

# George Kent (BUY ↔; EPS ↔)

22 March 2017

INDUSTRY: OVERWEIGHT

Price Target: RM4.73 (↔)

COMPANY INSIGHT

Share price: RM3.59

## Growing even stronger

### Highlights

- **Hosts briefing.** We attended GKent's 4QFY17 results briefing yesterday which was represented by its Executive Director, Mr Bernie Ooi and Finance Manager, Mr Ong Kum Weng. To recap, FY17 core earnings (ex. forex) of RM94m (+133% YoY) was above expectations.
- **Continued works from LRT ext.** Engineering PBT margin (ex. associates and JVs) expanded significantly YoY from 13.5% to 22.9%. This was due to the continued recognition of variation orders (VOs) for the Ampang LRT ext. Although the line is fully operational, several system upgrading works are still being undertaken. Management guides that there is c.RM400m worth of such works outstanding which should be largely recognised in FY18.
- **Eyeing to grow orderbook further.** With RM1.1bn worth of new job secured last year, GKent's orderbook now stands at RM6.2bn, translating to a superior cover of 10.4x on FY17 construction revenue. GKent is keen to participate in the system works for rail projects such as the East Coast Rail Link, Southern Double Track and High Speed Rail. Apart from that, it has also tendered for a water treatment plant job (RM200m) where it is going against 2 other contenders.
- **LRT3 awaits take off.** Awards for the LRT3 are expected to happen from 2Q17 onwards where there will be a total of 18 main infra packages and 8 systems packages. There could be upside the LRT3's value of RM9bn as (i) accelerated works may be required should the completion deadline not be extended beyond Aug 2020 and (ii) several design changes have been requested by Prasarana.
- **Expansion for metering.** The metering segment saw production increase to 1.8m meters in FY17 from 1.4m. Significant contracts achieved during the year include (i) 3<sup>rd</sup> consecutive tender win from Singapore's Public Utilities Board for 323k meters, (ii) clinched Selangor water meter contract for 530k meters (largest contract in Malaysia) and (iii) penetrated into Nepal with 70k meter order.

### Risks

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

### Forecasts

- No further changes to estimates. We have already upgraded FY18-19 earnings forecast by 18% and 27% following the results release.

### Rating

**Maintain BUY, TP: RM4.73**

- GKent is a key rail play with exposure to the LRT extension, LRT3 and MRT2. It also boasts solid financials above industry ROE of 26% and net cash of RM0.99/share (28% of market cap).

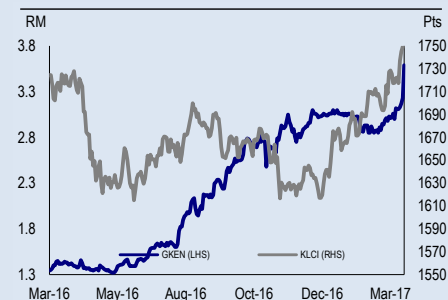
### Valuation

- Our SOP based TP of RM4.73 implies an ex. cash P/E of 15x and 13.3x respectively for FY18-19.

**Jeremy Goh, CFA**
[pwgoh@hlib.hongleong.com.my](mailto:pwgoh@hlib.hongleong.com.my)
**(603) 2168 1138**

KLCI	1754.7
Expected share price return	31.8%
Expected dividend return	3.5%
Expected total return	35.2%

### Share price



### Information

Bloomberg Ticker	GKEN MK
Bursa Code	3204
Issued Shares (m)	376
Market cap (RM m)	1,348
3-mth avg. volume ('000)	1,179
SC Shariah-compliant	No

### Price Performance

	1M	3M	12M
Absolute	26.0	18.9	167.1
Relative	22.6	10.0	162.6

### Major shareholders

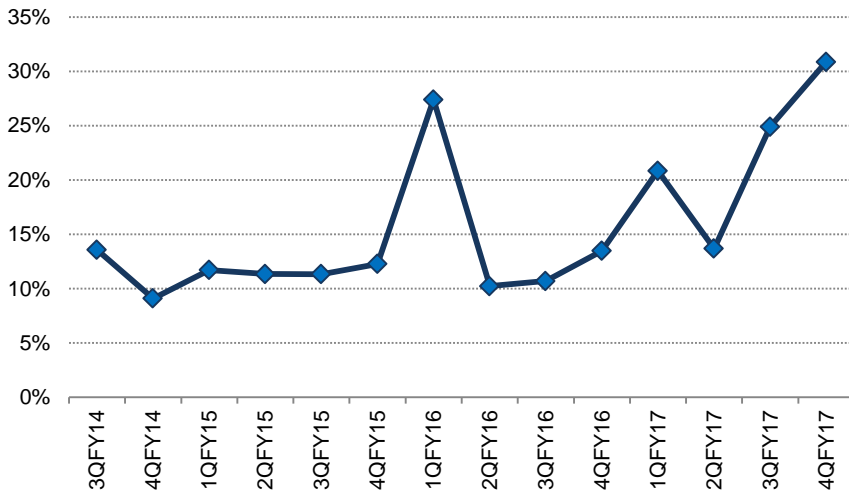
Star Wealth Investment	14.0%
Swee Bee Tan	7.7%
Hectomic Ltd	5.0%

### 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)	33.6	14.4	14.4	12.7
P/E ex cash (x)	24.3	10.4	10.4	9.2
Net DPS (sen)	7.0	10.0	12.5	14.1
Net DY (%)	1.9	2.8	3.5	3.9
BV per share	0.86	1.07	1.08	1.22
P/B (x)	4.2	3.4	3.3	2.9
ROE (%)	13.2	26.0	23.3	24.6
Net Gearing (%)	CASH	CASH	CASH	CASH

HLIB

**Figure #1 Engineering margins (ex. associates and JVs)**



Company, HLIB estimates

**Figure #2 SOP 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
<b>SOP Value</b>			<b>1,778</b>	<b>4.73</b>

Company, HLIB estimates

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**Hong Leong Investment Bank Berhad (43526-P)**  
 Level 8, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

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<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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<b>NOT RATED</b>	No research coverage, and report is intended purely for informational purposes.

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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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