

# George Kent (BUY ↔; EPS ↑)

**INDUSTRY: OVERWEIGHT**
**COMPANY INSIGHT**
**7 September 2016**
**Price Target: RM4.01 (↑)**
**Share price: RM2.71**

## Stepping up its game

### Highlights

- **Bags MRT2 contract...** Late last month, GKent (via a JV with CCCC) managed to beat 6 other contenders for the MRT2 track works worth RM1bn (completion in May 2022). We reckon that execution should not be an issue as GKent successfully completed the Ampang LRT extension systems (which also encompassed track works) on time and within budget. Its JV partner, construction giant CCCC, has vast rail related experience.
- **...to further balloon orderbook.** With its 49% stake in the JV, GKent's share of the MRT2 track works amounts to RM494m, enhancing its orderbook by 10% to RM5.5bn. This translates to an explosive cover ratio of 13.5x on FY15 construction revenue, the highest in our sector coverage (average ex. GKent: 3.6x).
- **Gunning for more.** We understand that GKent has a Letter of Intent (LOI) for a hospital job in Putrajaya worth RM300-350m which could materialise to an award by year end. Aside that, GKent is also working to secure another hospital job in the Klang Valley, potentially worth RM200-250m.
- **LRT3 launched.** With the LRT3 (RM9bn) officially launched last month by the Prime Minister, we expect the MRCB-GKent JV to ink the PDP agreement with Prasarana very soon and major contract awards between 4Q16 and 3Q17.
- **Metering potential.** GKent recently tendered for the sole supply of water meters in Malacca, whereby its bid was one of the lowest. In Selangor, GKent is eyeing to participate for next year's supply tender. Selangor was previously inaccessible to GKent given the exclusive supply rights granted to Puncak Niaga which has now lapsed following the recent water asset restructuring. If successful, GKent could supply 250k units of water meters to both states annually (Selangor: 200k, Malacca: 50k) vs its capacity of 2.4m.

### Risks

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

### Forecasts

- Our earlier forecast may have been overly conservative as (i) the MRT2 contract (RM494m) has already surpassed our full year job wins target (RM350m) and (ii) we previously discounted the LRT3 PDP fees by 50%.
- We raise FY17 new job wins to RM840m from RM350m after imputing the MRT2 contract. With the LRT3 officially launched, we have decided to remove the 50% discount on its PDP fees. Overall, FY18-19 earnings are raised by 30% and 27% respectively.

### Rating

**Maintain BUY, TP raised to RM4.01 (+48% upside)**

- Having undertaken the LRT extension, PDP appointment for the LRT3 and recently secured MRT2 track works, we view GKent as a formidable engineering force that can no longer be ignored.
- It also boasts solid financials with superior 3-year earnings CAGR of 26%, above industry ROE of 15.4% and net cash position of RM0.74/share (27% of market cap). Strong 2QFY17 results, due for release on 26 Sept, could be an added short term catalyst.

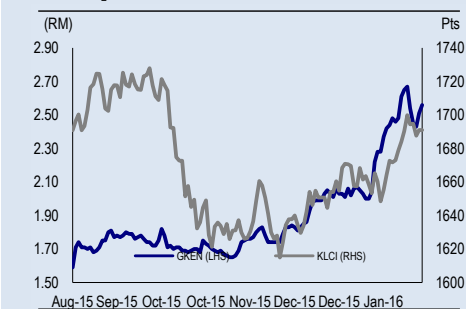
### Valuation

- Following our earnings upgrade and rolling over our valuation horizon from mid-FY18 to FY18, our SOP based TP is raised from RM3.23 to RM4.01.

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KLCI	1689.9
Expected share price return	48.0%
Expected dividend return	3.2%
Expected total return	51.1%

### Share price



### Information

Bloomberg Ticker	GKENT MK
Bursa Code	3204
Issued Shares (m)	300
Market cap (RM m)	814
3-mth avg. volume ('000)	1,841

### Price Performance

	1M	3M	12M
Absolute	14.3	53.1	95.0
Relative	12.9	49.8	83.9

### Major shareholders

Star Wealth Inv Ltd	14.0%
Swee Bee Tan	7.7%
Hectomic Ltd	5.0%

### Summary Earnings Table

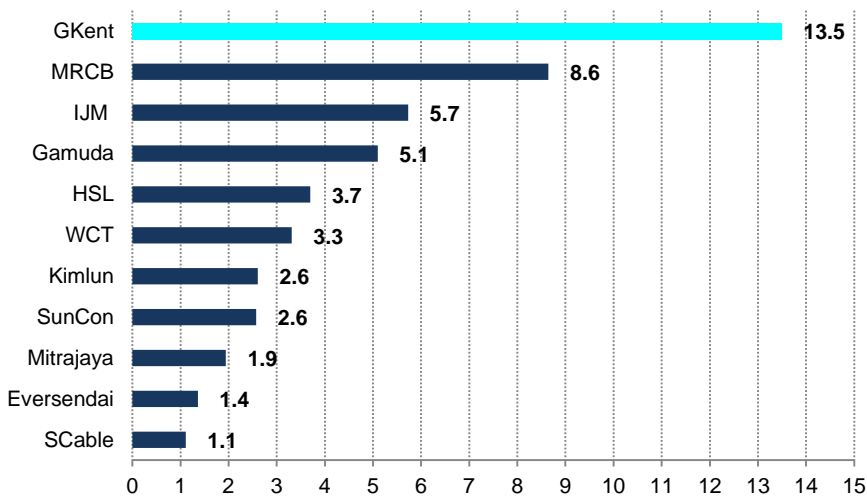
FYE Jan (RM m)	FY16	FY17F	FY18F	FY19F
Revenue	536	563	438	450
EBITDA	65	77	60	59
EBIT	61	73	56	55
Profit Before Tax	61	74	87	96
Core PATAMI	40	52	70	80
vs Consensus (%)	-	-	-	-
Core EPS (sen)	13.3	17.2	23.3	26.5
P/E (x)	20.3	15.7	11.6	10.2
P/E ex cash (x)	14.7	11.4	8.4	7.4
Net DPS (sen)	7.0	8.6	11.7	13.2
Net DY (%)	2.6	3.2	4.3	4.9
BV per share	1.07	1.16	1.27	1.41
P/B (x)	2.5	2.3	2.1	1.9
ROE (%)	13.2	15.4	19.2	19.8
Net Gearing (%)	CASH	CASH	CASH	CASH

HLIB

**Figure #1 Estimated orderbook balance of GKent (RM m)**

Contract	Value	Balance	Completion
Ampang LRT extension	1,375	500	2016
LRT3 PDP role ^	4,500	4,500	2020
Kuala Lipis Hospital (Phase 2), Pahang	57	48	2017
Water related contracts	135	75	2017
Total as of end FY16 (Jan)		5,123	
Less: Burn rate in 1QFY17		(90)	
Add: MRT2 track works		494	2022
<b>Estimated orderbook balance</b>		<b>5,526</b>	
FY16 construction revenue		410	
<b>Implied cover ratio (x)</b>		<b>13.5</b>	

Company, HLIB estimates

**Figure #2 Comparison of orderbook cover ratio (x)**

Company, HLIB estimates

**Figure #3 SOP valuation for GKent**

SOP Component	Amount (RM m)	Multiple (x)	Valuation (RM m)	Per Share
FY18 core earnings	70	14	982	3.27
Net cash	223	1	223	0.74
<b>SOP Value</b>			<b>1,205</b>	<b>4.01</b>

Company, 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
<b>Assets</b>	<b>606</b>	<b>683</b>	<b>707</b>	<b>670</b>	<b>716</b>
Debts	58	27	37	35	32
Payables	256	326	314	245	253
Others	5	8	8	8	8
<b>Liabilities</b>	<b>319</b>	<b>361</b>	<b>360</b>	<b>287</b>	<b>294</b>
<b>Shareholder's equity</b>	<b>287</b>	<b>322</b>	<b>348</b>	<b>383</b>	<b>423</b>

### 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
<b>CFO</b>	<b>(67)</b>	<b>127</b>	<b>8</b>	<b>66</b>	<b>81</b>
Net capex	1	3	(2)	(2)	(2)
Others	(2)	(5)	-	-	-
<b>CFI</b>	<b>(1)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
Changes in borrowings	41	(31)	10	(3)	(3)
Issuance of shares	66	2	-	-	-
Dividends paid	(16)	(16)	(21)	(26)	(35)
Others	(88)	13	-	-	-
<b>CFF</b>	<b>4</b>	<b>(33)</b>	<b>(11)</b>	<b>(28)</b>	<b>(38)</b>
<b>Net cash flow</b>	<b>(64)</b>	<b>92</b>	<b>(5)</b>	<b>36</b>	<b>41</b>
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
<b>Revenue</b>	<b>353</b>	<b>536</b>	<b>563</b>	<b>438</b>	<b>450</b>
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
<b>Profit before tax</b>	<b>41</b>	<b>61</b>	<b>74</b>	<b>87</b>	<b>96</b>
Tax	(12)	(21)	(23)	(17)	(16)
<b>PATMI (core)</b>	<b>28</b>	<b>40</b>	<b>52</b>	<b>70</b>	<b>80</b>
Exceptionals	(0)	10	-	-	-
<b>PATMI (reported)</b>	<b>28</b>	<b>50</b>	<b>52</b>	<b>70</b>	<b>80</b>

### Valuation & Ratios

FYE Jan (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Core EPS (sen)	9.4	13.3	17.2	23.3	26.5
P/E (x)	28.8	20.3	15.7	11.6	10.2
EV/EBITDA (x)	13.4	9.1	7.7	9.8	10.0
DPS (sen)	5.3	7.0	8.6	11.7	13.2
Dividend yield	2.0%	2.6%	3.2%	4.3%	4.9%
BVPS (RM)	0.96	1.07	1.16	1.27	1.41
P/B (x)	2.8	2.5	2.3	2.1	1.9
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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Published & Printed by  
**Hong Leong Investment Bank Berhad (43526-P)**  
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<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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