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Westports on track for record volume this year

George Kent's 1H earnings above expectations

George Kent (M) Bhd
(Sept 28, RM2.57)
Maintain buy with a target price (TP) of RM3.25: George Kent (M) Bhd reported its second quarter of financial year 2017 (2QFY17) results with a revenue of RM164.8 million (+44% year-on-year [y-o-y]; +34% quarter-on-quarter [q-o-q]) and core earnings (excluding foreign exchange) of RM18.7 million (+223% y-o-y; +19% q-o-q). Cumulative first half of FY17 (1HFY17) core earnings of RM34.5 million soared 140% y-o-y.

1HFY17 earnings were above expectations at 67% of our full-year forecast. This was due to an upside surprise on engineering margins and joint-venture profits. An interim dividend of three sen was declared.

The engineering division experienced the best of both worlds with 1HFY17 revenue growing 85% and the profit before tax (PBT) margin expanding from 15.2% to 16.7%. We reckon that this was largely due to the balance of works for the light rail transit (LRT) Ampang extension (ongoing system upgrades and depot remodelling) and recognition of certain variation orders (VOs).

Looking forward to 2HFY17, we see the possibility of a downward normalisation in margins should fewer VOs be recognised. This was somewhat evident q-o-q with the PBT margin normalising from 20.8% to 13.7%.

George Kent has managed to secure RM494 million worth of contracts year-to-date, consisting of mass rapid transit line 2 (MRT2) track works. On potential job wins in the near term, George Kent has a letter of intent for a hospital job in Putrajaya worth RM300 million to RM350 million, which could materialise into an award by year end.

George Kent's order book is currently at a record high of RM5.4 billion, implying a superior cover of 13.2 times FY16 construction revenue (highest ratio within our coverage).

PBT for metering remained steady in 1HFY17 (+3% y-o-y), as higher revenue (+19% y-o-y) was offset by a margin contraction from 22.5% to 19.6%, due to a stronger ringgit against the US dollar. Potential catalysts for this division include securing metering supply tenders in Melaka and Selangor.

While 1HFY17 results appear to be above expectations, we have chosen to take the conservative stance and retain our forecasts. This is in view of the potential downward normalisation in engineering margins for 2HFY17, as the LRT extension balance of works approaches completion.

George Kent is a key rail play with exposure to the LRT extension, LRT3 and MRT2. It also boasts solid financials with a three-year earnings compound annual growth rate of 26%, above the industry's return on equity of 15.4% and net cash position of 64 sen per share (25% of market capitalisation).

Our sum-of-parts-based TP is raised slightly from RM3.21 (ex bonus) to RM3.25 as we update the TP for its latest net cash balance. — *Hong Leong Investment Bank Research, Sept 28*

George Kent (M) Bhd

FYE JAN (RM MIL)	2016	2017F	2018F	2019F
Revenue	536	563	438	450
Ebitda	65	77	60	59
Ebit	61	73	56	55
Profit before tax	61	74	87	96
Core Patami	40	52	70	80
Core EPS (sen)	10.7	13.8	18.7	21.2
PER (x)	23.5	18.2	13.4	11.8
PER ex cash (x)	17.5	13.6	10.0	8.8
Net DPS (sen)	5.6	6.9	9.3	10.6
Net dividend yield (%)	2.2	2.7	3.7	4.2
BV per share	0.86	0.93	1.02	1.13
P/B (x)	2.9	2.7	2.5	2.2
ROE (%)	13.2	15.4	19.2	19.8
Net gearing (%)	Cash	Cash	Cash	Cash

Source: HLIB