

HLIB Research

PP 9484/12/2012 (031413)

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HOLD (Maintain)

Target Price: RM1.52

Previously: RM1.50

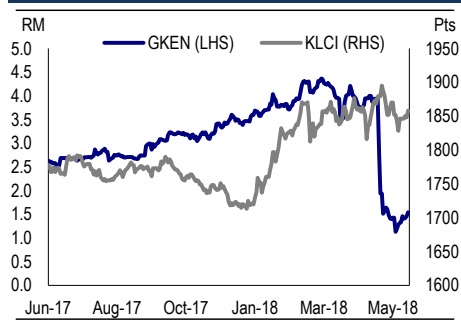
Current Price: RM1.54

Capital upside	-1.3%
Dividend yield	7.9%
Expected total return	6.6%

Sector coverage: Construction

Company description: GKent is involved in engineering, specialising in rail systems, hospitals and water infra. It also manufactures water meters.

Share price



Historical return (%)	1M	3M	12M
Absolute	-60.9	-63.7	-43.7
Relative	-59.1	-61.7	-42.9

Stock information

Bloomberg ticker	GKEN MK
Bursa code	3204
Issued shares (m)	563
Market capitalisation (RM m)	867
3-mth average volume ('000)	7,300
SC Shariah compliant	Yes

Major shareholders

Star Wealth Investment Ltd	14.0%
Tan Swee Bee	7.7%

Earnings summary

FYE (Jan)	FY18	FY19f	FY20f
PATMI - core (RM m)	138	136	143
EPS - core (sen)	24.5	25.5	24.7
P/E (x)	6.3	6.4	6.0

George Kent (Malaysia)

It's not all gloom and doom

GKent's 1QFY19 core net profit of RM20m was deemed in line with both HLIB and consensus expectations as 2H is seasonally stronger. Core net profit declined 5% YoY mainly due to lower contribution from metering, partially offset by stronger share of JV profits attributable to LRT 3 PDP fees. The lower contribution from metering was mainly due to delays in Vietnam water meter tender which was originally expected in 1Q19. Prospect for GKent remains subdued post changes in federal government and scrapping of mega rail projects such as MRT3 and HSR in which the company is a strong contender. Nonetheless, earnings for the company over the next 3 years would be supported by the LRT3 PDP role. Raised FY20 earnings forecast by 2.1% post model adjustment. We introduce our FY21 earnings forecast of RM138.9m. We maintain our HOLD rating with higher TP of RM1.52 post earnings forecast adjustment.

Results deemed within estimates. 1QFY19 core net profit came in at RM20.3m, accounting for 14.9% of HLIB and 15.0% of consensus estimates. We deem the results inline as 2H is seasonally stronger. To illustrate, 1Q18 and 2H18 contributed 15.5% and 67.5% of FY18 core profit respectively.

QoQ: Core net profit declined 67.2% mainly due to decrease in Engineering segment revenue. This is not a concern given that 4Q is traditionally the strongest quarter for the year.

YoY: Core net profit decreased 4.9% mainly due to lower contribution from metering, partially offset by stronger share of JV profits attributable to LRT3 PDP fees. The lower contribution from metering was mainly due to delays in the Vietnam water meter tender which was originally expected in 1Q19.

Outlook. Prospects for GKent remains subdued post changes in the government after GE14 and scrapping of mega rail projects such as MRT3 and HSR in which the company is a strong contender. Moreover, the domestic construction industry landscape is expected to remain challenging and we do not expect a significant improvement in near term. Nonetheless, earnings for the company over the next 3 years would be supported by the LRT3 PDP role.

Forecast. Raised FY20 earnings forecast by 2.1% post model adjustment. We introduce our FY21 earnings forecast of RM138.9m.

Maintain HOLD, TP: RM1.52. Maintained HOLD with higher SOP-derived TP of RM1.52 (from RM1.50) post earnings forecast adjustment. Our SOP valuation for GKent is based on (i) NPV (WACC: 12%) for its engineering division with nil orderbook replenishment, (ii) 10x P/E for metering assuming no YoY growth and (iii) 20% discount to its net cash per share. Our valuation is based on bear case scenario for the company to reflect slowing mega rail job flows and earnings sustainability issue post completion of LRT3 which is expected in FY22.

Financial Projections for George Kent**Balance Sheet**

FYE Jan (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Cash	430	511	442	512	576
Receivables	267	202	217	186	131
Inventories	43	48	50	43	30
PPE	128	129	130	129	128
Others	41	62	51	51	51
Assets	910	952	891	922	918
Debts	57	56	51	46	41
Payables	440	412	279	243	174
Others	12	7	12	12	12
Liabilities	510	476	342	302	228
Shareholder's equity	400	476	549	620	690

Cash Flow Statement

FYE Jan (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Profit before taxation	127	160	164	166	154
Share of JV and associates	(7)	(18)	(56)	(78)	(95)
Depreciation & amortisation	4	5	4	4	4
Changes in working capital	93	41	(150)	2	(2)
Taxation	(33)	(44)	(28)	(23)	(16)
Others	(4)	5	62	68	72
CFO	179	148	(5)	139	118
Net capex	(6)	(3)	(5)	(3)	(3)
Others	9	(2)	-	-	-
CFI	4	(5)	(5)	(3)	(3)
Changes in borrowings	30	(3)	(5)	(5)	(5)
Issuance of shares	44	-	5	-	-
Dividends paid	(21)	(44)	(54)	(68)	(72)
Others	(49)	-	-	-	-
CFF	3	(47)	(54)	(73)	(77)
Net cash flow	186	96	(68)	70	64
Forex	5	(16)	-	-	-
Others	(3)	-	-	-	-
Beginning cash	242	430	511	442	512
Ending cash	430	511	442	512	576

Income Statement

FYE Jan (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	599	617	494	424	300
EBITDA	126	163	115	95	66
EBIT	122	158	111	91	62
Finance cost	(3)	(2)	(3)	(3)	(3)
Associates & JV	7	18	56	78	95
Profit before tax	127	174	164	166	154
Tax	(33)	(36)	(28)	(23)	(16)
PATMI (core)	94	138	136	143	139
Exceptionals	8	(14)	-	-	-
PATMI (reported)	101	124	136	143	139

Valuation & Ratios

FYE Jan (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Core EPS (sen)	16.6	24.5	24.2	25.5	24.7
P/E (x)	9.3	6.3	6.4	6.0	6.2
P/E (x) ex. cash	4.3	2.9	3.0	2.8	2.9
EV/EBITDA (x)	3.2	2.5	3.5	4.3	6.1
DPS (sen)	6.7	9.5	12.1	12.7	12.3
Dividend yield	4.3%	6.2%	7.9%	8.3%	8.0%
BVPS (RM)	0.71	0.84	0.97	1.10	1.22
P/B (x)	2.2	1.8	1.6	1.4	1.3
EBITDA margin	21.0%	26.4%	23.3%	22.3%	22.1%
EBIT margin	20.3%	25.7%	22.5%	21.4%	20.8%
PBT margin	21.1%	28.2%	33.3%	39.2%	51.5%
Net margin	15.7%	22.4%	27.6%	33.8%	46.3%
ROE	26.0%	31.5%	26.6%	24.5%	21.2%
ROA	11.8%	14.8%	14.8%	15.8%	15.1%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Jan (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Contracts secured	1,136	-	-	-	-

FYE Jan (RM m)	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)
Revenue	129.4	172.9	99.8	-42.3%	-22.9%
Cost of sales	(95.5)	(96.0)	(75.2)	-21.6%	-21.2%
Gross profit	33.9	76.9	24.5	-68.1%	-27.7%
Other income	1.7	2.3	2.4	4.3%	43.9%
Operating expenses	(8.7)	(11.1)	(11.2)	0.4%	28.8%
EBIT	26.9	68.1	15.7	-76.9%	-41.5%
Interest expense	(0.6)	(0.6)	(0.7)	9.5%	15.3%
Share of Associate profits	0.3	0.3	0.2	-18.1%	-35.6%
Share of JV profits	1.3	7.9	9.2	16.4%	616.6%
PBT	27.9	75.6	24.5	-67.6%	-12.3%
Tax	(6.5)	(13.7)	(4.2)	-69.7%	-36.5%
Core Profit	21.4	61.9	20.3	-67.2%	-4.9%
Exceptional items	(2.9)	(10.1)	1.2	<i>nm</i>	<i>nm</i>
Reported Profit	18.5	51.9	21.5	-58.5%	16.4%
Core EPS	3.8	11.0	3.6	-67.2%	-4.9%

Profit Margin (%)

Gross profit	26.2%	44.5%	24.6%
EBITDA	21.6%	40.1%	17.1%
EBIT	20.8%	39.4%	15.8%
Core profit	16.5%	35.8%	20.4%

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- EIs include net forex gains (RM1.2m)

Figure #2 GKent's SOP valuation

SOP Component	Amount (RM m)	Multiple (x)	Valuation (RM m)	Per Share
Engineering - NPV of profits		12%	110	0.20
LRT3 PDP - NPV of profits		12%	202	0.36
Metering - 10x P/E	23	10	232	0.41
Net cash	391	0.8	313	0.56
SOP Value			857	1.52

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.