George Kent expected to deliver stronger performance

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George Kent (M) Bhd
(March 22, RM3.67)
Maintain buy with an unchanged target price of RM4.73: We attended George Kent (M) Bhd's results briefing for its fourth financial quarter ended Jan 31, 2017. To recap, financial year 2017 (FY17) core earnings (excluding foreign exchange losses) of RM94 million (+133% year-on-year [y-o-y]), were above expectations.

Engineering profit before tax margin (excluding associates and joint ventures) expanded significantly y-o-y from 13.5% to 22.9%. This was due to the continued recognition of variation orders for the light rail transit (LRT) Ampang line extension. Although the line is fully operational, several system upgrading works are still being undertaken. Management guides that there is around RM400 million worth of such works outstanding which should be largely recognised in FY18.

With RM1.1 billion worth of new job secured last year, George Kent's order book now stands at RM6.2 billion, translating into a superior cover of 10.4 times FY17 construction revenue. George Kent is keen to participate in the system works for rail projects such as the East Coast Rail Line, Gemas-Johor Baru Southern Double Tracking Rail and the Kuala Lumpur-Singapore High Speed Rail. Apart from that, it has also tendered for a water treatment plant job (RM200 million) where it is going against two other contenders.

Awards for the LRT Line 3 (LRT3) are expected to commence from the second quarter of 2017 onwards, where there will be a total of 18 main infra packages and eight system packages. There could be upside to LRT3's value of RM9 billion as accelerated works may be required should the completion deadline not be extended beyond August 2020 and several design changes have been requested by Prasarana Malaysia Bhd.

The metering segment saw production increase to 1.8 million meters in FY17 from 1.4 million. Significant contracts achieved during the year included: i) third consecutive tender win from Singapore's Public Utilities Board for 323,000 meters; ii) clinched Selangor water meter contract for 530,000 meters (largest contract in Malaysia); and iii) penetrating into Nepal with 70,000 meter order.

Any possible delay in the LRT3 would be a key risk. GKent is a key rail play with exposure to the LRT extension, LRT3 and mass rapid transit Sungai Buloh-Serdang-Putrajaya line. It also boasts solid financials with above-industry return on equity of 26% and net cash position of 99 sen per share (28% of market capitalisation). Our sum-of-parts-based TP of RM4.73 implies cash excluded price-earnings ratios (PER) of 15 times and 13.3 times respectively for FY18 and FY19. — HLIB Research, March 22