

# George Kent's earnings forecast raised

StarBiz · 23 Mar 2017

PETALING JAYA: Hong Leong Investment Bank (HLIB) Research has raised the earnings forecast for George Kent (M) Bhd by 18% and 27% for financial year (FY) 2018 and 2019 respectively.



This is following the engineering and rail systems specialist's strong financial year ended Jan 31, 2017 (FY17).

The research house said that George Kent's FY17 core earnings had exceeded its estimates by 32%, in line with stronger-than-expected margins from the engineering segment.

It added that the higher margins were possibly due to the recognition of variation orders for the Ampang Line light rail transit (LRT) extension.

Variation orders are defined as alterations to the scope of works in a construction contract.

"While FY17 engineering revenue grew 9% year-on-year, profit before tax excluding those from associates and joint ventures, increased by a much larger magnitude of 85%.

"Engineering pre-tax profit margin expanded from 13.5% to 22.9% as more LRT extension variation orders continued to be booked.

"We gather that there is an estimated RM400mil worth of such works outstanding," said HLIB Research.

George Kent reported a 100% year-on-year increase in net profit to RM101.41mil for FY17, on the back of record contributions from its engineering and water metering divisions.

The group's total revenue for the year rose 12% to RM598.97mil compared with RM536.2mil in FY16.

Despite a 21% year-on-year revenue growth in George Kent's metering division, the profit margins contracted slightly from 22.4% to 21.5%, largely due to foreign exchange losses during the financial year.

Meanwhile, George Kent has secured contracts amounting to RM1.1bil in FY17, enlarging its order book to RM6.2bil.

According to HLIB Research, this translates to a superior cover ratio of 10.4 times on FY17 construction revenue, making it the highest cover ratio in the research house's coverage.

"George Kent is a key rail play with exposure to the LRT extension, LRT3 and mass rapid transit two.

“It also boasts solid financials with above industry return on equity of 26% and net cash position of 99 sen per share or 31% of its market capitalisation of RM1.21bil,” said HLIB Research.

George Kent closed 2.2% higher at RM3.67 yesterday, with 5.04 million shares traded.