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George Kent's YTD job wins amount to RM771m after securing latest contract

George Kent (M) Bhd (Nov 2, RM2.64)

Maintain buy with an unchanged target price (TP) of RM3.25: George Kent (M) Bhd (GKent) announced that it had been awarded an RM277 million contract from the works ministry for a 150-bed hospital in Tanjung Karang, Selangor.

The contract will commence this month, for a period of four years.

While management previously guided that it had bid for two hospital jobs, we did not expect this particular contract to materialise so soon. In terms of hospital track record, GKent has completed Phase 1 (RM98 million) of the Kuala Lipis Hospital and is currently executing Phase 2 (RM57 million).

With this hospital contract in the bag, GKent's year-to-date (YTD) job wins amount to RM771 million. We estimate its order book to now stand at RM5.7 billion. This translates into a superior cover ratio of 13.9 times on financial year 2016 (FY16) construction revenue, the highest within out sector coverage.

We do not discount the possibility of more job wins for GKent for the remainder of the year. In particular, we understand that GKent is in the running for another hospital job in Putrajaya worth RM300 million to RM350 million, which could potentially materialise by year end.

We reckon that risk associated with this hospital job is minimal as GKent has undertaken such works before.

As its YTD job wins of RM771 million are within our FY17 target of RM884 million, we maintain our forecasts. However, should the Putrajaya hospital job materialise, this could potentially surpass our FY17 order book replenishment assumption, giving further upside to our earnings estimates.

GKent boasts solid financials with a three-year earnings compound annual growth rate of 26%, above the industry's return on equity of 15.4%, and a net cash position of 64 sen per share, which is 24% of its market capitalisation.

Our TP of RM3.25 is based on a simple two-stage sum-of-parts methodology comprising 14 times price-earnings multiple applied to FY18 core earnings and its net cash position. There would be potential upside to our TP once we revisit our earnings forecasts. — *Hong Leong Investment Bank Research, Nov 2*