Analyst Reports

- **STOCKS ANALYSIS**
- Friday, 13 Oct 2017
-
-

image: http://www.thestar.com.my/business/business-news/2017/10/13/analyst-reports/~/media/c2ed84778f7849c2a2149d6a21363f1b.ashx?h=450&w=450

KESM INDUSTRIES BHD

image: https://cdn.thestar.com.my/Themes/img/chart.png

By Affin Hwang Capital

Rating: Buy

Target price: RM21.80

THE high capital expenditure (capex) of KESM in recent years and the build-up of its automotive test business will be supportive of the company's underlying growth.

According to Affin Hwang Capital, which recently held an investor meeting for KESM, the technology company had guided for a preliminary capex of RM70mil to RM80mil for the financial year (FY) ending July 31, 2018.

“We understand that capex has been allocated for a combination of new automotive products and capacity increase of existing products,” the brokerage noted.

In FY2017, KESM upped its capex to RM107mil from RM30mil in FY2016.

Affin Hwang Capital maintained its “buy” call on KESM for a play on the automotive burn-in and test business, which the brokerage believed would be undergoing strong structural growth.

Its unchanged target price of RM21.80 for KESM was based on a valuation of 17 times the estimated earnings of KESM for 2018.

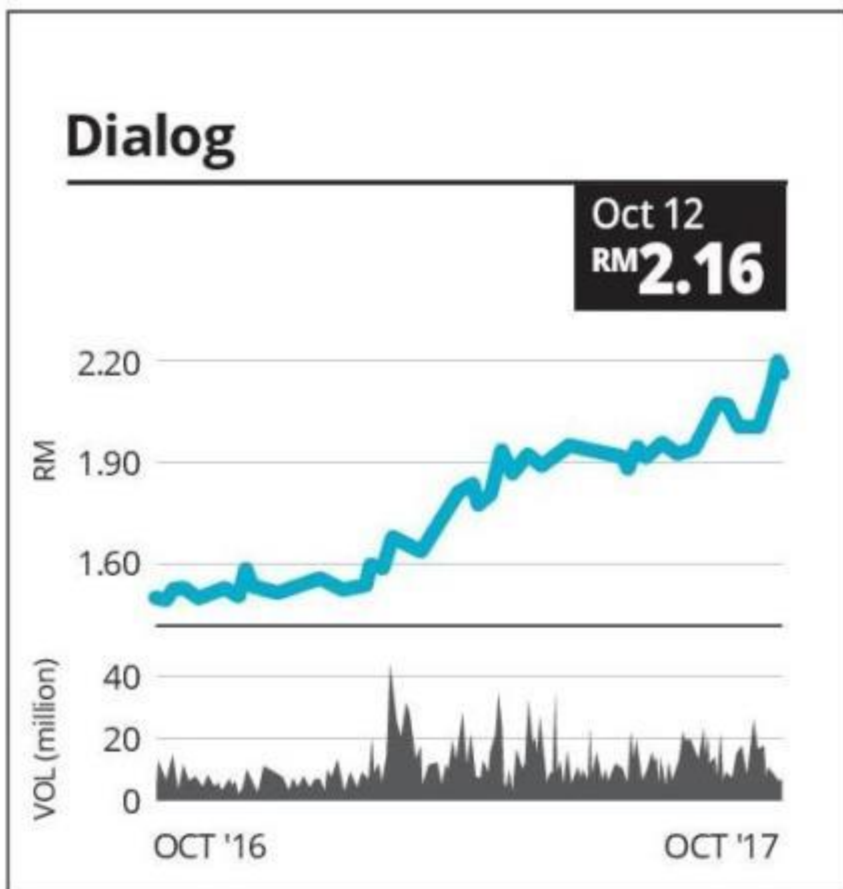
“Although management did not provide FY2018 estimated earnings guidance, we sense a comfortable level of optimism,” Affin Hwang Capital said.

“We have modelled into our forecast fairly stable EBITDA (earnings before interest, tax, depreciation and amortisation) of 33.7% to 34% over FY2018-2019 estimates, but they could be conservative if capex continued to surprise on the upside,” it pointed out.

KESM’s FY2017 EBITDA margin expanded to 33.6% from 32.2% in FY2015 and from 27.4% in FY2010. Essentially, the margin expansion was driven by its move into the test segment and also accompanied by scale.

“Nonetheless, management continued to play down further margin growth in the near future although it believes that margins can further increase post a 18 to 24-month timeframe after the company’s continued investment into further improving its cost efficiency,” Affin Hwang Capital said.

image: http://www.thestar.com.my/business/business-news/2017/10/13/analyst-reports/~/media/c30259889aa04b048f29fb53173d130a.ashx?h=471&w=450



DIALOG Group Bhd

image: https://cdn.thestar.com.my/Themes/img/chart.png

By Maybank Investment Bank Research

Rating: Hold

Target price: RM2.33

WHILE MaybankIB Research has raised its target price for Dialog, the brokerage downgraded its rating for the oil and gas services provider.

It noted that the higher revised target price of RM2.33 from RM2.26 previously was premised on expectations for higher earnings growth for the financial years ending June 30, 2018, to 2020.

The downgraded rating of “hold” from “buy” previously, on the other hand, was because MaybankIB believed most of the positives had already been priced in and Dialog was fairly valued for now, until new development at its terminal businesses unfolds.

“The CTF (centralised tankage facility) impact is priced in, in our view. Unless new storage capacity expansion plans are unveiled, Dialog’s share price reflects its current business operations,” MaybankIB said.

Dialog's shares had risen 45% year to date, outperforming the benchmark FBM KLCI by 37%.

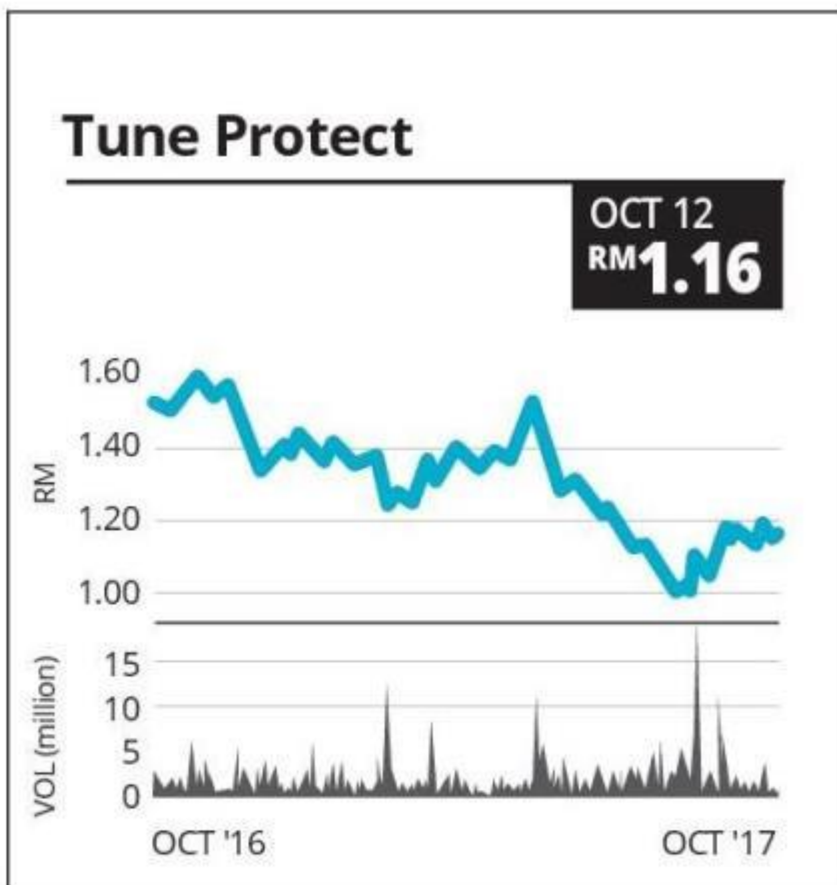
"We raised FY2018 to FY2020 earnings forecasts and target price by 3%, respectively, incorporating for the impact of its 45% acquisition of Centralised Terminals Sdn Bhd (CTSB)," it said.

Dialog now owns 80% of Langsat Terminal One and Two, following the completion of the acquisition of a 45% stake in CTSB from MISC for RM137mil. The deal, said MaybankIB, was positive for Dialog, as it was expected to add RM8mil to RM13mil per annum to the company's bottom line and seven sen per share to net present value.

"With this, Dialog will now have two avenues for growth – Pengerang and Tanjung Langsat," MaybankIB said.

MaybankIB said while it would not rule out the possibility of an extension for the concession for Dialog's 30%-owned Kertih Centralised Tankage Facility (KCTF), which would end in 2020, there was a possibility that the rates could be revised lower. KCTF contributes about RM30mil per annum to the group's earnings.

image: http://www.thestar.com.my/business/business-news/2017/10/13/analyst-reports/~/media/801707e696324c988a4ffa69f2074855.ashx?h=466&w=450



TUNE PROTECT GROUP BHD

image: https://cdn.thestar.com.my/Themes/img/chart.png

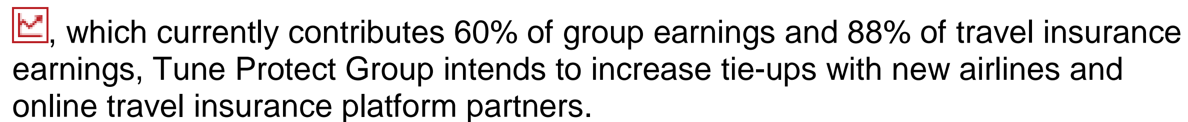
By UOBKayHian

Rating: Buy (maintained)

Target price: RM1.40

TO gradually reduce its dependence on AirAsia

image: https://cdn.thestar.com.my/Themes/img/chart.png



, which currently contributes 60% of group earnings and 88% of travel insurance earnings, Tune Protect Group intends to increase tie-ups with new airlines and online travel insurance platform partners.

The most recent being Ankor Air and Tourders, said UOBKayHian.

The research house said the company also intends to widen and improve the product range sold on its own digital platform, which currently consists of six products (motor, travel, dental, guard easy-protection against snatch theft) and ride easy (coverage for passenger of motor vehicles).

The research house said there will be a slew of initiatives in the pipeline to drive growth of non-travel retail business.

“The group is looking to expand contribution from the non-travel business by increasing cross-selling initiatives (by leveraging on AirAsia’s large customer database), improving data analytics capabilities and rolling out more products.

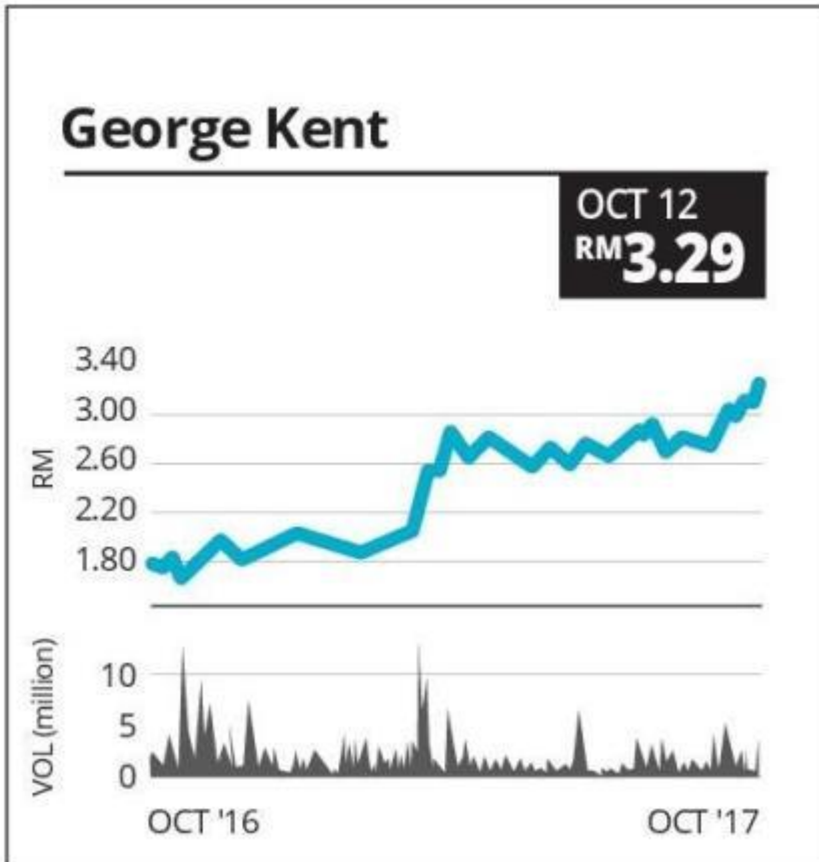
“The current pipeline of new innovative online product roll outs include: Tune Protect Home Easy, on-demand insurance (sports personal accident coverage and coverage for home contents), and usage-based insurance (for example pay-as-you-drive and pay-how-you-drive motor coverage).

UOBKayHian also said the group’s travel insurance product bundling with AirAsia’s premium seats remains a key catalyst to its earnings turnaround for the second half of 2017 and 2018.

“We expect the group’s year-on-year decline in travel insurance net premiums to narrow significantly from -14.7% year-on-year and -20.4% year-on-year in the second quarter of 2017 and first half of 2017 respectively, to -4% in the third quarter of 2017 before registering a strong 21% year-on-year recovery in the fourth quarter of 2017.

“For 2018, we expect a 14% year-on-year earnings recovery, driven by the full-year effect of its travel insurance product bundling initiative, which should help underpin a 27% year-on-year recovery in travel insurance premiums issued.”

image: http://www.thestar.com.my/business/business-news/2017/10/13/analyst-reports/~/media/980d9553259648f899519e24817c4cf6.ashx?h=462&w=450



GEORGE KENT (M) BHD

image: https://cdn.thestar.com.my/Themes/img/chart.png

By Hong Leong Investment Bank

Rating: Overweight

Target price: RM3.75

GEORGE Kent announced that it has entered into a pre-consortium agreement with Siemens in relation to the KL-Singapore High Speed Rail (HSR) project.

Under the agreement, George Kent and Siemens will form an engineering, procurement and construction preconsortium to bid for the development, financing, construction, technical operations and maintenance of the HSR, collectively termed as the “AssetsCo tender”.

Hong Leong Investment Bank (HLIB) said the AssetsCo will need to fund and build the systems portion (which excludes civil works) of the HSR and rolling stock.

“We gather that the AssetsCo portion will comprise RM20bil of the overall RM60bil HSR cost. To get its returns on investment, we understand that AssetsCo will receive several payments which include availability payments, train lease fee, currency and indexation, energy strategy and based on other key performance indicators.”

The research house said it is positive on this recent news as getting the AssetsCo role will further elevate George Kent's prominence in the rail system's scene.

"Track record wise, George Kent is undertaking the LRT extension systems, MRT2 track works and LRT3 project delivery partners role. George Kent's huge net cash pile of RM395mil will come in handy for the AssetsCo bid.

"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, the research house went on to emphasise that George Kent can still potentially participate in the HSR systems work via subcontracts from the winner.

Read more at http://www.thestar.com.my/business/business-news/2017/10/13/analyst-reports/#Oa78Y7BEmSxWGztF.99