

George Kent (BUY↔↔; EPS↔↔)

**INDUSTRY: OVERWEIGHT
NEWSBREAK**
2 November 2016
Price Target: RM3.25 (↔↔)
Share price: RM2.65

Grabs hospital job

News	<ul style="list-style-type: none"> ▪ Wins hospital contract. GKent announced that it has been awarded a RM277m contract from the Ministry of Works for a 150-bed hospital in Tg Karang, Selangor on a design and build basis. ▪ Scope of works. The hospital is situated on a 17-acre site between Tg Karang and Kuala Selangor. It would comprise of a 150-bed medical and ward block, 30 units of housemen quarters, 24 units of quarters, 50-pax child nursery centre, an engineering block, cafeteria, visitor gallery and 2 fully equipped operating theatres. The contract will commence in Nov 2016 over a period of 4 years.
Comments	<ul style="list-style-type: none"> ▪ Another hospital in the bag. Whilst management previously guided that it had bid for 2 hospital jobs, we did not expect this particular contract to materialise so soon. In terms of hospital track record, GKent has completed Phase 1 (RM98m) of the Kuala Lipis Hospital and is currently executing Phase 2 (RM57m). ▪ Job wins adding on strongly. With this hospital contract in the bag, GKent's YTD job wins amounts to RM771m. We estimate its orderbook to now stand at RM5.7bn. This translates to a superior cover ratio of 13.9x on FY16 construction revenue, the highest within out sector coverage. ▪ More to come? 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 RM300-350m which could potentially materialise by year end.
Risks	<ul style="list-style-type: none"> ▪ We reckon that risk associated with this hospital job is minimal as GKent has undertaken such works before.
Forecasts	<ul style="list-style-type: none"> ▪ As YTD job wins of RM771m is within our FY17 target of RM884, we maintain our forecasts. However, should the Putrajaya hospital job materialise, this could potentially surpass our FY17 orderbook replenishment assumption, giving further upside to our earnings estimate.
Rating	<p>Maintain BUY, TP: RM3.25</p> <ul style="list-style-type: none"> ▪ GKent is a key rail play with exposure to the LRT extension, LRT3 and MRT2. It also boasts solid financials with 3-year earnings CAGR of 26%, above industry ROE of 15.4% and net cash position of RM0.64/share (24% of market cap).
Valuation	<ul style="list-style-type: none"> ▪ Our TP of RM3.25 is based on a simple 2-stage SOP methodology comprising (i) 14x P/E multiple applied to FY18 core earnings and (ii) its net cash position. There is potential upside to our TP once we revisit our earnings forecast.

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KLCI	1670.9
Expected share price return	22.6%
Expected dividend return	2.6%
Expected total return	25.2%

Share price

Information

Bloomberg Ticker	GKEN MK
Bursa Code	3204
Issued Shares (m)	376
Market cap (RM m)	995
3-mth avg. volume ('000)	3,062
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	3.9	49.2	96.0
Relative	2.8	48.3	95.2

Major shareholders

Star Wealth Inv Ltd	14.3%
Swee Bee Tan	7.7%
Hectomic Ltd	5.0%

Summary Earnings Table

FYE Jan (RM m)	FY16	FY17F	FY18F	FY19F
Revenue	536	563	438	450
EBITDA	65	77	60	59
EBIT	61	73	56	55
Profit Before Tax	61	74	87	96
Core PATAMI	40	52	70	80
vs Consensus (%)	-	-	-	-
Core EPS (sen)	10.7	13.8	18.7	21.2
P/E (x)	24.8	19.2	14.2	12.5
P/E ex cash (x)	18.8	14.6	10.8	9.5
Net DPS (sen)	5.6	6.9	9.3	10.6
Net DY (%)	2.1	2.6	3.5	4.0
BV per share	0.86	0.93	1.02	1.13
P/B (x)	3.1	2.9	2.6	2.4
ROE (%)	13.2	15.4	19.2	19.8
Net Gearing (%)	CASH	CASH	CASH	CASH

HLIB

Figure #1 SOP based valuation for GKent

SOP Component	Amount (RM m)	Multiple (x)	Valuation (RM m)	Per Share
FY18 core earnings	70	14	982	2.61
Net cash	240	1	240	0.64
SOP Value			1,222	3.25

HLIB estimates

Financial Projections for George Kent

Balance Sheet

FYE Jan (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cash	164	242	236	272	313
Receivables	246	241	262	204	210
Inventories	42	48	59	46	47
PPE	121	121	119	117	115
Others	33	31	31	31	31
Assets	606	683	707	670	716
Debits	58	27	37	35	32
Payables	256	326	314	245	253
Others	5	8	8	8	8
Liabilities	319	361	360	287	294
Shareholder's equity	287	322	348	383	423

Cash Flow Statement

FYE Jan (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Profit before taxation	41	61	74	87	96
Share of JV and associates	(2)	(2)	(4)	(33)	(43)
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)	24	38
CFO	(67)	127	8	66	81
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)	(35)
Others	(88)	13	-	-	-
CFB	4	(33)	(11)	(28)	(38)
Net cash flow	(64)	92	(5)	36	41
Forex	(1)	2	-	-	-
Others	18	(16)	-	-	-
Beginning cash	211	164	242	236	272
Ending cash	164	242	236	272	313

Income Statement

FYE Jan (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	353	536	563	438	450
EBITDA	44	65	77	60	59
EBIT	41	61	73	56	55
Finance cost	(2)	(3)	(2)	(2)	(2)
Associates & JV	2	2	4	33	43
Profit before tax	41	61	74	87	96
Tax	(12)	(21)	(23)	(17)	(16)
PATMI (core)	28	40	52	70	80
Exceptionals	(0)	10	-	-	-
PATMI (reported)	28	50	52	70	80

Valuation & Ratios

FYE Jan (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Core EPS (sen)	7.5	10.7	13.8	18.7	21.2
P/E (x)	35.2	24.8	19.2	14.2	12.5
EV/EBITDA (x)	17.1	11.6	9.8	12.6	12.8
DPS (sen)	4.2	5.6	6.9	9.3	10.6
Dividend yield	1.6%	2.1%	2.6%	3.5%	4.0%
BVPS (RM)	0.76	0.86	0.93	1.02	1.13
P/B (x)	3.5	3.1	2.9	2.6	2.4
EBITDA margin	12.5%	12.1%	13.6%	13.7%	13.1%
EBIT margin	11.5%	11.4%	12.9%	12.8%	12.2%
PBT margin	11.5%	11.3%	13.2%	19.8%	21.3%
Net margin	8.0%	7.5%	9.2%	16.0%	17.7%
ROE	10.6%	13.2%	15.4%	19.2%	19.8%
ROA	5.1%	6.2%	7.4%	10.2%	11.5%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Jan (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Contracts secured	57	4,500	844	300	300

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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.