

George Kent (BUY ↔; EPS ↑)
INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION
21 March 2017
Price Target: RM4.73 (↑)
Share price: RM3.23
Marking another record year
Results

- GKent reported 4QFY17 results with revenue of RM189m (+55% QoQ, -29% YoY) and core earnings (ex. forex) of RM37m (+63% QoQ, +44% YoY).
- Full year FY17 core earnings (ex. forex) amounted to RM94m, surging +133% YoY. The strong earnings growth YoY was attributed to (i) revenue growth of +11%, (ii) margin expansion with PBT level almost doubling from 11.3% to 21.2% and (iii) lower effective tax rate from 35.3% to 27.5%.

Deviation

- While our revenue projection was inline (99% of full year forecast), core earnings exceeded our estimate by 32%. This was largely due to stronger than expected margins from the engineering segment, possibility attributed to the recognition of variation orders (VOs) for the LRT extension.

Dividends

- Final dividend of 5 sen was declared. Coupled with the 2 interim dividends earlier declared, this brings FY17 dividend to 10 sen (FY16: 7 sen).

Highlights

- **Engineering the star performer.** While FY17 engineering revenue grew +9% YoY, PBT (ex associates and JVs) increased by a much larger magnitude of +85%. Engineering PBT margin expanded from 13.5% to 22.9% as more LRT ext VOs continued to be booked. We gather that there is c.RM400m worth of such works outstanding.
- **Sizable orderbook in its bag.** With FY17 job wins at RM1.1bn, GKent's orderbook stands at RM6.2bn. This translates to a superior cover ratio of 10.4x on FY17 construction revenue, the highest in our sector coverage.
- **Metering still up despite forex impact.** While the metering division saw FY17 revenue grow by +21% YoY, PBT increased by a smaller magnitude of +16% as margins contracted slightly from 22.4% to 21.5%. This was largely due to forex loss in FY17 as opposed to gains in FY16.
- **Proposes share split...** involving the subdivision of 2 shares into 3 split shares, targeted for completion in 3Q17.

Risks

- Any possible delays in the LRT3 would be the key risk.

Forecasts

- In view of the strong results, we raise FY18-19 earnings by 18% and 27% respectively. This earnings upgrade largely stems from continued recognition of the high margin LRT ext VO works.

Rating
Maintain BUY, TP raised to RM4.73

- GKent is a key rail play with exposure to the LRT extension, LRT3 and MRT2. It also boasts solid financials with above industry ROE of 26% and net cash position of RM0.99/share (31% of market cap).

Valuation

- Apart from the earnings upgrade, we also impute the higher net cash balance into our SOP based TP, increasing it from RM3.77 to RM4.73. This implies an ex. cash P/E of 15x and 13.3x for FY18-19.

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KLCI	1749.4
Expected share price return	46.4%
Expected dividend return	3.9%
Expected total return	50.3%

Share price

Information

Bloomberg Ticker	GKEN MK
Bursa Code	3204
Issued Shares (m)	376
Market cap (RM m)	1,213
3-mth avg. volume ('000)	1,051
SC Shariah-compliant	No

Price Performance	1M	3M	12M
Absolute	12.2	5.9	136.1
Relative	9.4	-1.4	131.9

Major shareholders

Star Wealth Investment Ltd	14.0
Swee Bee Tan	7.7

Summary Earnings Table

FYE Jan (RM m)	FY16	FY17	FY18F	FY19F
Revenue	536	599	638	708
EBITDA	65	126	93	96
EBIT	61	122	89	92
Profit Before Tax	61	127	120	133
Core PATAMI	40	94	94	106
vs Consensus (%)		-	-	-
Core EPS (sen)	10.7	25.0	24.9	28.2
P/E (x)	30.3	12.9	13.0	11.5
P/E ex cash (x)	21.0	8.9	9.0	7.9
Net DPS (sen)	7.0	10.0	12.5	14.1
Net DY (%)	2.2	3.1	3.9	4.4
BV per share	0.86	1.07	1.08	1.22
P/B (x)	3.8	3.0	3.0	2.7
ROE (%)	13.2	26.0	23.3	24.6
Net Gearing (%)	CASH	CASH	CASH	CASH

HLIB

Figure #1 Quarterly results comparison

FYE Jan (RM m)	4QFY16	3QFY17	4QFY17	QoQ (%)	YoY (%)	Comments
Revenue	267.5	122.1	189.1	54.9	(29.3)	QoQ: Higher given more account finalisation in 4Q. YoY: Lower as 4Q last year was boosted by some delayed recognition from 3Q.
EBIT	33.5	26.0	52.0	100.3	55.1	Margin expansion.
Finance cost	(0.8)	(0.7)	(0.8)	2.7	(9.9)	
Associates & JVs	1.0	3.1	1.5	(53.6)	42.3	Claims for LRT3 PDP.
PBT	33.7	28.4	52.7	85.8	56.3	
PAT	25.6	22.6	36.8	63.3	44.0	
PATMI - core	25.6	22.6	36.8	63.3	44.0	Strongest quarter ever.
PATMI - reported	19.9	23.7	42.1	77.5	112.1	Includes forex impact.
EPS - core	6.8	6.0	9.8			
EBIT margin (%)	12.5	21.3	27.5			Margin expansion largely due to continued recognition of LRT ext VO works.
PBT margin (%)	12.6	23.2	27.9			
Company						

Figure #2 Quarterly results comparison

FYE Jan (RM m)	12MFY16	12MFY17	YoY (%)	Comments
Revenue	538.1	599.0	11.3	Largely contributed by LRT extension.
EBIT	61.4	122.0	98.6	Margin expansion.
Finance cost	(2.9)	(2.7)	(8.3)	
Associates & JVs	2.4	7.4	206.4	Claims for LRT3 PDP.
PBT	60.9	126.7	108.0	
PAT	40.3	93.9	133.0	
PATMI - core	40.3	93.9	133.0	Surpassed our estimate by 32%.
PATMI - reported	50.3	101.4	101.7	Includes forex impact.
EPS - core	10.7	25.0		
EBIT margin	11.4	20.4		Margin expansion largely due to continued recognition of LRT ext VO works.
PBT margin	11.3	21.2		
Company				

Figure #3 SOP based valuation for GKent

SOP Component	Amount (RM m)	Multiple (x)	Valuation (RM m)	Per Share
FY18 core earnings	94	15	1,404	3.74
Net cash	373	1	373	0.99
SOP Value			1,778	4.73

HLIB estimates

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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.
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SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
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.