Headline	George Kents engineering division continues to deliver		
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George Kent's engineering division continues to deliver

Proceeds used to pare down borrowings

George Kent's engineering division continues to deliver

KUCHING: George Kent (Malaysia) Bhd's (George Kent) engineering division continues to deliver, showcasing a revenue growth of 61 per cent year over year (y-o-y) for the first nine months of 2016 (9M16).

George Kent's high performing engineering division has contributed to a near 3-fold surge to its 9M core earnings of RM58.1 million, which excludes foreign exchange (forex) gains and losses.

The strong growth was attributed to a 51 per cent revenue increase, profit before tax (PBT) margin expansion from 10 per cent to 18.3 per cent, and lower base last year due to cost variation orders (VOs) incurred in its third quarter (3Q).

The research arm of Hong Leong Investment Bank (HLIB Research) noted that GKent's 9M earnings made up 94 per cent of their full year forecast which is above expectations.

HLIB Research explained that this deviation from expectations were mostly due to GKent's strong-than-expected engineering margins, which saw an expansion from 13.5 per cent to 19 per cent.

The research arm continued on to add that the margin expansions were most likely due to the balance of works execution for the Ampang LRT extension along with the continued recognition of VOs.

Additionally, higher-than-projected joint-venture contribution associated with LRT3 PDP was also expected to be a contributing factor towards GKent's engineering margin expansion.

Currently, George Kent's orderbook stands at RM5.9 billion, with RM771 million in job wins year to date (YTD).

"This translates to a superior cover of 14.4 fold on financial year 2016 (FY16) construction revenue, the highest in our sector coverage," shared HLIB Research.

"George Kent is a key rail player with exposure to the LRT extension, LRT3 and MRT2.

"It also boasts solid financials with three-year earnings compound annual growth rate (CAGR) of 28 per cent, above industry return on equity (ROE) of 20.9 per cent and net cash position of RM0.58 sen per share, which is 21 per cent of market cap," stated the research arm.

In view of George Kent's strong results, the research arm has raised their FY17 estimates for GKent by 14 per cent after incorporating its higher engineering margins.

However FY18 earnings received only a slight increase of 2 per cent in anticipation of potential margin normalisation in the coming year.

HLIB Research maintains it's 'buy' call on the firm with an unchanged target price of RM3.77, which is indicative of FY17-18 market cap less cash, price earnings ratio of 16.8 fold and 15 fold, respectively.