

21 June 2022

Construction & Engineering | Construction

Kerjaya Prospek (KPG MK)

Buy (Maintained)

Job Replenishment Continues; Keep BUY

Target Price (Return): MYR1.42 (+24%)
 Price (Market Cap): MYR1.15 (USD329m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.34m/0.08m

- **Keep BUY and MYR1.42 TP, 24% upside and 3% yield.** Kerjaya Prospek accepted a letter of award from Bangsar Hill Park Development for the contract involving the main building works for a proposed residential development project at Lot 365, Lorong Maarof, Seksyen 96, Bandar Kuala Lumpur for a total contract value of MYR154.7m. The proposed residential development project is expected to commence on 15 July 2022 for a period of 35 months.
- **Impact towards KPG.** This latest contract win marks the fourth job secured in FY22 by the group, bringing its construction orderbook to MYR4.3bn. This translates into an orderbook/revenue cover ratio of 4.4x – higher than the average of 3.0x of listed contractors under our coverage. More importantly, this latest job award brings the YTD job wins to MYR1.3bn. Management guided that the net profit margin for this job is between 10-12%. On further scrutiny, KPG's construction orderbook replenishment was at MYR1bn for only two years between FY16 and FY21 (Figure 1). With six months left in FY22, we believe KPG can take on more jobs given its net cash position of MYR197m as of 31 Mar 2022.
- **Outlook.** Management cited that it has no plans to venture into the public infrastructure space. Instead, KPG continues to focus on private infrastructure projects which diversifies its overall outstanding orderbook. The private infrastructure projects include, but are not limited to the Gurney Marine Bridge (MYR202.6m) and Coastal Protection Structure (MYR154.4m) for the Seri Tanjung Pinang Phase 2 (STP2) development awarded by Tanjung Pinang Development, a subsidiary of Eastern & Oriental (EAST MK, NEUTRAL, TP: MYR0.50). Recall that Eastern & Oriental is a related party of KPG. In the long run, prospects for KPG are underpinned by opportunities from STP2 with approximately MYR2bn worth of projects targeted to be rolled out in the next 5-7 years. So far, KPG has secured six contracts related to STP2 worth a total of c.MYR845m.
- **Earnings estimates.** No changes are made to our estimate as the latest job win is within our job replenishment assumption of MYR1.6bn for FY22F. As such, our SOP-derived TP is maintained at MYR1.42, which includes a 0% ESG premium/discount based on our ESG score of 3.00, using our in-house methodology. Our BUY call for KPG is premised on the group's ability to consistently win new jobs and its net cash position which allows it to purchase materials in cash, providing good rebates that partly mitigate the pressure of rising building material costs. Valuation is rather undemanding as KPG's implied FY22F P/E of 11.7x is 0.5SD below the KLCON Index's 5-year historical mean P/E.
- **Key downside risks** include a slowdown in the property market, higher raw material cost pressures and lower-than-expected new contract wins.

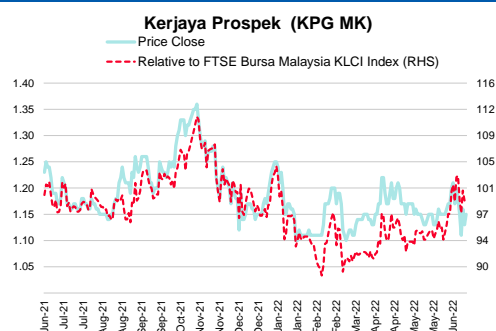
Analyst

Adam Bin Mohamed Rahim
 +603 9280 8682
adam.mohamed.rahim@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.0)	0.0	0.9	0.9	(7.3)
Relative	2.1	6.0	9.4	3.4	1.0
52-wk Price low/high (MYR)					1.10 – 1.36



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

The group complies to all industry safeguards, best practices and regulations to meet its desired targets and quality standards for its developments. In terms of product innovation, the group's continued usage of green cement helps to reduce dependence on calcium oxide, by switching to aluminosilicates, a substance that releases less carbon dioxide and uses less natural materials.

S: GOOD

The group sees itself as an equal-opportunities employer and does not discriminate against age, gender, ethnicity or race, and religious beliefs. Building from this disclosure in the previous years, KPG protects these liberties in its hiring and employment practices including wages, promotions, rewards and access to training. Within the local workforce, the gender ratio of male to female employees remains at 60:40.

G: GOOD

50% of KPG's board members are independent, with disclosure on director remuneration, which includes salaries. The group has an external investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	824	977	1,404	1,579	1,697
Recurring net profit (MYRm)	91	97	124	158	185
Recurring net profit growth (%)	(35.3)	6.6	28.3	27.0	17.1
Recurring P/E (x)	15.72	14.74	11.74	9.24	7.89
P/B (x)	1.3	1.2	1.2	1.1	1.0
P/CF (x)	45.15	28.74	4.37	8.80	7.85
Dividend Yield (%)	2.2	2.4	3.0	3.8	4.4
EV/EBITDA (x)	7.82	7.41	4.80	3.90	3.01
Return on average equity (%)	8.3	8.6	10.5	12.3	13.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

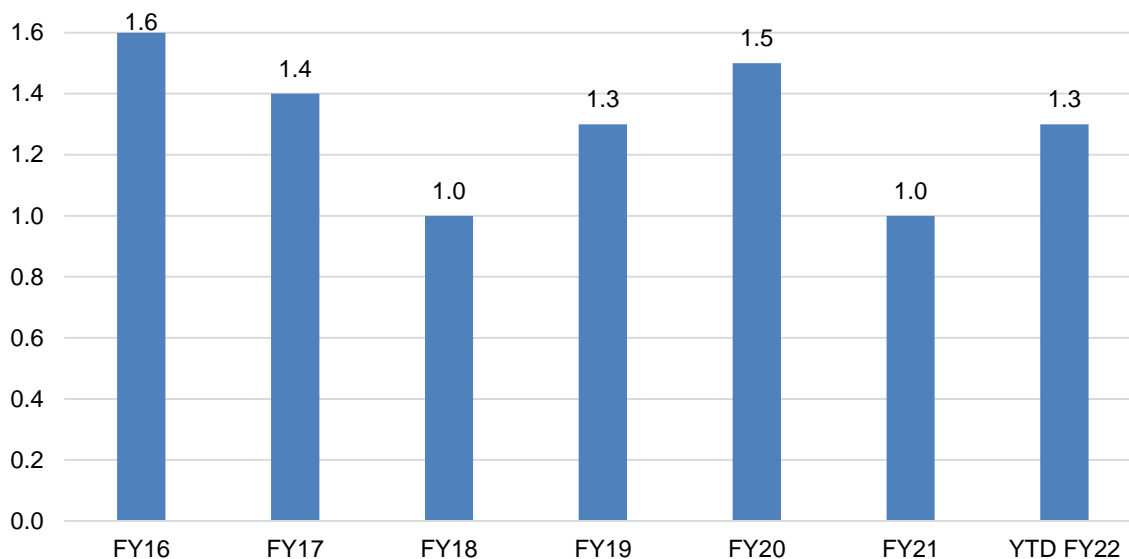
Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.07	0.08	0.10	0.12	0.15
Construction & Engineering	DPS	0.03	0.03	0.03	0.04	0.05
Kerjaya Prospek	BVPS	0.89	0.92	0.97	1.05	1.15
KPG MK	Return on average equity (%)	8.3	8.6	10.5	12.3	13.2
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	15.72	14.74	11.74	9.24	7.89
We value Kerjaya Prospek based on its SOP, derived from a combination of P/E, net cash, and RNAV valuation methodologies.	P/B (x)	1.3	1.2	1.2	1.1	1.0
	FCF Yield (%)	0.9	2.8	20.5	9.0	10.3
	Dividend Yield (%)	2.2	2.4	3.0	3.8	4.4
	EV/EBITDA (x)	7.82	7.41	4.80	3.90	3.01
	EV/EBIT (x)	10.17	9.21	5.84	4.61	3.47
Key drivers	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Kerjaya Prospek's earnings are underpinned by construction work orders, property sales, and the manufacture of interior fixtures & fittings.	Total turnover	824	977	1,404	1,579	1,697
	Gross profit	129	157	232	270	310
	EBITDA	157	165	216	245	280
	Depreciation and amortisation	(36)	(32)	(38)	(38)	(37)
	Operating profit	120	133	178	208	243
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	120	132	177	207	243
	Taxation	(29)	(35)	(53)	(50)	(58)
	Reported net profit	91	97	124	158	185
	Recurring net profit	91	97	124	158	185
Key risks	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. A slowdown in the property market;	Change in working capital	(89)	(96)	171	(29)	(36)
ii. Higher raw material cost pressures;	Cash flow from operations	32	50	333	166	186
iii. Lower-than-expected new contract wins.	Capex	(19)	(9)	(35)	(35)	(35)
	Cash flow from investing activities	(19)	(3)	(35)	(35)	(35)
	Dividends paid	(25)	(37)	(40)	(50)	(59)
	Cash flow from financing activities	49	(12)	(136)	(50)	(59)
	Cash at beginning of period	233	267	210	441	521
	Net change in cash	61	34	162	80	91
	Ending balance cash	294	301	373	521	613
Company Profile	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Kerjaya Prospek gained its listing through a reverse takeover of Fututech. The company is involved in construction, property development, and manufacturing.	Total cash and equivalents	267	210	441	521	613
	Tangible fixed assets	123	93	146	143	141
	Total investments	15	3	3	3	3
	Total assets	1,489	1,510	1,655	1,794	1,919
	Short-term debt	81	9	23	23	0
	Total liabilities	379	364	425	457	457
	Total equity	1,110	1,146	1,230	1,337	1,462
	Total liabilities & equity	1,489	1,510	1,655	1,794	1,919
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(21.9)	18.5	43.7	12.5	7.5
	Recurrent EPS growth (%)	(35.3)	6.6	25.6	27.0	17.1
	Gross margin (%)	15.7	16.1	16.6	17.1	18.2
	Operating EBITDA margin (%)	19.0	16.9	15.4	15.5	16.5
	Net profit margin (%)	11.0	9.9	8.8	10.0	10.9
	Dividend payout ratio (%)	35.0	35.1	34.7	34.9	34.9
	Capex/sales (%)	2.3	1.0	2.5	2.2	2.1
	Interest cover (x)	127	121	155	273	426

Source: Company data, RHB

Figure 1: Kerjaya Prospek's job replenishment trend (MYRbn)



Source: Company data, RHB

Figure 2: Kerjaya Prospek's SOP valuation

Business segments	Valuation method	Total value (MYRm)
Construction	11x FY23F Construction PAT	1,561.9
Property	60% discount to RNAV	46.0
Manufacturing	7x P/E	0.4
Net Cash		197.0
Total SOP value		1,805.3
Shares outstanding		1,267.2
Intrinsic value per share		1.42
0% ESG premium/discount		0.00
Target price		1.42

Source: Company data

Recommendation Chart

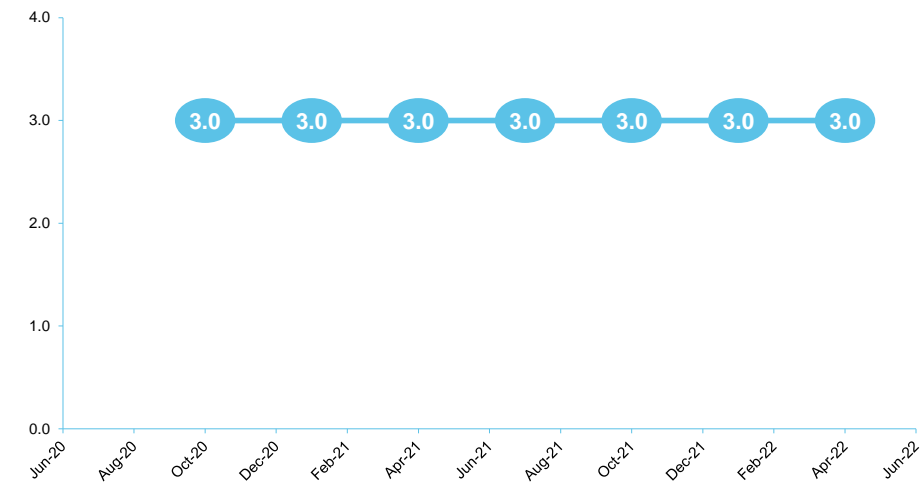


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-06-09	Buy	1.42	1.17
2022-05-27	Buy	1.45	1.15
2022-04-06	Buy	1.56	1.17
2022-02-28	Buy	1.53	1.17
2021-05-28	Buy	1.62	1.24
2021-04-11	Buy	1.71	1.44
2021-02-26	Buy	1.28	1.11
2020-07-01	Buy	1.31	1.08
2020-03-31	Buy	1.25	0.90

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470