

Headline	George Kent in leading position for future MRT3, HSR projects
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► Recommendation: Buy

TARGET Price: RM5.66

by Hong Leong Investment Bank Bhd (March 20)

Results

GEORGE Kent (M) Bhd (GKent) posted its 4QFY18 results with revenue coming in at RM173.1m and core earnings (ex foreign exchange) of RM61.9m.

The full-year of FY18 revenue amounted to RM617m while core earnings totalled RM138.1m.

Deviation

FY18 core earnings accounted for 136% of our full-year forecast which is above expectation.

The stronger than expected results stemmed from: i) higher metering revenue; ii) better engineering margin; and iii) strong progress on the Light Rail Transit Line 3 (LRT3).

Dividends

A third interim DPS of five

sen was declared, bringing the full year FY18 sum to 9.5 sen. In comparison, total DPS for FY17 was 6.7 sen.

Highlights

In spite of flattish engineering revenue for FY18, PBT increased 26%.

Margin expanded YoY from 22.9% to 29.3% which we believe was due to the recognition of variation order works for the LRT extension. We gather that there is roughly RM100m worth of remaining works on the LRT extension which will be completed in FY19.

LRT3 gains traction. Contribution from the LRT3 project delivery partner (PDP) totalled RM16.8m in FY18, increasing 184% YoY.

With the recent underground package (RM1.1b) of the LRT3 awarded to IJM Corp Bhd, most of the major packages have already been dished out. As such, we expect recognition of the PDP fees (6%) to gain further momentum in FY19. We understand

that most of the awarded work packages are to be implemented on a fast-track basis.

Risks

Delays in the rollout LRT3 would be the key risk.

Forecasts

We raise FY19-FY20 earnings by 26% and 23% as we impute: 1) higher engineering margins as the LRT extension works will continue into FY19; 2) stronger metering growth; and 3) higher execution rate on the LRT3.

Rating 'Maintain Buy'

GKent is a key proxy to the booming rail project rollouts in Malaysia. We believe that it is in a leading position to participate in jobs such as the Mass Rapid Transit Line 3 (MRT3) and high-speed rail (HSR). It also boasts a net cash position of RM0.82/share.

With the earnings upgrade, our SOP-based TP is raised from RM4.58 to RM5.66. This implies FY19-FY20 ex cash P/E of 19x and 17x respectively.

► GEORGE KENT (M) BHD

FYE JAN	FY17	FY18	FY19F	FY20F
REVENUE (RM mil)	599	617	671	722
CORE PATAMI (RM mil)	94	138	142	160
CORE EPS (sen)	16.6	24.5	25.3	28.4
P/E (x)	26.0	17.7	17.1	15.3