

UOBKH HIGHLIGHTS

Kerjaya Prospek Group (KPG MK/BUY/RM1.26/Target: RM1.69)

2018: Within Expectations

Year to 31 Dec	4Q18 (RMm)	3Q18 (RMm)	qoq % chg	yoy % chg	2018 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	265.3	269.9	(1.7)	5.0	1,068.8	11.8	2019F	12.0	14.0
Construction	226.4	259.4	(12.7)	2.4	967.8	10.7	2020F	12.5	13.5
Manufacturing	0.1	0.1	(48.2)	(98.4)	1.5	(74.8)	2021F	12.3	13.8
Property Development	38.8	10.4	273.3	43.6	99.4	31.7			
COGS	(210.5)	(215.2)	(2.2)	4.2	(860.2)	11.6			
EBITDA	54.8	54.6	0.4	8.2	208.6	11.3			
Construction	39.1	36.5	7.1	7.7	153.9	(0.4)			
Manufacturing	2.0	0.4	365.7	(65.2)	5.4	84.3			
Property Development	11.2	2.3	390.8	33.3	26.3	31.6			
PBT	46.4	47.3	(2.0)	13.7	182.4	8.2			
PATMI	34.0	36.9	(7.7)	20.2	138.4	11.0			
Core PATMI	39.0	36.9	5.8	37.8	143.4	15.2			
Margins (%)	%	%	+/-ppt	+/-ppt	%	+/-ppt			
Construction	17.3	14.1	3.2	2.8	15.9	(1.8)			
PBT	17.5	17.5	(0.1)	(0.6)	17.1	(0.6)			
PATMI	12.8	13.7	(0.8)	(2.1)	13.0	(0.1)			

Source: Kerjaya Prospek Group, UOB Kay Hian

RESULTS

- **2018 results in line.** Exclude impairment in investment of RM5m, Kerjaya Prospek Group (Kerjaya) posted net profit of RM39m for 4Q18 (+5% qoq, +38% yoy) on revenue of RM265m (-2% qoq, +5% yoy), driven by the construction division. 2018 net profit came in at 97% of our full-year estimate, driven by construction progress billings as well as property billings recognition.
- **Softer margins in 2018.** 2018 pre-tax margin was 17.1% (-0.6ppt yoy), dragged by a weaker construction margin of 15.9% (-1.8ppt yoy) mainly due to a slight increase in construction costs, while property margins remained flattish yoy. Nevertheless, the company is confident of delivering sustainable margins (>10%) in the coming quarters via cost optimisation of resources.
- **Outstanding construction orderbook of RM3.0b as at Dec 18** represented an orderbook cover of 3.1x 2018 construction revenue. In addition, the company does not depend on government-related projects, which further boosts its value amid the sell-down in the construction space.
- **Poised to secure job wins of RM1.2b in 2019.** Kerjaya remains upbeat on replenishing its annual orderbook to RM1.2b in 2019. Ytd, the company has secured RM485m worth of new contracts, representing 49% of our RM1.0b orderbook replenishment target. Presently, its tenderbook stands at about RM1.5b, which comprises mainly high-rise residential buildings from its private arm (RM450m), and other building jobs and bridges.
- **Vista Residences is fully sold.** Kerjaya's maiden project in Goh Tong Jaya, Vista Residence has been fully sold to buyers, while its commercial units (worth RM22m) will be kept by the company for investments (leasing it out). Currently, the project's unbilled sales stood at RM54m and are expected to be recognised in the 1H19 period.
- **Sustaining property earnings through from upcoming launches.** The company plans to launch two high-rise residential projects located in Kelab Monterey, Shah Alam (GDV: RM250m) and Mont Kiara (GDV> RM450m) in 2020, which are expected to provide earnings visibility for the division from 2020 **ONWARDS**.
- **Interim dividend of 1.5 sen/share.** The company has declared an interim dividend of 1.5 sen/share (post bonus issue), representing dividend payout of 27.6% of 1H18 net profit.

EARNINGS REVISION

- No change to our earnings forecasts.

RECOMMENDATION

- **Maintain BUY and target price of RM1.69**, based on 14x 2019F EPS of 12.1 sen, implying 13x ex-cash 2019PE. We have ascribed a higher PE multiple to Kerjaya against its peers largely due to its zero reliance on government-related projects and its ability to clinch building jobs (driven by the private sector) despite uncertainties in the construction space. We like Kerjaya for its: a) superior margins; b) high orderbook cover; c) net cash of RM192m as of end-Sep 18; and d) ability to clinch new contracts, given its strong track record.

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