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PDP fees to gain traction in FY19 for George Kent

George Kent (Malaysia) Bhd
(Dec 6, RM3.42)

Maintain buy call with an increased target price (TP) of RM3.90: George Kent (Malaysia) Bhd registered a third quarter financial year 2018 (3QFY18) revenue of RM127.1 million (-32% quarter-on-quarter [q-o-q], +4% year-on-year [y-o-y]) and core earnings excluding foreign exchange of RM31.3 million (+33% q-o-q, +39% y-o-y).

The cumulative nine-month FY18 (9MFY18) revenue amounted to RM444.1 million (+8% y-o-y) while core earnings totalled RM76.2 million (+34% y-o-y).

The 9M core earnings accounted for 75% of our full-year forecast which is within expectations but were slightly behind consensus' at 68%.

Despite flattish (+3%) engineering revenue for the 9M period, profit before tax (PBT), which was adjusted to exclude associates and joint venture, increased 17% y-o-y as the margin expanded from 19% to 21.7%. We believe

the margin expansion was likely due to the booking of variation order works for the light rail transit (LRT) extension which should mostly be completed in FY18.

We understand that as of end 3QFY18, George Kent has yet to book in any significant project delivery partner (PDP) fees for the LRT3 project. While this is the case, share of joint venture profits (from the PDP role) increased 81% y-o-y to RM8.9 million which was mostly due to reimbursables for initial works undertaken. Thus far, six viaducts and one depot package for the LRT3 project has been awarded totalling RM7.1 billion. Recognition of the PDP fees should gain traction in FY19.

For the 9M period, metering revenue rose 27% y-o-y and PBT by a larger quantum of 60%. The PBT margin expanded from 20.6% to 25.8% due to higher margin garnered from orders in Selangor, Singapore and Nepal. — *Hong Leong Investment Bank Research, Dec 6*

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George Kent (Malaysia) Bhd

| FYE JAN (RM MIL) | 2017 | 2018E | 2019F | 2020F |
|------------------------|------|-------|-------|-------|
| Revenue | 599 | 650 | 630 | 626 |
| Ebitda | 126 | 135 | 105 | 91 |
| Ebit | 122 | 130 | 101 | 86 |
| PBT | 127 | 137 | 141 | 154 |
| Core Patmi | 94 | 101 | 113 | 130 |
| Vs consensus (%) | | (9) | (8) | 1 |
| Core EPS (sen) | 16.6 | 18.0 | 20.1 | 23.1 |
| PER (x) | 20.4 | 18.8 | 16.8 | 14.6 |
| PER ex cash (x) | 16.3 | 15.0 | 13.4 | 11.7 |
| Net DPS (sen) | 6.7 | 9.0 | 10.1 | 11.6 |
| Net dividend yield (%) | 2.0 | 2.7 | 3.0 | 3.4 |
| BVPS | 0.71 | 0.80 | 0.90 | 1.02 |
| P/BV (x) | 4.8 | 4.2 | 3.8 | 3.3 |
| ROE (%) | 26.0 | 23.8 | 23.7 | 24.1 |

Source: Hong Leong Investment Bank Research