. Separately, KERJAYA clinched a contract award worth RM245m of which we are positive given that YTD replenishment of RM1.4b has now surpassed our FY17E target of RM1.1b. Upgrade FY17-18E earnings by 0.5-3.2% after imputing the new contract award. Maintain UP with higher SoP-derived TP of RM3.40.**

**Results Inline.** 9M17 CNP of RM96.2m is within expectations, making up 76% of both our and consensus' full-year estimates. No dividends declared as expected. Separately, KERJAYA announced a new building contract from B.U. Developments S/B worth RM245m slated for delivery by Nov 2021 (48 months). The construction works for Triuni Residences of Batu Uban comprises 3 towers of residential high-rise (total of 552 units of condominium).

**Results highlight.** 9M17 CNP was up by 30% YoY due to: (i) higher revenue (+23%) from higher construction billings, and (ii) improved construction margins (+1ppt) from better margin jobs. 3Q17 CNP of RM34.4m was up 5% QoQ despite the slight decline in revenue (-4%) due to: (i) better property development margins (+10ppt), and (ii) lower effective tax rate (-13ppt).

**New contract surpassed replenishment target.** We are positive on the new contract given that YTD win of RM1.39b has surpassed our FY17E replenishment target of RM1.1b. Assuming PBT margins of 16%, the contract is expected to contribute c.RM7.4m/annum towards bottom-line.

**Outlook.** Currently, KERJAYA's outstanding order-book stands at RM3.2b giving them a visibility of c.2.5-3.0 years. Meanwhile, its tender-book stands at c.RM1.0b. We believe further project wins could likely stem from Dato's Tee's (KERJAYA's major shareholder) private property arm that is planning to launch a mixed development project in Old Klang Road with GDV of RM1.0b leading to c.RM300-400m worth of construction contracts likely to be dished out in FY18. In addition, we believe KERJAYA could possibly undertake a 1-for-1 bonus issue as the Companies Act 2016 states that share premium account will no longer be applicable from FY18 onwards and KERJAYA has substantial share premium of RM331m vs. share capital of RM311m (as of 3Q17).

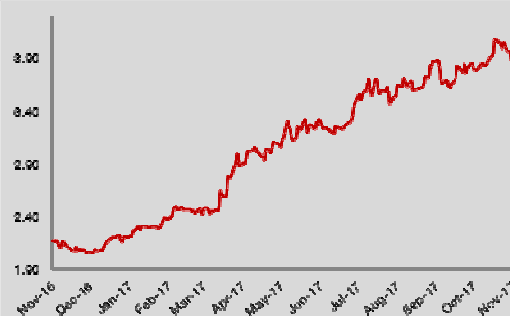
**Earnings forecasts.** Post-results, we upgrade our FY17-18E earnings by 0.5-3.2% after accounting for the new contract win where we adjust our FY17E replenishment higher to RM1.4b (from RM1.1b). That said, we keep our FY18E replenishment target of RM1.2b unchanged.

**Maintain UNDERPERFORM with a higher TP of RM3.40.** While we upgrade our SoP-derived TP to RM3.40 (from RM3.30), we reiterate our UP call as we believe that KERJAYA's risk-to-reward ratio is no longer compelling as its share price is up 84% YTD and currently trading at FY18E PER of 14.8x implying a FY18E **construction** PER of 15.5x – which we consider high as it is above our ascribed range of 8-13x for small mid-cap contractors within our universe. We believe further rerating catalyst for KERJAYA could be higher-than-expected replenishment or profit margin.

# UNDERPERFORM ↔

Price : **RM4.01**  
Target Price : **RM3.40** ↑

### Share Price Performance



KLCI	1,723.54
YTD KLCI chg	5.0%
YTD stock price chg	84.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPG MK Equity
Market Cap (RM m)	2,260.0
Issued shares	563.6
52-week range (H)	4.10
52-week range (L)	2.03
3-mth avg daily vol:	474,316
Free Float	27%
Beta	0.7

### Major Shareholders

Egovision Sdn Bhd	50.1%
Amazing Parade Sdn Bhd	20.3%
HSBC Bank Plc	2.3%

### Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	805.4	1,071.4	1,271.5
EBIT	135.7	169.7	203.8
PBT	133.5	169.7	203.8
<b>Net Profit (NP)</b>	<b>100.0</b>	<b>127.3</b>	<b>152.9</b>
<b>Core NP</b>	<b>100.0</b>	<b>127.3</b>	<b>152.9</b>
Consensus (CNP)	n.a.	125.7	148.3
Earnings Revision	0.0%	0.5%	3.2%
Core EPS (sen)	17.7	22.5	27.1
Core EPS growth %	0%	27%	20%
NDPS (sen)	4.0	5.5	6.9
Core PER (x)	22.7	17.8	14.8
BV/Share (RM)	1.35	1.45	1.63
Net Gearing (x)	N.C	N.C	N.C
Dividend Yield (%)	1.0%	1.4%	1.7%

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<b>Result Highlight</b>								
<b>Y/E : Dec (RM m)</b>	<b>3Q17</b>	<b>2Q17</b>	<b>QoQ</b>	<b>3Q16</b>	<b>YoY</b>	<b>9M17</b>	<b>9M16</b>	<b>YoY</b>
Revenue	229.9	240.2	-4%	190.5	21%	703.4	569.9	23%
COGS	-188.8	-186.6	1%	-156.3	21%	-566.6	-459.4	23%
<b>GP</b>	<b>41.1</b>	<b>53.6</b>	<b>-23%</b>	<b>34.2</b>	<b>20%</b>	<b>136.8</b>	<b>110.5</b>	<b>24%</b>
Other Income/expense	6.8	3.6	90%	4.6	48%	13.8	8.0	73%
Admin	-5.7	-8.3	-31%	-5.0	16%	-19.5	-17.5	12%
<b>EBIT</b>	<b>42.2</b>	<b>48.9</b>	<b>-14%</b>	<b>33.8</b>	<b>25%</b>	<b>131.1</b>	<b>101.0</b>	<b>30%</b>
Finance costs	-0.6	-1.6	-60%	0.0	2093%	-3.4	-2.0	73%
<b>PBT</b>	<b>41.5</b>	<b>47.3</b>	<b>-12%</b>	<b>33.8</b>	<b>23%</b>	<b>127.7</b>	<b>99.0</b>	<b>29%</b>
Taxation	-6.8	-13.9	-51%	-8.3	-18%	-30.6	-25.2	22%
<b>PAT</b>	<b>34.7</b>	<b>33.3</b>	<b>4%</b>	<b>25.5</b>	<b>36%</b>	<b>97.1</b>	<b>73.8</b>	<b>31%</b>
MI	0.3	0.4	-24%	0.0	825%	0.9	0.1	826%
<b>PATAMI</b>	<b>34.4</b>	<b>32.9</b>	<b>5%</b>	<b>25.5</b>	<b>35%</b>	<b>96.2</b>	<b>73.8</b>	<b>30%</b>
<b>CNP</b>	<b>34.4</b>	<b>32.9</b>	<b>5%</b>	<b>25.5</b>	<b>35%</b>	<b>96.2</b>	<b>73.8</b>	<b>30%</b>
FD EPS	6.1	5.8		4.5		17.0	13.1	
DPS	0.0	0.0		0.0		5.5	4.0	
GP Margins	18%	22%		18%		19%	19%	
EBIT Margins	18%	20%		18%		19%	18%	
PBT Margins	18%	20%		18%		18%	17%	
PAT Margins	15%	14%		13%		14%	13%	
CNP Margins	15.0%	13.7%		13.4%		14%	13%	
Effective tax rate	-16%	-29%		-24%		-24%	-25%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>FYE Dec (RM m)</b>	<b>3Q17</b>	<b>2Q17</b>	<b>QoQ</b>	<b>3Q16</b>	<b>YoY</b>	<b>9M17</b>	<b>9M16</b>	<b>YoY</b>
<b>Revenue</b>								
Construction	216.0	217.8	-1%	181.8	18%	653.5	545.8	20%
Manufacturing	-0.4	0.5	-61%	1.9	-80%	1.4	8.9	-84%
Property development	14.4	21.9	80%	8.1	435%	48.5	15.2	219%
<b>Total Revenue</b>	<b>230.0</b>	<b>240.2</b>	<b>3%</b>	<b>191.7</b>	<b>25%</b>	<b>703.4</b>	<b>569.9</b>	<b>23%</b>
<b>PAT</b>								
Construction	23.4	36.2	24%	23.9	54%	88.7	72.1	23%
Manufacturing	-1.8	-0.6	-343%	5.7	-363%	-2.2	6.8	-132%
Property development	4.1	3.9	454%	0.9	175%	8.7	3.4	152%
Others	33.3	-0.6	-107%	25.5	-5%	41.5	22.4	86%
<b>Eliminations</b>	<b>-24.5</b>	<b>-5.9</b>	<b>-41%</b>	<b>-30.5</b>	<b>-28252%</b>	<b>-40.4</b>	<b>-31.0</b>	<b>31%</b>
<b>Total PAT</b>	<b>34.5</b>	<b>32.9</b>	<b>14%</b>	<b>25.5</b>	<b>34%</b>	<b>96.3</b>	<b>73.8</b>	<b>31%</b>
<b>PAT Margins</b>								
Construction	11%	17%		13%		14%	13%	
Manufacturing	411%	-124%		303%		-156%	77%	
Property development	28%	18%		11%		18%	23%	

Source: Company, Kenanga Research

<b>SoP Valuations</b>			
<b>Segment</b>	<b>Stake</b>	<b>Method</b>	<b>Value (RM m)</b>
Construction	100%	FY18E of 13x	1739.1
Property	100%	FY18E of 6x	114.6
Total			1853.7
50% of FY18E net cash position			0.12
FD shares		TP	564.7
		<b>Implied PER</b>	<b>3.40</b>
			<b>12.6</b>

Source: Kenanga Research

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### Peer Comparison

CORE COVERAGE																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.88	683	-4.8	11.5	10.7	2%	6%	0.7	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	52.2
GAMUDA BHD	4.61	11319	18.6	17.5	14.7	3%	10%	1.4	700.6	741.7	885.4	6%	19%	5.45	Market Perform	-3.6
IJM CORP BHD	3.05	11067	20.5	18.8	16.8	2%	6%	1.1	539.1	585.8	656.1	9%	12%	3.48	Outperform	-4.7
KIMLUN CORP BHD	2.38	761	9.0	10.4	9.4	2%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	14.4
MUHIBBAH ENGINEERING (M) BHD	2.83	1359	16.7	14.4	13.8	2%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	26.9
HOCK SENG LEE BERHAD	1.48	813	14.4	16.4	11.8	1%	7%	1.1	56.5	49.4	69	-13%	40%	1.40	Market Perform	-7.5
WCT HOLDINGS BHD	1.65	2321	32.4	18.5	16.3	0%	5%	0.9	84.8	149	169.4	76%	14%	1.83	Outperform	-4.0
MITRAJAYA HOLDINGS BHD	0.77	596	7.1	9.9	7.0	3%	12%	1.0	97.3	70.3	98.3	-28%	40%	0.94	Outperform	-31.3
SUNWAY CONSTRUCTION GROUP	2.40	3101	26.4	21.4	17.9	2%	25%	5.4	117.7	145.2	173.1	23%	19%	2.29	Market Perform	41.2
KERJAYA PROSPEK GROUP BHD	4.01	2260	22.7	17.8	14.8	1%	16%	2.8	100	127.3	152.9	27%	20%	3.40	Underperform	84.8
GEORGE KENT (MALAYSIA) BHD	3.15	1774	17.5	14.1	12.6	2%	26%	3.7	101.3	126.1	141	24%	12%	3.65	Outperform	55.4
<i>Average</i>			16.4	15.5	13.3											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	1.06	627	-2.2	14.9	10.8	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	16.5
PROTASCO	1.09	462	8.9	7.9	7.7	5%	15%	1.2	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-3.5
PINTARAS JAYA	3.87	639	35.6	15.0	12.5	5%	12%	1.8	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	9.9
GABUNGAN AQRS	1.92	840	33.2	20.2	9.6	1%	12%	2.3	22.6	37.2	77.9	65%	109%	1.6	Not Rated	112.2
GADANG HOLDINGS	1.10	724	3.8	4.1	3.9	2%	27%	1.1	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	4.8
AZRB	1.06	563	18.8	8.9	7.0	n.a.	15%	1.3	27.2	57.4	73	111%	27%	1.35	Trading Buy	66.9
TRC SYNERGY	0.71	341	11.4	10.4	13.0	3%	8%	0.8	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	86.8
BINA PURI	0.35	92	82.3	5.5	5.5	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-20.7
PESONA	0.49	340	16.0	9.1	6.6	5%	22%	2.0	20	35.3	48.5	77%	37%	0.49	Take Profit	-19.0
JAKS	1.38	680	0.8	9.8	7.1	0%	12%	1.2	736	61.9	85.4	-92%	38%	1.54	Not Rated	35.3
<i>Average</i>			20.9	10.6	8.4											

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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