

30 May 2024

Kerjaya Prospek (KPG MK)

Steadily Progressing; Keep BUY

Construction & Engineering | Construction

Buy (Maintained)

Target Price (Return): MYR2.15 (+19%)
Price (Market Cap): MYR1.81 (USD485m)
ESG score: 3.1 (out of 4)
Avg Daily Turnover (MYR/USD) 1.81m/0.38m

Analyst

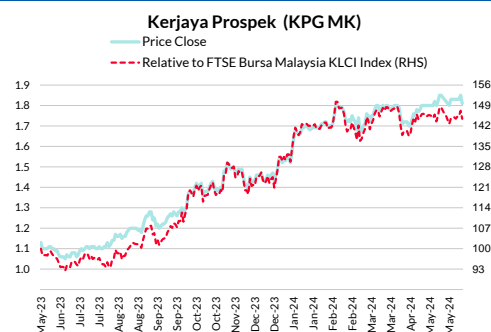
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- **Keep BUY and MYR2.15 TP, 19% upside with c.6% FY24F yield.** Kerjaya Prospek's 1Q24 core profit of MYR36.9m (+31% YoY) made up 23% and 22% of our and Street full-year projections. We deem its results as in line with expectations, since more contributions may come from its ongoing projects in the coming quarters. We forecast a 3-year earnings CAGR of 12%, backed by its steady job replenishment trend coupled with stronger contributions from its property development business. Its FY24F dividend yield is also attractive at c.5% (higher compared to most peers).
- **Results review.** The construction segment recorded a PAT of MYR145.7m (+11.5% YoY) in 1Q24, backed by higher progress billings from ongoing jobs. Likewise, PAT margin for the construction arm remained strong at 9.9% in 1Q24 (1Q23: 9.9%). Meanwhile, the property development unit recorded a PAT of MYR0.8m (1Q23 after-tax loss: MYR0.2m) in 1Q24, backed by property sales for The Vue @ Montez project (GDV: MYRc.300m) with a c.70% take-up rate (signed sale & purchase agreements) as of end-1Q24. The property arm is expected to contribute more in FY24, following the soft launch of the Papyrus @ North Kiara project (GDV: c.MYR500m) in March.
- **We estimate KPG's outstanding orderbook at c.MYR4.5bn** (3x cover ratio). So far, it has secured c.MYR980m worth of new jobs YTD (65% of our FY24 job replenishment target of MYR1.5bn). The group's current tenderbook of MYR1.5-2bn still mainly consists of high-rise buildings, but management indicated that there are around three jobs (particularly industrial ones) under its partnership with Samsung C&T. Seri Tanjung Pinang phase 2 (STP2) in Penang still may offer ample opportunities – with more upcoming property launches such as service apartments called The Lume (GDV: MYR689m) – which may likely be undertaken by KPG.
- **Other opportunities** may stem from Eastern & Oriental's (EAST MK, BUY, MYR1.38) Elmina West development (estimated baseline GDV: MYR1.5bn). Recall that KPG secured a MYR25m job in 3Q23 to undertake earthworks for this development in Elmina West. We view this project as important for EAST to mitigate its single-location risk, and gathered from management that EAST is looking to expedite this project in 2H24. Taking these factors into account, we view the stock's FY24F P/E of 13x as undemanding vs the KLCON index's P/E of 16-17x during the 2017 construction upcycle.
- **No changes to our earnings estimates as results met expectations.** Therefore, our SOP-derived TP to MYR2.15 (which bakes in a 2% ESG premium) is unchanged. A major catalyst for KPG includes earlier-than-expected wins in the industrial building space and further involvement in Penang-related projects such as the Penang International Airport expansion.
- **Downside risks:** Property market slowdown and prolonged cost pressures.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.8	0.6	4.0	27.5	60.2
Relative	6.4	(0.8)	0.5	16.5	45.9
52-wk Price low/high (MYR)				1.05	1.85



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: EXCELLENT

The group complies with all industry safeguards, best practices and regulations to meet desired targets and quality standards for its developments. In terms of product innovation, its continued usage of green cement helps to reduce dependence on calcium oxide, by switching to aluminosilicates – a substance that releases less carbon dioxide and uses less natural materials.

S: GOOD

KPG is an equal-opportunity employer and does not discriminate against age, gender, ethnicity or race, and religious beliefs. Building from this disclosure in previous years, it protects these liberties in its hiring and employment practices including wages, promotions, rewards and access to training. Within the local workforce, the gender ratio of male to female employees remains at 60:40.

G: GOOD

50% of Board members are independent directors, with disclosure on remuneration, which includes salaries. The group has an external investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	1,122	1,458	1,493	1,592	1,724
Recurring net profit (MYRm)	115	130	162	176	186
Recurring net profit growth (%)	18.7	13.3	24.6	8.6	5.8
Recurring P/E (x)	19.87	17.55	14.08	12.96	12.25
P/B (x)	2.0	2.0	2.0	1.9	1.7
P/CF (x)	21.59	84.52	11.80	16.95	6.65
Dividend Yield (%)	3.3	4.3	5.5	5.5	5.5
EV/EBITDA (x)	11.59	10.66	7.65	7.30	6.60
Return on average equity (%)	10.7	11.7	14.1	15.0	14.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

30 May 2024

Construction & Engineering | Construction

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.09	0.10	0.13	0.14	0.15
Construction & Engineering	DPS	0.06	0.08	0.10	0.10	0.10
Kerjaya Prospek	BVPS	0.89	0.91	0.91	0.95	1.10
KPG MK	Return on average equity (%)	10.7	11.7	14.1	15.0	14.4
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
We value Kerjaya Prospek based on its SOP, derived from a combination of P/E and RNAV valuation methodologies.	Recurring P/E (x)	19.87	17.55	14.08	12.96	12.25
	P/B (x)	2.0	2.0	2.0	1.9	1.7
	FCF Yield (%)	3.9	0.4	6.9	4.4	13.5
	Dividend Yield (%)	3.3	4.3	5.5	5.5	5.5
	EV/EBITDA (x)	11.59	10.66	7.65	7.30	6.60
	EV/EBIT (x)	13.61	11.68	8.94	8.44	7.54
Key drivers	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Kerjaya Prospek's earnings are underpinned by construction work orders, property sales, and the manufacture of interior fixtures & fittings.	Total turnover	1,122	1,458	1,493	1,592	1,724
	Gross profit	176	198	278	298	320
	EBITDA	175	198	256	272	289
	Depreciation and amortisation	(26)	(17)	(37)	(36)	(36)
	Operating profit	149	181	219	235	253
	Net interest	(1)	(2)	(0)	(1)	(1)
	Pre-tax profit	149	179	219	235	252
	Taxation	(34)	(47)	(57)	(59)	(65)
	Reported net profit	115	133	162	176	186
	Recurring net profit	115	130	162	176	186
Key risks	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Downside risks are a property market slowdown and prolonged cost pressures.	Change in working capital	(25)	(127)	120	(78)	121
	Cash flow from operations	106	27	194	135	343
	Capex	(16)	(18)	(35)	(35)	(35)
	Cash flow from investing activities	(12)	(20)	(35)	(35)	(35)
	Dividends paid	(62)	(88)	(126)	(126)	(126)
	Cash flow from financing activities	(49)	(89)	(36)	(125)	(225)
	Cash at beginning of period	210	256	196	318	293
	Net change in cash	44	(83)	122	(25)	83
	Ending balance cash	256	173	318	293	376
Company Profile	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Kerjaya Prospek gained its listing through a reverse takeover of Fututech. The company is involved in construction, property development, and manufacturing.	Total cash and equivalents	256	196	318	293	376
	Tangible fixed assets	90	92	81	79	78
	Total investments	7	6	6	6	6
	Total assets	1,420	1,589	1,509	1,581	1,777
	Short-term debt	11	29	0	1	2
	Total long-term debt	0	0	0	0	1
	Total liabilities	298	435	361	383	393
	Total equity	1,122	1,154	1,148	1,198	1,384
	Total liabilities & equity	1,420	1,589	1,509	1,581	1,777
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	14.9	29.9	2.4	6.7	8.3
	Recurrent EPS growth (%)	16.4	13.3	24.6	8.6	5.8
	Gross margin (%)	15.7	13.6	18.6	18.7	18.6
	Operating EBITDA margin (%)	15.6	13.6	17.2	17.1	16.8
	Net profit margin (%)	10.2	9.1	10.9	11.1	10.8
	Dividend payout ratio (%)	65.9	74.8	77.8	71.6	67.7
	Capex/sales (%)	1.5	1.2	2.3	2.2	2.0
	Interest cover (x)	230	116	440	294	255

Source: Company data, RHB

Results At a Glance

Figure 1: KPG's results review

FYE Dec (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Revenue	297.2	489.0	337.1	(31.1)	13.4	YoY performance was stronger, mainly from the higher progress of construction projects and contribution from the property segment.
EBIT	39.2	50.9	46.2	(9.2)	18.0	
Interest expense	(0.1)	(0.5)	(0.3)	(26.9)	>100	
Pretax profit	39.0	50.4	45.8	(9.0)	17.4	
Tax	(9.6)	(14.5)	(12.2)	(15.3)	27.3	
Minority Interest	(0.0)	(0.2)	(0.1)	(73.7)	>100	In line with expectations
Net Profit	29.4	35.7	33.6	(6.1)	14.1	
Core Profit	28.2	33.0	36.9	11.9	31.0	
EBIT Margin (%)	13.2	10.4	13.7			
Pretax Margin (%)	13.1	10.3	13.6			
Net Margin (%)	9.5	6.7	10.9			

Source: Company data, RHB

Figure 2: SOP valuation

Business segments	Valuation method	Total value (MYRm)
Construction	14x FY25F Construction PAT	2,454.6
Property	60% discount to RNAV	37.4
Manufacturing	7x P/E	0.4
Net Cash		245.0
Total SOP value		2,659.6
Shares outstanding		1,261.1
Intrinsic value per share		2.11
2% ESG premium		0.04
Target price		2.15

Source: Company data, RHB

Emissions And ESG

Trend analysis

KPG's total emissions increased by 6% in FY23, but its electricity usage intensity dropped to 3.0kWh/MYR1k revenue in FY23 from 3.3kWh/MYR1k revenue in FY22.

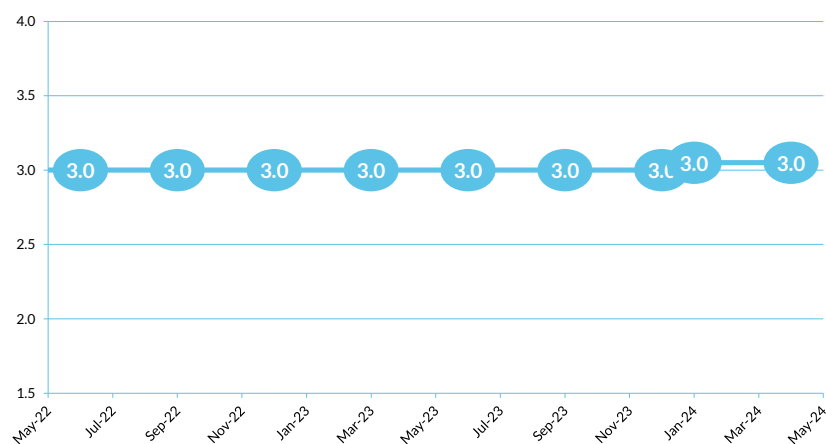
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	4,750	5,226	5,745
Scope 2	2,867	3,491	3,491
Scope 3	na	na	na
Total emissions	7,617	8,717	9,236

Source: Company data, RHB

Latest ESG-Related Developments

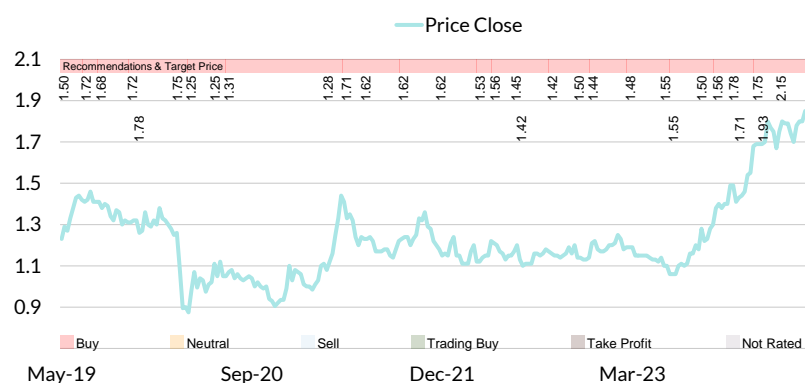
- KPG will continue to review and develop a structured approach towards more complete and accurate emissions reporting, including Scope 1, Scope 2, and relevant Scope 3 emissions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-28	Buy	2.15	1.85
2024-05-09	Buy	2.15	1.85
2024-02-29	Buy	2.15	1.74
2024-01-16	Buy	1.93	1.70
2024-01-03	Buy	1.75	1.58
2023-11-21	Buy	1.71	1.49
2023-11-07	Buy	1.78	1.48
2023-09-28	Buy	1.56	1.28
2023-08-20	Buy	1.50	1.20
2023-08-17	Buy	1.55	1.20
2023-06-12	Buy	1.55	1.10
2023-05-24	Buy	1.55	1.12
2023-04-17	Buy	1.48	1.15
2023-02-27	Buy	1.48	1.18
2023-02-07	Buy	1.44	1.22

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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