# George Kent (BUY; NEW)

**INDUSTRY: OVERWEIGHT**
**INITIATION**

**2 August 2016**
**Price Target: RM3.23**
**Share price: RM2.04**

## Morphing to bigger things

**Highlights**

- **Transition to engineering.** While GKent's origins began with water metering, engineering has now become the largest contributor at 80% of revenue (FY16). Despite flattish metering contribution, overall revenue managed to grow at a 28% CAGR thanks to explosive engineering contribution.
- **Strong execution on LRT ext.** GKent's big break happened in 2012 when it secured the RM1.1bn Ampang LRT systems contract. Although it faced challenges given delays by the civil contractors, GKent managed to deliver its systems works on time, within budget and was profitable on the job.
- **LRT3 – The next frontier.** In Sept 2015, the 50:50 JV between MRCB and GKent beat 5 other contenders for the LRT3 (RM9bn) PDP role. We believe the JV is well equipped to undertake the job given (i) both their experience with the Ampang LRT extension and (ii) MRCB's track record with KL Sentral. Awards of the more sizable packages to the work contractors are expected to begin in 3Q16.
- **Supported by sizable orderbook.** GKent sits on a sizable orderbook of RM5.1bn, 88% of which comprises the LRT3. This implies a superior cover ratio of 12.5x on FY16 engineering revenue, the highest within our coverage. Potential job wins include (i) MRT2 track works (RM1bn) where it is bidding via a JV with CCCC, (ii) hospital job in the Klang Valley (RM300-350m) and (iii) several sewerage treatment plants (RM700m).
- **World class metering.** GKent's water meters commands over a 50% market share in Malaysia. Its ability to secure sizable orders from authorities in Hong Kong and Singapore is testament to the international recognition of its meters. Domestically, there is potential for GKent to tap into the states of Selangor (previously inaccessible) and Melaka.

**Risks**

- Any possible delays in the LRT3 would be the key risk.

**Forecasts**

- We forecast FY17 core earnings to scale a new high of RM52m (+29% YoY). For FY18, growth moderation is expected at +6% to RM55m as the LRT3 would have just commenced. Earnings growth will regain traction in FY19 (+17% YoY) to RM64m once the LRT3 moves into full swing.

**Rating**

**Initiate with BUY, RM3.23 TP (+58% upside)**

- Having undertaken the LRT extension systems and appointed as PDP for the LRT3, we view GKent as a formidable engineering force that can no longer be ignored.
- It also boasts solid financials with strong 3-year earnings CAGR of 17%, above industry ROE of 15.4% and net cash position of RM0.74/share (36% of market cap).

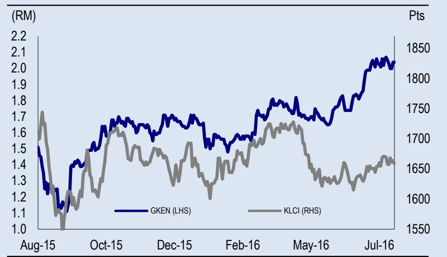
**Valuation**

- Our TP of **RM3.23** is based on a simple 2-stage SOP methodology comprising (i) 14x P/E multiple applied to mid-FY18 core earnings and (ii) its net cash position.

**Jeremy Goh, CFA**
**pwgoh@hlib.hongleong.com.my**
**(603) 2168 1138**

| | |
|---|---|
| KLCI | 1665.2 |
| Expected share price return | 58.3% |
| Expected dividend return | 4.2% |
| Expected total return | 62.5% |

**Share price**




**Information**

| | |
|---|---|
| Bloomberg Ticker | GKEN MK |
| Bursa Code | 3204 |
| Issued Shares (m) | 300 |
| Market cap (RM m) | 613 |
| 3-mth avg. volume ('000) | 800 |

| **Price Performance** | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 5.7 | 19.3 | 35.1 |
| Relative | 4.5 | 19.8 | 39.8 |

**Major shareholders**

| | |
|---|---|
| Star Wealth Investment | 14.0% |
| Swee Bee Tan | 7.7% |
| Hectomic Ltd | 5.0% |

**Summary Earnings Table**

| FYE Jan (RM m) | FY16 | FY17F | FY18F | FY19F |
|---|---|---|---|---|
| Revenue | 536 | 563 | 443 | 400 |
| EBITDA | 65 | 77 | 61 | 59 |
| EBIT | 61 | 73 | 57 | 55 |
| Profit Before Tax | 61 | 74 | 72 | 80 |
| Core PATAMI | 40 | 52 | 55 | 64 |
| vs Consensus (%) | | - | - | - |
| Core EPS (sen) | 13.3 | 17.2 | 18.3 | 21.3 |
| P/E (x) | 15.3 | 11.8 | 11.1 | 9.6 |
| P/E ex cash (x) | 9.7 | 7.5 | 7.1 | 6.1 |
| Net DPS (sen) | 7.0 | 8.6 | 9.2 | 10.7 |
| Net DY (%) | 3.4 | 4.2 | 4.5 | 5.2 |
| BV per share | 1.07 | 1.16 | 1.25 | 1.36 |
| P/B (x) | 1.9 | 1.8 | 1.6 | 1.5 |
| ROE (%) | 13.2 | 15.4 | 15.2 | 16.4 |
| Net Gearing (%) | CASH | CASH | CASH | CASH |

HLIB

# Background

**80 years of history.** The history of George Kent (Malaysia) Bhd ("GKent") backdates to 1936 when it was first established as a service branch in Penang for its original parent-co, George Kent Ltd (UK). It subsequently went on to set up its manufacturing plant on a 4-acre site in Shah Alam in 1968. This eventually paved way for the listing of GKent in 1974 on the then Kuala Lumpur Stock Exchange via a 20% offer for sale by its UK parent-co and 20% new issue of shares to Malaysians. In 1997, GKent further expanded to a 17-acre modern and integrated manufacturing facility in Puchong which continues to operate till today. Back in the day, GKent was solely involved in the manufacture of water meters and industrial products for the water industry.

**Originally started as a water meter player…**

**From metering to engineering.** Having started as a manufacturer for the water industry, GKent naturally progressed to undertake engineering works for water related infrastructure in the early 90s. Since then, GKent has completed over 30 major water related contracts involving water treatment plants, sewerage treatment plants and dams. Some of its notable jobs include (i) Sg Selangor Water Supply Scheme, (ii) Panching water treatment plant, (iii) Semantan intake and pumping station for the Pahang-Selangor Raw Water Transfer and (iv) Mengkuang Dam expansion in Penang.

**…and eventually undertook water related engineering**

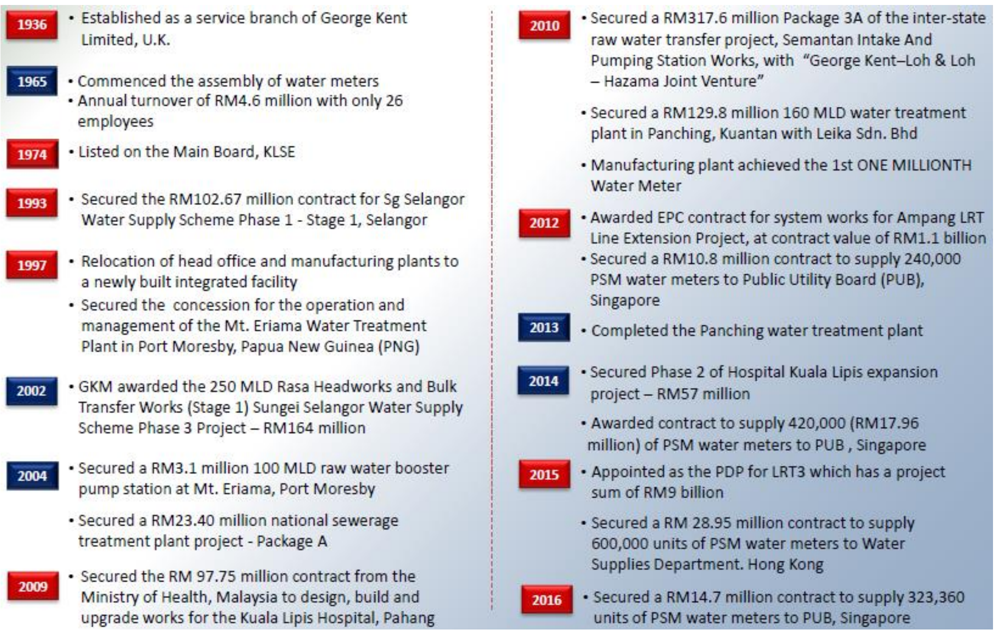
**Expanding its engineering scope.** During the recent years, GKent managed to expand its engineering scope to encompass hospitals and rail. In the former case, it managed to secure Phase 1 & 2 of the Kuala Lipis Hospital (RM155m). For rail contracts, GKent is undertaking the systems works for the Ampang LRT extension (RM1.1bn) and more recently, has been appointed as the PDP for the LRT3 (RM9bn).

**Engineering scope expanded to hospitals and rail**

**Management and shareholding.** GKent has a total workforce of 540 staff and is led by its Executive Director, Mr Bernie Ooi who has been with the company for over 8 years. He successfully transformed GKent from a predominately water metering company to a commendable engineering outfit. The major shareholder of GKent its Chairman, Tan Sri Dato Tan Kay Hock which holds a 37.4% stake. His stake was acquired from GKent's previous UK based parent-co in 1981 through Johan Holdings (non-rated) in which he is also a major shareholder of. While he does not play an active role in the day to day operations, Tan Sri Tan plays a vital role in the identification and securing of contracts for GKent.

**Tan Sri Tan Kay Hock owns a 37% stake**

### Figure #1 Key milestones of GKent




Company

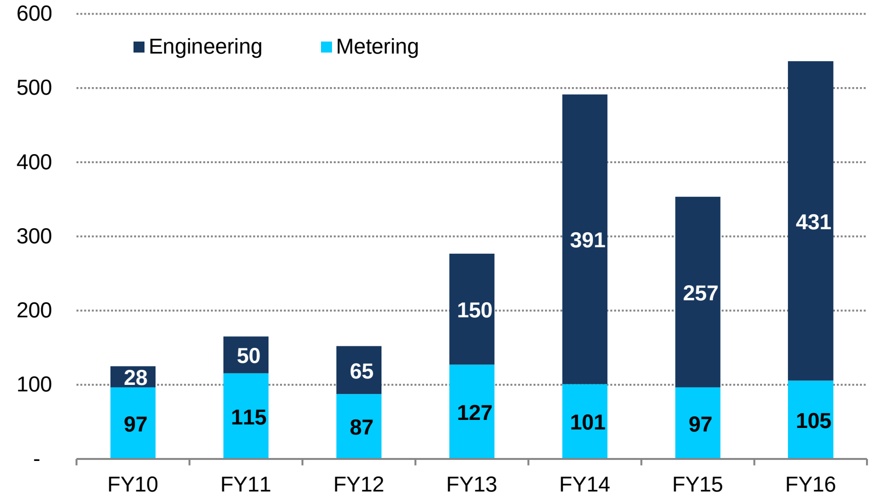
# Investment Thesis

## A successful transition to engineering

**Engineering has surpassed metering as the main contributor**

**No longer just a metering player.** While the general perception of GKent is that it is predominantly a water metering player, this is clearly a misconception. Although the metering division's contribution was relatively stable, hovering between RM87-127m in revenue for FY10-16 (FYE: Jan), its overall revenue grew at a strong CAGR of 27.5% over the same period, thanks to the explosive contribution from its engineering segment. Today, engineering contributes 80% to GKent's topline, compared to just 23% 7 years ago.

**Figure #2 Revenue trend of GKent by division (RM m)**




Company, HLIB estimates

**Sizable RM5bn orderbook implies superior cover ratio of 12.5x**

**Riding on a sizable orderbook.** We estimate GKent's engineering orderbook to stand at RM5.1bn as of end FY16, a sizable figure by most standards. Its orderbook balance translates to a superior cover ratio of 12.5x on FY16 engineering revenue of RM410m (excluding recurring O&M revenue), providing a strong degree of earnings visibility ahead. Putting things into perspective, GKent's cover ratio of 12.5x is the highest within our construction coverage. To further emphasise on this significance, GKent's cover ratio is also 62% above the 2nd place at 7.7x by MRCB (HOLD, TP: RM1.22).

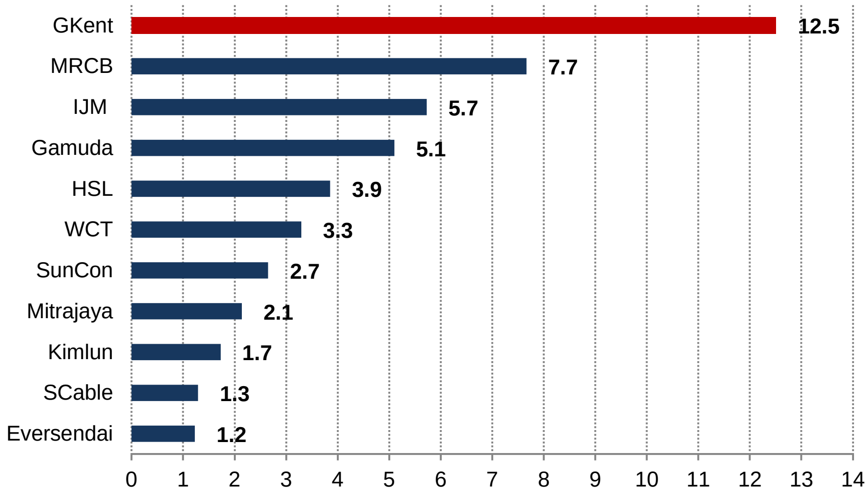
**Figure #3 Estimated orderbook of GKent (RM m)**

| Contract | Value | Balance | Completion |
|---|---|---|---|
| Ampang LRT extension | 1,375 | 500 | 2016 |
| LRT3 PDP role ^ | 4,500 | 4,500 | 2020 |
| Kuala Lipis Hospital (Phase 2), Pahang | 57 | 48 | 2017 |
| Water related contracts | 135 | 75 | 2017 |
| **Total** | | **5,123** | |
| FY16 engineering revenue (ex O&M) | | 410 | |
| **Implied cover ratio (x)** | | **12.5** | |

^Note: LRT3 PDP role will be equity accounted as JV profits rather than consolidated. Stated figures adjusted for GKent's 50% share.

Company

## Figure #4 Comparison of orderbook cover ratio (x)




HLIB estimates

## Execution proved naysayers wrong

**Big break happened when it secured the Ampang LRT systems works**

**Foray into rail paid off.** GKent's big break happened in Aug 2012 when it secured the RM1.1bn systems work for the Ampang LRT extension, its maiden rail related job. Although the contract was secured via an unincorporated JV with Lion Pacific, the bulk of the contract was undertaken by GKent while its JV partner undertook selective specialist subcontracts. The job scope encompassed signalling systems, communication, track works and electrification over a period of 44 months for the 17.7km extension from Sri Petaling to Putra Heights.

## Figure #5 Alignment of the Ampang LRT extension (green)


HLIB estimates

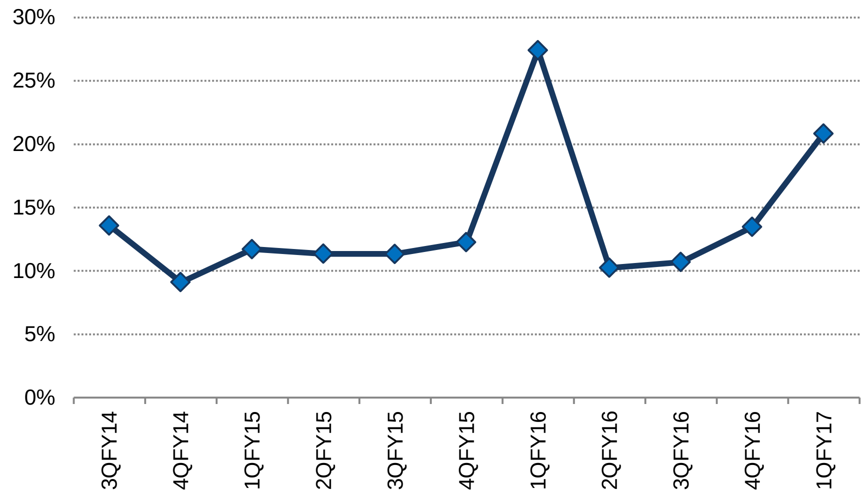
**Systems completed on time despite delays from civil contractors**

**Picking up the slack.** The LRT extension systems contract was not without challenges as there were delays on part of the civil contractors which was undertaken by Bina Puri (non-rated) and MRCB in 2 separate packages. Due to this delay, commencement of the systems works was also set back. As the project owner, Prasarana wanted to commence operation of the LRT by 1H16, it requested for GKent to expedite its systems works. Despite having a shortened time frame, GKent successfully completed most of the required systems works and the LRT extension was fully operational on 30 June 2016.

**Higher contract value due to accelerated and additional works**

**Getting more out of it.** Looking back, while many were initially sceptical on GKent's execution capabilities, it managed to prove its naysayers wrong by completing the job on time without any cost overruns. To verify this, PBT margins for GKent's engineering division have remained positive, averaging 13.8% since the LRT extension job was awarded. In fact, GKent's contract sum was revised upwards to an estimated RM1.4bn (from RM1.1bn originally) to account for the accelerated and additional works required. The margin spikes in 1QFY16 and 1QFY17 illustrate periods where the variation orders (VOs) for the accelerated works were recognised. While the LRT extension is now fully operational, GKent still has an outstanding RM500m to be recognised. This is for ongoing system upgrades and remodelling of the existing depot to accommodate newer trains.

**Figure #6 Quarterly PBT margins for engineering**




Quarterly financial results

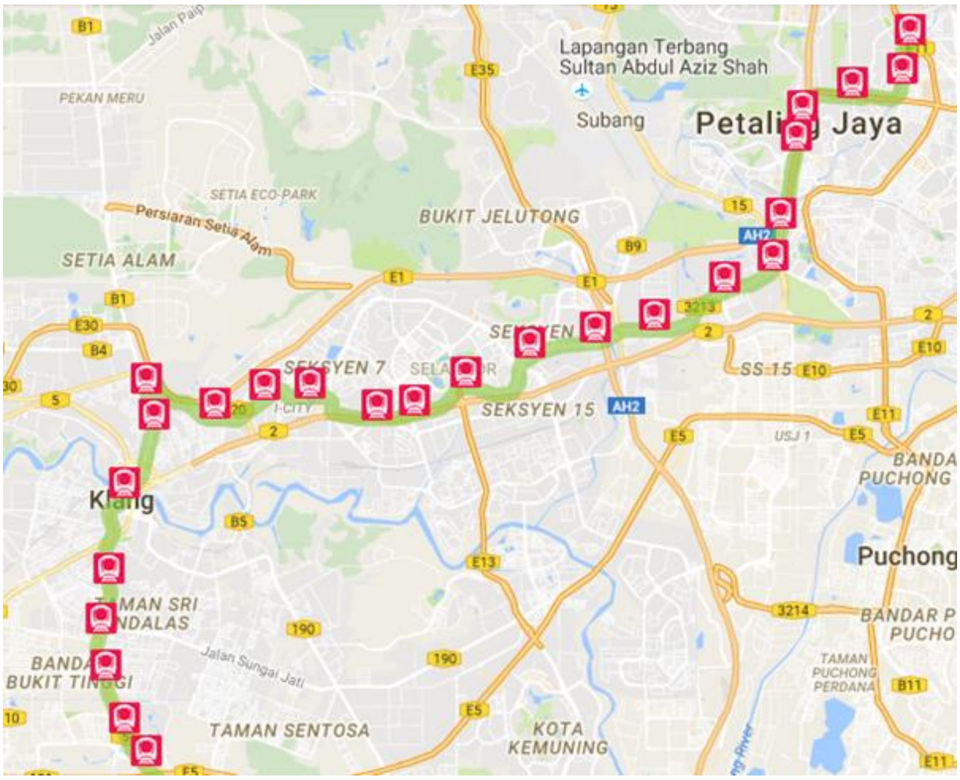
**MRCB-GKent JV (50:50) appointed as PDP for LRT3**

**LRT3: The next frontier.** Following the success of its LRT extension job, GKent in a 50:50 JV with MRCB was awarded the Project Delivery Partner (PDP) role for the proposed LRT3 worth RM9bn in Sept 2015. In securing the job, the MRCB-GKent JV managed to beat 5 other consortiums which were (i) MMC-Gamuda JV, (ii) UEM Group, (iii) Naza-CSR Zhuzhou Electric Locomotive JV, (iv) Sunway and (v) WCT-AlloyMTD JV. As PDP, the JV will earn a 6% fee and the targeted completion date has been set on Aug 2020. We reckon that the MRCB-GKent JV has pretty much the right ingredients to undertake the PDP role as (i) both parties have experience with the Ampang LRT extension – civil works for MRCB and systems for GKent and (ii) MRCB was the master developer for the KL Sentral integrated transport hub.

**LRT3 spans 37km from Bandar Utama to Klang**

**Quick facts.** The LRT3 will span 37km from Bandar Utama to Klang with a total of 26 stations, 5 of which will be integrated with other rail lines. Key areas that will be covered by its alignment include Bandar Utama, Tropicana, Glenmarie, Shah Alam town centre, Bukit Raja, Klang town centre and Bukit Tinggi. End-to-end travel time is estimated to be slightly below an hour with trains capable of hitting a maximum speed of 80km/h.

**Figure #7 Proposed alignment of the LRT3**

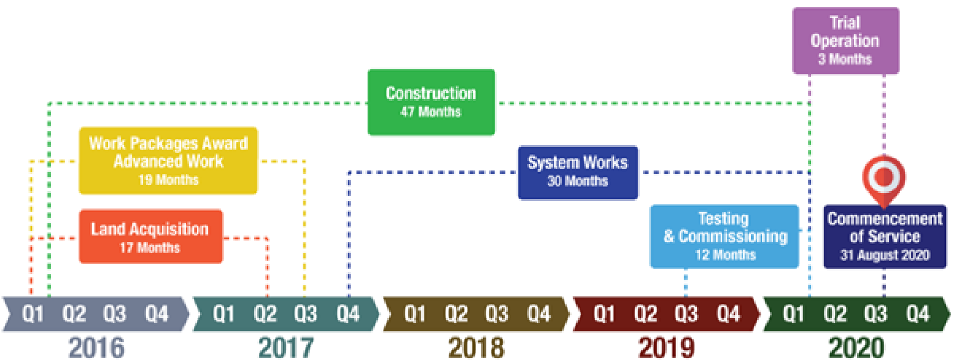



Prasarana

**The timeline ahead.** In terms of the timeline ahead, the next milestone to watch out for is the signing of the PDP agreement which management guides could happen anytime soon. Contractor prequalification for the systems is ongoing while that for the civil works has been concluded. We gather that there will be a total of 75 packages up for grabs, with 10 viaduct packages being the more sizable ones. From our understanding, some of the contracts that are targeted to be dished out this year (potentially in 4Q) include (i) viaducts, (ii) utilities relocation and (iii) workers quarters. The award of most packages is expected to be completed by 3Q17.

**Maiden contracts for LRT3 to be out in 4Q16**

**Figure #8 Project timeline for the LRT3**




Prasarana

**Potential upside to contract value?** At its 50% stake in the PDP, the attributed LRT3 contract value to GKent works out to be RM4.5bn. This forms the bulk of its orderbook at 88% and would be its key earnings driver going forward. Profit recognition on the LRT3 will be equity accounted under "share of JV profits". Pending finalisation of the PDP agreement, we note that there could be a potential upside to the contract sum which was originally estimated at RM9bn 2 years ago. Certain media reports have stated that the LRT3 could cost up to RM11.5bn due to the weaker ringgit and changes to its original alignment but this has yet to be verified by Prasarana.

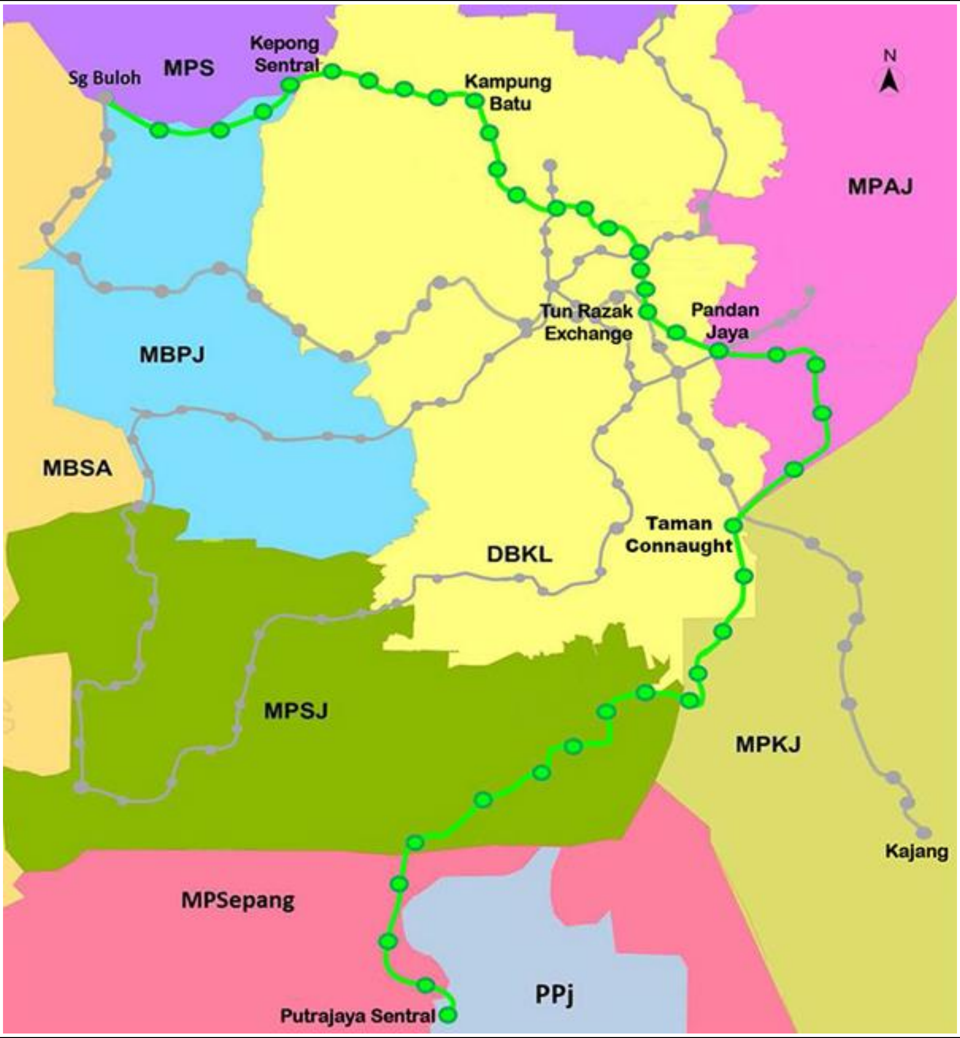
**LRT3 makes up the bulk of GKent's orderbook at 88%**

## Promising pipeline of job flows

**Prequalified for MRT2 track works via JV with CCCC**

**Eyeing a slice of MRT2.** Following the success of its LRT extension system works, GKent is now eyeing a slice of the MRT2 track works. Also known as the Sg-Buloh-Serdang-Putrajaya line, its alignment will span 52km with a total of 37 stations. Management shared that it has been prequalified for the MRT2 track works in which tenders are currently being evaluated. We reckon that GKent has a decent chance to secure to job given its experience with the LRT extension systems which also included track works. Furthermore, its bid was done in a JV with construction giant, China Communications Construction Company (CCCC) which should lend even greater execution credibility. With the track works tender closed in early June, we expect an outcome sometime between Aug to Nov.

**Figure #9 Proposed alignment of the MRT2**




MRT Corp

**Other potential jobs include hospitals and sewerage treatment plants**

**Potential from hospitals and sewerage.** Management guides that it has outstanding tenders in excess of RM5bn. Leveraging on its track record with the Kuala Lipis Hospital (Phase 1 & 2: RM155m), we gather that GKent is in the running for another hospital job within the Klang Valley. The said job is worth RM300-350m and its potential award could materialise sometime in 2H16. Apart from that, GKent is also looking to participate in several sewerage treatment plants collectively worth RM700m in the states of Melaka, Perak and Terengganu. While we are positive on GKent's potential job flow pipeline, our orderbook replenishment assumptions remain conservative at RM350m p.a. for FY17-19.

## The metering market leader

**Market leader in M'sia for metering, plant largest in SEA**

**Metering continues to contribute.** Whilst GKent has managed to successfully morph into an engineering outfit, its traditional water metering business continues to contribute steadily. Over the past 3 years, metering made up 20-30% of revenue with relatively stable gross margins of between 23-25%. GKent is the market leader for water meters in Malaysia, commanding over 50% of its market share. Its 17-acre manufacturing plant in Puchong is the largest in South East Asia for brass forging (i.e. the brass shell that houses the water meter). The recently expanded plant has an annual capacity of 2.4m meters, an increase from 2m previously.

**Orders from HK and SG testament to the international recognition of its meters**

**Internationally recognised.** Apart from the domestic market, GKent also exports its meters overseas to more than 40 countries worldwide. We estimate that 50-55% of GKent's metering revenue comes from the export market which constitutes both OEM contract manufacturing and to the respective countries' water authorities. In Sept 2015, GKent received an order for 600k units of water meters worth US$7.2m (RM31.2m) from Hong Kong's Water Supplies Department. By industry standards, this single order by any water authority is extremely huge. It is also the largest single meter order obtained in GKent's history. Recently, GKent also received an order for 320k meters from Singapore's Public Utility Board (PUB) worth S$4.9m (RM14.7m). This represents the 3rd consecutive time that GKent had won the PUB tender. We feel that GKent's ability to secure large orders from these developed nations as testament to the recognition of its product quality.

**Figure #10 Export markets for GKent's water meters**


Company

**Potential to tap into the markets of Selangor and Melaka**

**More markets to open up domestically.** Currently, GKent's meters are sold to the water authorities of all states in Malaysia with the exception of Selangor and Melaka. The Selangor market was previously inaccessible to GKent as Syabas, the state's sole water distributor, had granted the exclusive supply rights of water meters to Puncak Niaga (non-rated). Back then, Puncak Niaga was the parent-co of Syabas with a 70% stake. However, with the water restructuring exercise in Selangor partially done, Puncak Niaga no longer owns Syabas as it was sold to Pengurusan Air Selangor (PASSB), the state's newly formed water authority. Following the sale, Puncak Niaga's exclusive meter supply rights to Syabas was cancelled. We believe this would pave way for GKent to finally tap into the Selangor market. Management shared that Syabas is now evaluating several metering suppliers, including GKent. In the case of Melaka, GKent lost the previous tender to be the sole meter supplier as it was outbid by another competitor. However, a new 2-year supply tender (2016/2017) was recently called in which GKent was one of the lowest bidders and the results should be known very soon.

# Financial Highlights

## Transition to engineering has paid off

**Transition to engineering drove earnings to a new level**

**Transition has paid off.** Between FY10 and FY13 (FYE: Jan), GKent's core earnings (i.e. after removing forex impact) seemed to be capped within the RM19-25m range. However, GKent managed to bring its earnings to a higher base when it secured the LRT extension systems works and ended FY16 at a record RM40.1m. In a nutshell, GKent's earnings grew at a strong CAGR of 26.4% from FY10-16.

**1QFY17 results commentary.** GKent's growth trajectory appears to be persisting into FY17 as well with 1Q core earnings of RM15.7m increasing strongly by 84% YoY on back of a 108% revenue surge. The numbers were however, down -38% QoQ due to the high base in 4QFY16 resulting from VOs for the LRT extension being recognised.

## Earnings to scale new highs

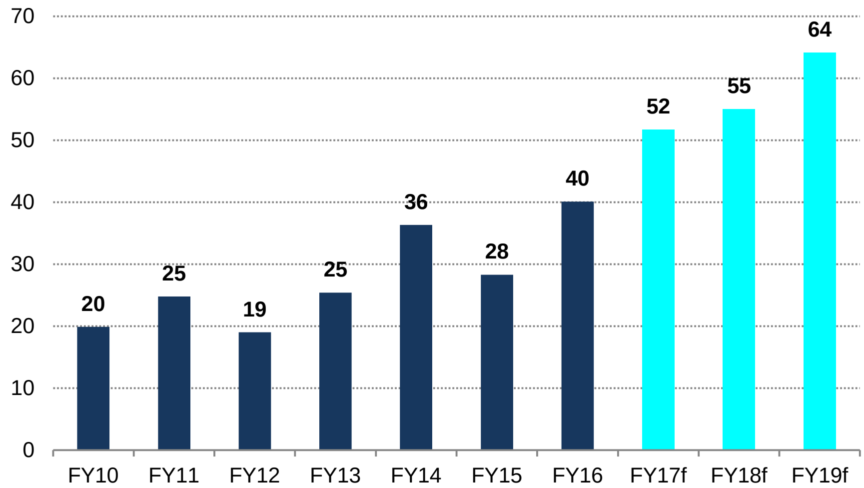
**Expect earnings to scale multi year highs**

**Another record year ahead.** We forecast GKent's core earnings to hit another record high in FY17 at RM51.7m, increasing 29% YoY. On the engineering front, this will be mainly driven by the remaining RM500m works on the LRT extension systems. Engineering margins should also expand YoY due to (i) recognition of VOs for past accelerated works and (ii) higher margins for the depot system remodelling. For the metering division, we expect higher contribution on back of a 13% topline growth coming from the Hong Kong orders.

**Moderating in FY18 before...** Our projections indicate that earnings growth should moderate in FY18 to 6% YoY, coming in at RM55m. This moderation is due to the timing transition between completion of the LRT extension and commencement of the LRT3. On the income statement, we forecast revenue to fall -21% YoY as the completing LRT extension is consolidated but this will be more than offset by higher share of JV profits from the LRT3 PDP role (equity accounted).

**...accelerating again in FY19.** For FY19, we project earnings to resume its strong growth trajectory to come in at RM64.1m, growing 17% YoY. Growth will be propelled by (i) LRT3 works moving into full swing and (ii) expanded markets in the states of Selangor and Melaka for its metering division.

**Figure #11 Core earnings trend and projection for GKent (RM m)**




Annual reports, HLIB estimates

**Upside to estimates?** Summing it up, we project GKent's earnings to grow at a commendable CAGR of 16.9% for FY17-19. We'd like to think our forecasts are conservative as they do not reflect (i) the potential MRT2 track contract and (ii) metering growth prospects stemming from its recently completed capacity expansion program by 20%. Furthermore, 1Q core earnings have already made up 30% of our FY17 forecast.

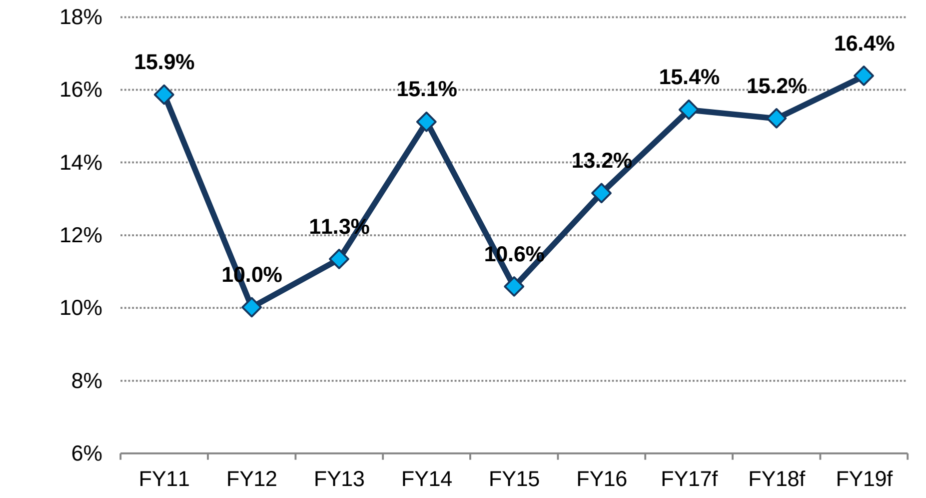
**3-year earnings CAGR of 17%**

## Boasting a healthy balance sheet

**Net cash with above industry ROE.** Historically, GKent's ROE has ranged between 10-16% and we project this to come in at 15.4% for FY17. This is above the construction industry average (based on our coverage universe) of 10.8%. GKent also boasts a healthy balance sheet with a net cash position of RM262.5m (RM0.74/share).

**ROE of 15%, net cash of RM0.74/ share**

**Figure #12 ROE trend and projection for GKent (%)**




Annual reports, HLIB estimates

# Valuation & Recommendation

## Initiate with BUY, TP: RM3.23

In our opinion, most investors may have a misconception towards GKent as it remains perceived as a water metering company despite that engineering is now its key driver. Having undertaken the LRT extension systems and appointed as PDP for the LRT3, we believe that investors can no longer ignore GKent as a formidable force in the engineering industry. GKent's financials are also solid with a commendable 3-year projected earnings CAGR of 16.9%, above industry ROE of 15.4% and net cash position that makes up 37% of its market capitalisation. With virtually no broker coverage on the stock, we opine that GKent is under-researched and under-owned amongst institutional investors.

**GKent is a formidable engineering force that can no longer be ignored**

While GKent currently trades at FY17-19 P/E of 11.8x, 11.1x and 9.6x, this reduces to an undemanding 7.5x, 7.1x and 6.1x on an ex-cash basis. In deriving our TP, we implement a simple 2-stage Sum of Parts (SOP) methodology which comprises (i) 14x P/E multiple to its mid-FY18 core earnings, inline with that of larger cap contractors and (ii) adding on its net cash balance. **We initiate coverage on GKent with a BUY rating and TP of RM3.23, implying an upside potential of 58%**. With this initiation. GKent is now our top small cap pick within the construction space.

**Initiate with BUY, TP of RM3.23 implies 58% upside**

### Figure #13 SOP based valuation for GKent

| SOP Component | Amount (RM m) | Multiple (x) | Valuation (RM m) | Per Share |
|---|---|---|---|---|
| Mid-FY18 core earnings | 53 | 14 | 747 | 2.49 |
| Net cash | 223 | 1 | 223 | 0.74 |
| **SOP Value** | | | **971** | **3.23** |

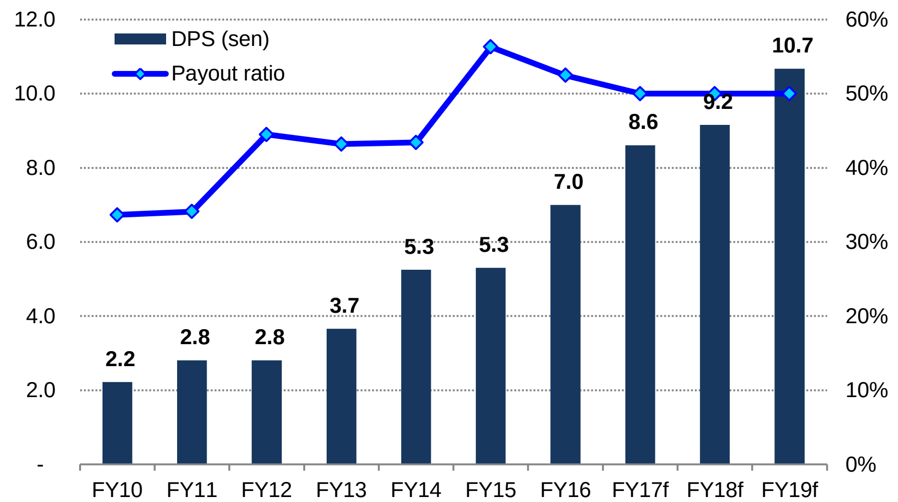
HLIB estimates

## Decent dividend yield, bonus issue proposed

GKent has consistently paid out dividends with its historical payout ratio ranging between 33-56% (average: 44%). We have assumed a payout ratio of 50% for FY17-19 (past 2 years have exceeded 50%) which translates to a decent dividend yield of 4.2-5.2%. GKent has also proposed a 1-for-4 bonus issue, targeted for completion in 4Q16. While this does not alter our fundamental view on the stock, we are positive from the angle of improved liquidity.

**Decent yield of 4-5%**

### Figure #14 DPS and payout ratio for GKent




HLIB estimates

## Financial Projections for George Kent

### Balance Sheet

| FYE Jan (RM m) | FY15 | FY16 | FY17F | FY18F | FY19F |
|---|---|---|---|---|---|
| Cash | 164 | 242 | 236 | 265 | 294 |
| Receivables | 246 | 241 | 262 | 206 | 186 |
| Inventories | 42 | 48 | 59 | 46 | 42 |
| PPE | 121 | 121 | 119 | 117 | 115 |
| Others | 33 | 31 | 31 | 31 | 31 |
| **Assets** | **606** | **683** | **707** | **666** | **669** |
| Debts | 58 | 27 | 37 | 35 | 32 |
| Payables | 256 | 326 | 314 | 248 | 221 |
| Others | 5 | 8 | 8 | 8 | 8 |
| **Liabilities** | **319** | **361** | **360** | **290** | **261** |
| **Shareholder's equity** | **287** | **322** | **348** | **375** | **407** |

### Cash Flow Statement

| FYE Jan (RM m) | FY15 | FY16 | FY17F | FY18F | FY19F |
|---|---|---|---|---|---|
| Profit before taxation | 41 | 61 | 74 | 72 | 80 |
| Share of JV and associates | (2) | (2) | (4) | (17) | (28) |
| Depreciation & amortisation | 4 | 4 | 4 | 4 | 4 |
| Changes in working capital | (92) | 69 | (44) | 2 | (2) |
| Taxation | (12) | (21) | (23) | (17) | (16) |
| Others | (4) | 16 | (0) | 16 | 23 |
| **CFO** | **(67)** | **127** | **8** | **59** | **61** |
| Net capex | 1 | 3 | (2) | (2) | (2) |
| Others | (2) | (5) | - | - | - |
| **CFI** | **(1)** | **(2)** | **(2)** | **(2)** | **(2)** |
| Changes in borrowings | 41 | (31) | 10 | (3) | (3) |
| Issuance of shares | 66 | 2 | - | - | - |
| Dividends paid | (16) | (16) | (21) | (26) | (28) |
| Others | (88) | 13 | - | - | - |
| **CFF** | **4** | **(33)** | **(11)** | **(28)** | **(30)** |
| **Net cash flow** | **(64)** | **92** | **(5)** | **29** | **29** |
| Forex | (1) | 2 | - | - | - |
| Others | 18 | (16) | - | - | - |
| Beginning cash | 211 | 164 | 242 | 236 | 265 |
| Ending cash | 164 | 242 | 236 | 265 | 294 |

### Income Statement

| FYE Jan (RM m) | FY15 | FY16 | FY17F | FY18F | FY19F |
|---|---|---|---|---|---|
| **Revenue** | **353** | **536** | **563** | **443** | **400** |
| EBITDA | 44 | 65 | 77 | 61 | 59 |
| EBIT | 41 | 61 | 73 | 57 | 55 |
| Finance cost | (2) | (3) | (2) | (2) | (2) |
| Associates & JV | 2 | 2 | 4 | 17 | 28 |
| **Profit before tax** | **41** | **61** | **74** | **72** | **80** |
| Tax | (12) | (21) | (23) | (17) | (16) |
| **PATMI (core)** | **28** | **40** | **52** | **55** | **64** |
| Exceptionals | (0) | 10 | - | - | - |
| **PATMI (reported)** | 28 | 50 | 52 | 55 | 64 |

### Valuation & Ratios

| FYE Jan (RM m) | FY15 | FY16 | FY17F | FY18F | FY19F |
|---|---|---|---|---|---|
| Core EPS (sen) | 9.4 | 13.3 | 17.2 | 18.3 | 21.3 |
| P/E (x) | 21.7 | 15.3 | 11.8 | 11.1 | 9.6 |
| EV/EBITDA (x) | 8.8 | 6.0 | 5.1 | 6.4 | 6.6 |
| DPS (sen) | 5.3 | 7.0 | 8.6 | 9.2 | 10.7 |
| Dividend yield | 2.6% | 3.4% | 4.2% | 4.5% | 5.2% |
| BVPS (RM) | 0.96 | 1.07 | 1.16 | 1.25 | 1.36 |
| P/B (x) | 2.1 | 1.9 | 1.8 | 1.6 | 1.5 |
| EBITDA margin | 12.5% | 12.1% | 13.6% | 13.7% | 14.7% |
| EBIT margin | 11.5% | 11.4% | 12.9% | 12.8% | 13.7% |
| PBT margin | 11.5% | 11.3% | 13.2% | 16.2% | 20.1% |
| Net margin | 8.0% | 7.5% | 9.2% | 12.4% | 16.0% |
| ROE | 10.6% | 13.2% | 15.4% | 15.2% | 16.4% |
| ROA | 5.1% | 6.2% | 7.4% | 8.0% | 9.6% |
| Net gearing | CASH | CASH | CASH | CASH | CASH |

### Assumptions

| FYE Jan (RM m) | FY15 | FY16 | FY17F | FY18F | FY19F |
|---|---|---|---|---|---|
| Contracts secured | 57 | 4,500 | 350 | 350 | 350 |

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Published & Printed by
**Hong Leong Investment Bank Berhad (43526-P)**
Level 8, Menara HLA
No. 3, Jalan Kia Peng
50450 Kuala Lumpur
Tel 603 2168 1168 / 603 2710 1168
Fax 603 2161 3880

## Equity rating definitions

| | |
|---|---|
| **BUY** | Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside. |
| **TRADING BUY** | Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity. |
| **HOLD** | Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside. |
| **TRADING SELL** | Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity. |
| **SELL** | Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months. |
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## Industry rating definitions

| | |
|---|---|
| **OVERWEIGHT** | The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months. |
| **NEUTRAL** | The sector, based on weighted market capitalization, is expected to have absolute return between –5% and +5% over 12-months. |
| **UNDERWEIGHT** | The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months. |