GEORGE KENT MALAYSIA BHD

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By RHB Research Buy (maintained) Target price: RM5.19 GEORGE Kent Malaysia's financial year ended January 31, 2018 (FY18) revenue increased by 3% year-on-year (y-o-y) to RM617mil. The marginal topline growth was a result of the revenue decline from its engineering segment.

Its portion of the Light Rapid Transit 3 (LRT3) project delivery partner (PDP) contract with an original contract value of RM4.5bil is recognised under the joint venture (JV) classification – which explains the lower topline figure of RM464.6mil, from RM471.5mil in FY17.

Nonetheless, this was offset by the metering segment, which saw its revenue increase by 20% y-o-y to RM152.4mil.

Despite the soft topline growth, pre-tax profit increased by a sturdy 20% y-o-y to RM160.3mil. This was largely driven by higher pre-tax profit margins at both the engineering (33.3% versus 24.5% in FY17) and metering (23.8% versus 21.4% in FY17) segments.

Quarter-on-quarter (q-o-q), its revenue increased 36% to RM173mil.

This is because the 70% q-o-q revenue growth in its engineering segment of RM139.6mil offset the softer showing from its metering segment, where revenue fell by 26% to RM33.3mil.

Profit after tax and minority interests (Patami) improved strongly by 81% q-o-q to RM51.9mil, largely driven by wider margins.

In particular, its engineering unit's pre-tax profit margin improved to 53% from the previous quarter's 39.1%, partly due to the recognition of LRT3 PDP fees at the JV level.

Meanwhile, George Kent's metering segment recorded a lower pre-tax profit margin of 17% from the previous quarter's 26%, due to a lower gross margin and higher operating costs recorded.

Contributions from its JV continued to come up strongly, as the progress for the LRT3 is gathering pace – the latest quarter saw pretax profit contributions from JVs rising to RM7.9mil from the previous quarter's RM5.3mil.

Management has declared a third interim dividend per share (DPS) of 5 sen, bringing the DPS declared for FY18 to 9.5 sen.

"We remain positive on the chances of its order book doubling (the existing balance of RM5.6bil implies nine times of FY18 revenue) this year, with the awarding of the MRT3 contracts being the near-term event to look out for.

"Our sum-of-parts-derived target price (price-earnings ratio of 17 times on FY19 Patami of RM144.7mil, plus net cash) increases by 3% to RM5.19, to reflect the latest financial-year end net near-cash balance of RM465mil," said RHB Research.