

## Kerjaya Prospek Group Contract from Aspen & Ikea JV

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Yesterday, KERJAYA announced that they have secured a RM442m building contract from Aspen Vision City S/B which is a JV between Aspen Group (listed in Singapore) and IKEA South-East Asia. NEUTRAL on the award as it is within our FY17E replenishment assumption of RM1.6b. Post award, we tweak our FY17-18E earnings by +0.6%-+1.2% after increasing our construction margins assumption while reducing our FY17E replenishment target. Maintain UP with a higher TP of RM3.30.

**RM442m contract.** Yesterday, KERJAYA announced that they have secured a building contract worth RM442m from Aspen Vision City S/B which is a JV between Aspen Group (listed in Singapore) and IKEA South-East Asia. The project also known as 'Vertu Resort' is located in Penang comprising construction works for 5 condominium blocks ranging from 20-storey to 36-storey with of 1,246 units of condominiums and a floor of community recreational facilities to be built above an 8-storey car park podium slated for completion by 4<sup>th</sup> November 2020 (38 months).

**Feeling Neutral.** We are NEUTRAL on the award as this newly secured contract coupled with existing YTD wins amounts to RM854m - which is still within our targeted replenishment of RM1.6b; accounting for 54% of our full-year target. We note that management targets a more conservative replenishment of RM0.8b in FY17 for which they have already surpassed. Assuming PBT margin of 14%, the contract is expected to contribute c.RM14.7m to KERJAYA's bottom-line/annum.

**Outlook.** Currently, KERJAYA's outstanding order-book stands at RM2.9b giving them a visibility of c.2.5 years. We believe further project wins could likely stem from Dato's Tee's (KERJAYA major shareholder) private property arm that has plans to launch a mixed development project in Old Klang Road with GDV of RM1.0b leading to c.RM300-400m worth of contracts to be dished out. Besides that, we believe that KERJAYA could possibly undertake a 1-for-1 bonus issuance as the Companies Act 2016 states that the share premium account will no longer be applicable from FY18 onwards and KERJAYA has a high share premium of RM332m vs share capital of 257m (as of 1Q17).

**Reduce FY17E replenishment target but upgrade in margins.** Given that KERJAYA has only secured 54% of our RM1.6b replenishment target YTD, we decide to trim our FY17E replenishment to a more achievable target of RM1.1b (from RM1.6b). That said, we upgrade our overly conservative average construction PAT margins of 11% to 12% given that KERJAYA had for the past four quarters displayed higher-than-expected average construction PAT margins of 13%. **Post adjustments, we tweak FY17-18E earnings slightly higher by 0.6%-1.2% to RM126.7m-RM148.8m.**

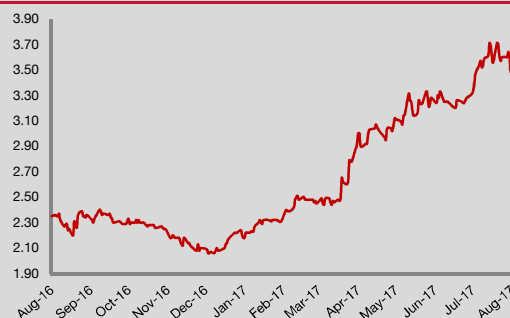
**Maintain UNDERPERFORM with a higher TP of RM3.30.** Post adjustment to earnings and imputing for 50% of FY18E net cash (in line with SUNCON) into our SoP, we increase our SoP-derived TP to RM3.30 (from RM3.15). That said, we reiterate our UP call as we feel that KERJAYA's risk-to-reward ratio is still not compelling given that they are trading at FY18 PER of 13.9x while also implying a FY18E construction PER of 14.5x - which we consider high given that it is above our ascribed range of 9-13x for small mid-cap contractors within our universe.

**We believe KERJAYA's rerating catalyst would be higher-than-expected replenishment/margins.**

## UNDERPERFORM ↔

Price : RM3.65  
Target Price : RM3.30 ↑

### Share Price Performance



KLCI	1,776.31
YTD KLCI chg	8.2%
YTD stock price chg	68.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KPG MK Equity
Market Cap (RM m)	2,045.1
Issued shares	560.3
52-week range (H)	3.79
52-week range (L)	2.03
3-mth avg daily vol:	586,822
Free Float	25%
Beta	0.7

### Major Shareholders

Egovision Sdn Bhd	50.4%
Amazing Parade Sdn Bhd	22.6%
HSBC Bank Plc	2.4%

### Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	805.4	1,066.4	1,231.5
EBIT	135.7	168.9	196.1
PBT	133.5	168.9	196.1
<b>Net Profit (NP)</b>	<b>100.0</b>	<b>126.7</b>	<b>148.1</b>
<b>Core NP</b>	<b>100.0</b>	<b>126.7</b>	<b>148.1</b>
Consensus (CNP)	n.a.	125.3	148.3
Earnings Revision	0.0%	0.6%	1.2%
Core EPS (sen)	17.7	22.4	26.2
Core EPS growth %	0%	27%	17%
NDPS (sen)	4.0	5.4	6.7
Core PER (x)	20.6	16.3	13.9
BV/Share (RM)	1.35	1.45	1.63
Net Gearing (x)	N.C	N.C	N.C
Dividend Yield (%)	1.1%	1.5%	1.8%

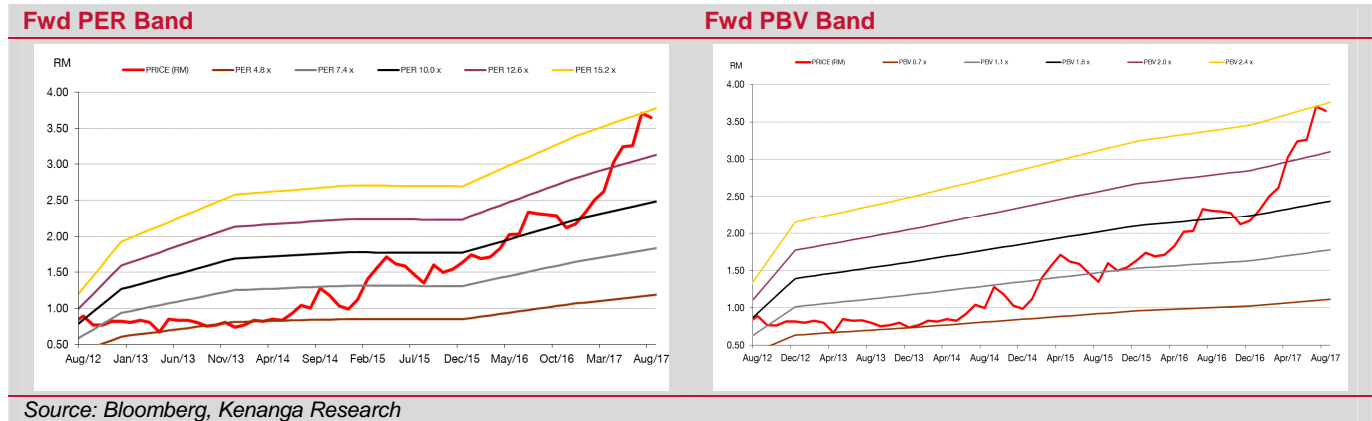


SoP Valuations				
Segment	Stake	Method	Value (RM m)	
Construction	100%	FY18E of 13x	1676.7	
Property	100%	FY18E of 6x	114.6	
Total			1791.3	
50% of FY18E net cash position		75	0.13	
FD shares			564.7	
		TP	3.30	
		Implied PER	12.6	

Source: Kenanga Research

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E	FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	62.3	79.0	805.4	1,066.4	1,231.5	<b>Growth (%)</b>					
EBITDA	21.3	23.9	148.6	178.6	206.7	Turnover	48%	27%	920%	32%	15%
Depreciation	(1.1)	(1.1)	(12.9)	(9.7)	(10.6)	EBITDA	44%	12%	523%	20%	16%
Operating Profit	20.2	22.7	135.7	168.9	196.1	Operating Profit	47%	12%	497%	25%	16%
Other Income	0.4	3.0	11.5	0.4	0.4	PBT	38%	8%	499%	27%	16%
Interest Exp	(0.3)	(0.4)	(2.1)	0.0	0.0	Net Profit	34%	5%	519%	27%	17%
Associate	0.0	0.0	0.0	0.0	1.0	<b>Profitability (%)</b>					
Exceptional Items	0.0	0.0	0.0	0.0	1.0	EBITDA Margin	34%	30%	18%	17%	17%
PBT	20.7	22.3	133.5	168.9	196.1	Op Margin	32%	29%	17%	16%	16%
Taxation	(5.3)	(6.2)	(33.4)	(42.2)	(49.0)	PBT Margin	33%	28%	17%	16%	16%
Minority Interest	0.0	0.0	0.2	0.0	1.0	Net Margin	25%	20%	12%	12%	12%
Net Profit	15.4	16.1	100.0	126.7	148.1	Effective Tax	-26%	-28%	-25%	-25%	-25%
Core Net Profit	15.4	16.1	100.0	126.7	148.1	ROA	14%	10%	9%	10%	10%
						ROE	14%	16%	15%	14%	15%
						<b>DuPont Analysis</b>					
						Net Margin (%)	25%	20%	12%	12%	12%
						Assets T/o (x)	0.5	0.5	0.7	0.8	0.9
						Leverage F. (x)	1.2	1.5	1.5	1.6	1.6
						ROE (%)	16%	15%	13%	16%	16%
						<b>Leverage</b>					
						Debt/Asset (x)	0.0	0.1	0.0	0.0	0.0
						Debt/Equity (x)	0.0	0.1	0.0	0.0	0.0
						Net Cash/(Debt)	N.C	N.C	N.C	N.C	N.C
						Net Debt/Eq (x)	N.C	N.C	N.C	N.C	N.C
						<b>Valuations</b>					
						FD EPS (sen)	16.9	17.8	17.7	22.4	26.2
						DPS (sen)	3.0	3.0	4.0	5.4	6.7
						FD PER (x)	21.5	20.5	20.6	16.3	13.9
						Net Div. Yld (%)	0.8%	0.8%	1.1%	1.5%	1.8%
						FD BVPS	1.04	1.19	1.35	1.45	1.63
						P/B (x)	3.5	3.1	2.7	2.5	2.2

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 (%)
	(17/8/17)	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)	
EVERSENDAI CORP BHD	1.08	836	-6.0	14.2	11.9	1%	6%	0.9	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	87.8
GAMUDA BHD	5.43	13311	30.7	21.6	20.6	2%	10%	1.8	499.3	709.5	741.7	42%	5%	5.45	Market Perform	13.6
IJM CORP BHD	3.39	12298	22.8	20.0	18.6	2%	6%	1.3	539.1	612	659.8	14%	8%	3.51	Market Perform	5.9
KIMLUN CORP BHD	2.25	719	8.5	9.9	8.9	3%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	8.2
MUHIBBAH ENGINEERING (M) BHD	2.80	1345	16.5	14.3	13.6	1%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	25.6
HOCK SENG LEE BERHAD	1.52	835	14.8	13.6	11.2	1%	8%	1.1	56.5	61.4	74.3	9%	21%	1.50	Underperform	-5.0
WCT HOLDINGS BHD	1.84	2585	36.3	21.0	18.6	2%	5%	1.1	84.8	146.9	165.3	73%	13%	1.83	Underperform	7.0
MITRAJAYA HOLDINGS BHD	1.33	908	10.3	9.8	10.2	4%	15%	1.4	97.3	102.1	98.6	5%	-3%	1.49	Market Perform	5.6
SUNWAY CONSTRUCTION GROUP	2.30	2972	25.3	20.5	20.2	2%	25%	5.1	117.7	145.2	146.9	23%	1%	2.00	Market Perform	35.3
KERJAYA PROSPEK GROUP BHD	3.65	2045	20.6	16.2	13.9	1%	15%	2.5	100	126.7	148.1	27%	17%	3.30	Underperform	68.2
<i>Average</i>			18.0	16.1	14.8											
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	1.16	625	-2.4	16.3	11.8	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	27.5
PROTASCO	1.02	433	8.3	7.4	7.2	6%	14%	1.1	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-9.7
PINTARAS JAYA	4.00	660	36.6	15.4	12.9	5%	13%	2.0	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	13.6
GABUNGAN AQRS	1.69	726	29.2	17.7	8.5	1%	3%	0.5	22.6	37.2	77.9	65%	109%	1.6	Not Rated	86.7
GADANG HOLDINGS	1.24	816	8.5	9.3	8.9	2%	14%	1.3	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	18.1
AZRB	1.09	579	19.4	9.2	7.2	n.a.	15%	1.4	27.2	57.4	73	111%	27%	1.35	Trading Buy	71.7
TRC SYNERGY	0.76	363	12.1	11.0	13.8	3%	8%	0.8	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	98.7
BINA PURI	0.37	97	87.0	5.8	5.8	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-16.1
GKENT	2.83	1594	15.7	17.0	15.0	3%	21%	3.5	101.4	93.8	106	-7%	13%	2.8	Trading Buy	39.6
PESONA	0.61	404	19.8	11.2	8.2	4%	22%	2.5	20	35.3	48.5	77%	37%	0.485	Take Profit	0.0
JAKS	1.41	680	0.8	10.0	7.2	0%	13%	1.3	736	61.9	85.4	-92%	38%	1.54	Not Rated	38.2
<i>Average</i>			21.4	11.8	9.7											

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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