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George Kent rises 1.55% on tie-up with Siemens for KL-S'pore HSR tender

Neily Syafiqah Eusoff / theedgemarkets.com

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KUALA LUMPUR (Oct 12): Engineering and metering company George Kent (Malaysia) Bhd rose 1.55% in the morning trading session today following its partnership with Siemens Aktiengesellschaft, Germany, and Siemens Pte Ltd, Singapore, for the Kuala Lumpur to Singapore High Speed Rail (HSR) tender.

The stock, which rebounded from a one-year low of RM1.61, continued its climb to this morning's high of RM3.29 shortly after the opening bell. However, at 10.57am, it retreated to RM3.26, still up 0.93% or three sen.

Year to date, the counter has gained some 61.82%.

Yesterday, George Kent announced that it had entered into a pre-consortium agreement with Siemens on Oct 6.

Under the agreement, George Kent and Siemens will form an engineering, procurement, and construction pre-consortium to bid for the development, financing, construction, technical operations and maintenance of the HSR, collectively termed as the "AssetsCo Tender".

In its note review today, Hong Leong Investment Bank (HLIB) commented that the AssetsCo will need to fund and build the systems portion excluding the civil works of the HSR and rolling stock.

"We gather that the AssetsCo portion will comprise RM20 billion of the overall RM60 billion HSR cost.

"To get its returns on investment, we understand that AssetsCo will receive several payments which include availability payments, train lease fee, currency & indexation, energy," said its analyst Jeremy Goh.

Goh said HLIB is positive on the news as getting the AssetsCo role will further elevate George Kent's prominence in the rail system's scene.

"George Kent's huge net cash pile of RM395 million will come in handy for the AssetsCo bid," he explained.

Meanwhile, Goh also shared that Siemens will likely be the lead partner in the consortium for the AssetsCo bid, and has significant global experience in rail jobs including rolling stock, automation systems, and electrification.

"Should the consortium fail to win the AssetsCo tender, George Kent can still potentially participate in the HSR systems work via subcontracts from the winner," he said.

The research house maintained the its "buy" recommendation on the stock with an unchanged target price of RM3.75, partly due to an expectation that George Kent is a key rail player with exposure to the LRT extension, LRT3 and MRT2.

"We believe it is in a prime position to participate in upcoming mega rail projects such as the East Coast Rail Link and HSR," he said.

RHB Research, which has a slightly higher target price of RM3.78, said it is also positive on the development and thinks the consortium has a fair chance in the race for the tender.

The research house maintained its "buy" recommendation on the stock, as it sees the group as the proxy play for the push towards domestic rail-related investment.

"Our current earnings forecasts are largely anchored by George Kent's existing strong orderbook of RM5.9 billion, which translates into a strong orderbook-to-revenue coverage ratio of about 10 times.

"This implies that should the group manage to clinch the ECRL project in the near term, we may likely tweak our earnings forecasts," said its analyst Chiong Tong Chai.

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