

George Kent (BUY↔→; EPS↔→)

25 August 2016

INDUSTRY: OVERWEIGHT

Price Target: RM3.23 (↔→)

NEWSBREAK

Share price: RM2.56

Nails MRT2 track works

News

- **Wins track works for MRT2...** MRT Corp announced that it has awarded the Sg Buloh-Serdang-Putrajaya line (MRT2) track works worth RM1.01bn to the 51:49 JV between China Communications Construction Company (CCCC) and GKent.
- **...on a competitive tender.** The competitive tender involved a total of 7 bidders and the CCCC-GKent JV had quoted the most competitive price and fared very well in the technical evaluation.

Comments

- **Positive but not entirely unexpected.** We highlighted the possibility of the JV winning the MRT2 track works during our initiation report earlier this month. Experience should not be an issue as (i) GKent had undertaken the Ampang LRT extension systems which also encompassed track works and (ii) construction giant CCCC has vast rail related track record. Generally, track works are undertaken at the later stage of the MRT construction cycle as the civil works need to be completed first. As such, we reckon that commencement of the track works is likely to happen sometime in 2019 (FY20 for GKent). At a 49% stake, GKent's share of works out to be RM495m.
- **More job wins to add on?** We do not discount the possibility of more job wins to GKent for the remainder of the year. In particular, we understand that GKent is in the running for a hospital job in Putrajaya worth RM300-350m which could potentially materialise before the year end.

Risks

- Risk associated with the MRT2 track works is minimal given that both CCCC and GKent have the relevant experience.

Forecasts

- We reckon that our current earnings forecast are conservative on 2 fronts. Firstly, YTD job wins of RM495m has already surpassed our full year target of RM350m. Securing the hospital job would boost this even further. Secondly, we have discounted the PDP fees for the LRT3 by 50% as we took an (overly) prudent stance. As such, there is certainly an upside to our earnings projection which we will revisit in due course.

Rating

Maintain BUY, TP: RM3.23

- 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. This recent MRT2 contract further solidifies our view.
- 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).

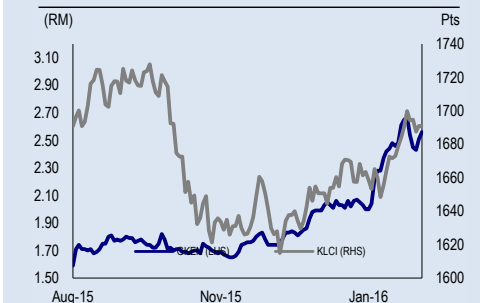
Valuation

- 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. There is upside to our TP once we revisit our earnings forecast.

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KLCI	1682.1
Expected share price return	26.2%
Expected dividend return	4.1%
Expected total return	30.3%

Share price



Information

Bloomberg Ticker	GKEN MK
Bursa Code	3204
Issued Shares (m)	300
Market cap (RM m)	769
3-mth avg. volume ('000)	1,501
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	23.7	55.2	122.6
Relative	22.7	50.4	107.0

Major shareholders

Star Wealth Investment Ltd	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)	19.2	14.9	14.0	12.0
Net DPS (sen)	13.6	10.5	9.9	8.5
Net DY (%)	7.0	8.6	9.2	10.7
BV per share	2.7	3.4	3.6	4.2
P/B (x)	1.07	1.16	1.25	1.36
ROE (%)	2.4	2.2	2.0	1.9
Net Gearing (%)	13.2	15.4	15.2	16.4

HLIB

Figure #1 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

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
Debits	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	-	-	-
CCF	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)	27.2	19.2	14.9	14.0	12.0
EV/EBITDA (x)	12.3	8.4	7.1	9.0	9.3
DPS (sen)	5.3	7.0	8.6	9.2	10.7
Dividend yield	2.1%	2.7%	3.4%	3.6%	4.2%
BVPS (RM)	0.96	1.07	1.16	1.25	1.36
P/B (x)	2.7	2.4	2.2	2.0	1.9
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 (10209-W)
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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.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

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.