Kerjaya Prospek poised to gain from ES Sunlogy investment

PETALING JAYA : Analysts have maintained their "buy" calls on construction and property group Kerjaya Prospek Group Bhd after it, via its wholly-owned subsidiary Acumen Marketing Sdn Bhd, subscribed for 70 million new shares in ES Sunlogy Bhd.

TA Research said it views Kerjaya's investment in ES Sunlogy positively, as it provides strategic exposure to the fast-growing mechanical and electrical (M&E) engineering and renewable energy segments, which are expected to benefit from structural demand from data centre developments, industrial projects and Malaysia's energy transition agenda.

"While the investment is small and unlikely to have a material near-term earnings impact, we believe it could create future collaboration opportunities in integrated construction and M&E works.

"More importantly, the investment could also enhance Kerjaya's access to M&E and renewable energy capabilities, potentially supporting future participation in Large Scale Solar and data centre-related projects," TA Research said.

It also said based on ES Sunlogy's trailing 12-months profit after tax of RM12.4mil and implied equity valuation of RM206.6mil derived from the RM18.8mil consideration for a 9.1% stake, the transaction implies a trailing 12-month price-to-earnings ratio of 16.7 times.

"We consider the valuation reasonable, as it represents a modest discount to the 18.1 times average price-to-earnings ratio of selected small-cap M&E/engineering peers," the brokerage added.

It said given a minority 9.1% stake acquisition in ES Sunlogy, it does not expect a material change in Kerjaya's earnings, adding that it maintained its forecasts at this juncture.

TA Research maintained its "buy" recommendation with an unchanged target price of RM3.45 per share, adding that it continued to like the group for its solid earnings visibility, consistent and robust replenishment of its order book, and the potential growth in industrial property construction leveraging the group's partnership with Samsung.

In its report, Phillip Research said it also makes no changes to its earnings forecasts for Kerjaya.

"We reiterate our 'buy' rating and unchanged target price of RM3.16 and remain positive on the group's earnings prospects, underpinned by its robust contract flows," the research house said.

Key downside risks to its buy call include slower-than-expected order book replenishment, higher-than-expected raw material costs, unforeseen projects delays, and slowdown in the property market.

The brokerage believes the recent acquisition valuation is fair and broadly within the average 14 times price-to-earnings ratio of M&E peers under its coverage.

It said the acquisition price represents only 4% of Kerjaya's RM484mil net cash position and can be comfortably funded through internally generated funds.

At last look, the stock was traded at RM2.43 apiece.