

Singapore

HOLD (no change)

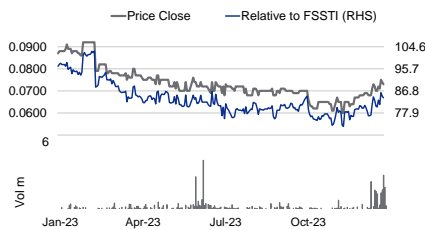
Consensus ratings*: Buy 0 Hold 1 Sell 0

Current price:	S\$0.07
Target price:	S\$0.08
Previous target:	S\$0.076
Up/downside:	9.6%
CGS-CIMB / Consensus:	N/A
Reuters:	GKEC.SI
Bloomberg:	GKEC SP
Market cap:	US\$42.22m
	S\$56.58m
Average daily turnover:	US\$0.01m
	S\$0.02m
Current shares o/s:	775.1m
Free float:	61.5%

*Source: Bloomberg

Key changes in this note

➤ FY24-26F EPS lowered by 3-14%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9	4.3	-16.1
Relative (%)	6.8	3.6	-13.1

Major shareholders	% held
Chen Yong Hua	8.6

Analyst(s)



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GKE Corp Ltd

China improvement not apparent yet

- 1HFY24 net profit of S\$1.9m (+90% yoy) missed on weak China contribution. New DG business in SG had started to contribute positively since Nov 2023.
- We expect China RMC revenue to remain weak in the near term as property sales could continue declining in 2024F, hindering RMC sales volumes.
- Reiterate Hold at a higher SOP-based TP of 8.0 Scts as we roll forward our valuation year to CY25F.

1HFY5/24: earnings recovery weighed by credit provisions

GKE Corp's 1HFY5/24 net profit of S\$1.9m (-35% hoh, +90% yoy) came in below our expectations, at 32% of our FY24F forecast. The miss was driven by weaker-than-expected business recovery for its China ready-mix concrete (RMC) business, resulting in: 1) lower-than-expected revenue growth, and 2) credit loss provisions of S\$1.2m made.

Singapore remains the sturdy pillar

1HFY24 warehousing and logistics revenue grew to S\$45m (+2% hoh, +5% yoy), on the back of: 1) stronger chemical business contribution (both Marquis and Fair Chem), 2) warehouse rental reversions (c.+3-5% yoy), and 3) new contribution from dangerous goods (DG) storage services. Warehouse occupancies remained close to maxed out in 1HFY24, while tenant optimisation efforts were continuously ongoing. Management shared that its recently converted DG yard had commenced operations as of Nov 23. As DG cargo likely commands higher rental yield (compared to normal cargo), we expect FY24-25F Singapore PBT growth to be driven by improvement in DG occupancies.

China operations looking lacklustre

Revenue from GKE's China RMC business remained lacklustre in 1HFY24 (-3% hoh, flat yoy), as construction activities in Wuzhou saw little improvement, in our view. Credit loss provisions narrowed yoy, but still came in at S\$1.2m (+371% hoh, -36% yoy), which we think reflects GKE's guarded sentiment towards domestic developers. GKE shared that building activity levels saw little growth YTD, reinforcing our view that RMC volume recovery in FY24F would likely be bumpy. [Our China property analyst expects property sales to remain weak and continue declining in 2024F](#), though we do see green shoots with policymakers becoming more proactive in helping the sector in a bid to prevent further deterioration. We lower our FY24-26F PBT contribution from the China RMC business, as we adjust our assumptions on: 1) higher credit loss provisions, and 2) slower-than-expected pace of revenue recovery.

Reiterate Hold as China recovery is still uncertain

We lower our FY24-26F EPS by 3-14% on account of lesser contribution from China. We roll forward our valuation base year to CY25F, raising our SOP-based TP to 8.0 Scts. Upside risks: a quick recovery in China construction activities, and stronger margin expansion from DG contribution. Downside risks: prolonged turmoil in China's property market, and higher credit losses.

Financial Summary

	May-22A	May-23A	May-24F	May-25F	May-26F
Revenue (S\$m)	104.8	108.9	113.1	120.4	126.1
Operating EBITDA (S\$m)	23.36	23.92	22.96	25.95	27.38
Net Profit (S\$m)	4.70	3.91	5.10	7.17	8.19
Core EPS (S\$)	0.006	0.005	0.007	0.009	0.011
Core EPS Growth	(54.3%)	(16.9%)	30.5%	40.5%	14.3%
FD Core P/E (x)	12.03	14.48	11.09	7.89	6.91
DPS (S\$)	0.002	0.002	0.002	0.002	0.002
Dividend Yield	2.74%	2.74%	2.74%	2.74%	2.74%
EV/EBITDA (x)	3.87	3.31	3.45	2.68	2.13
P/FCFE (x)	6.69	4.12	NA	6.26	5.35
Net Gearing	39.5%	26.6%	25.8%	15.0%	3.8%
P/BV (x)	0.62	0.61	0.59	0.56	0.52
ROE	5.24%	4.26%	5.41%	7.26%	7.81%
% Change In Core EPS Estimates			(14.4%)	(9.0%)	(3.1%)
EPS/Consensus EPS (x)			0.82	0.92	0.96

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

China improvement not apparent yet

Figure 1: Results comparison

FYE May (S\$m)	1HFY24	1HFY23	yoy % chg	2HFY23	hoh % chg	FY24F	FY23	yoy % chg	Prev. FY24F	Comments
Revenue	55.5	54.4	2.1	54.6	1.8	113.1	108.9	3.8	120.3	Slightly below, formed 46% of FY24F
Cost of goods	(39.0)	(38.8)	0.7	(39.7)	(1.5)	(81.2)	(78.4)	3.5	(86.0)	
Gross profit	16.5	15.6	5.6	14.9	10.6	31.9	30.5	4.6	34.3	
Gross margin	29.7%	28.7%		27.3%		28.2%	28.0%		28.5%	
Operating costs	(12.2)	(12.3)	(0.9)	(10.0)	21.6	(23.0)	(22.4)	2.7	(24.5)	
Operating profit	4.3	3.3	30.2	4.9	(12.1)	9.0	8.1	9.9	9.8	Below, due partly to credit loss provisions made
Operating margin	7.7%	6.0%		8.9%		7.9%	7.5%		8.1%	
Interest expense	(1.4)	(1.5)	(4.7)	(1.3)	5.7	(3.0)	(2.8)	5.4	(3.0)	
Pretax profit	3.3	1.9	75.1	5.0	(34.1)	8.5	6.9	22.9	10.4	
Tax	(1.4)	(0.9)	58.2	(2.1)	(33.2)	(3.4)	(3.0)	13.0	(4.4)	
Tax rate (%)	42.4%	46.9%		41.8%		39.7%	43.2%		42.6%	
Net profit	1.9	1.0	90.1	2.9	(34.8)	5.1	3.9	30.5	6.0	Below, formed 32% of FY24F
Basic EPS (Scts)	0.25	0.13	92.3	0.37	(32.4)	0.66	0.50	31.6	0.77	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: Revenue and PBT breakdown

FYE May (S\$m)	1HFY24	1HFY23	yoy % chg	2HFY23	hoh % chg	FY24F	FY23	yoy % chg	Prev. FY24F	Comments
Segment revenue (S\$m):										
Warehousing and logistics	44.1	43.3	1.9	43.0	2.7	89.2	86.3	3.4	90.3	In line
Infrastructural materials	10.9	10.9	0.3	11.2	(2.6)	22.9	22.1	3.8	29.6	Below, weak China construction demand
Agriculture	0.5	0.2	122.1	0.4	30.1	1.0	0.6	63.4	0.4	
Total revenue	55.5	54.4	2.1	54.6	1.8	113.1	108.9	3.8	120.3	
Segment PBT (S\$m):										
Warehousing and logistics	5.6	5.8	(2.3)	5.2	8.1	11.7	11.0	6.5	12.7	Largely in line
Infrastructural materials	(0.0)	(1.3)	n.m.	0.8	n.m.	1.0	(0.5)	n.m.	2.7	Below, operating deleverage and S\$1.2m in credit loss provisions
Agriculture	(0.1)	(0.2)	n.m.	(0.0)	n.m.	(0.2)	(0.2)	n.m.	0.0	
Others	(2.2)	(2.4)	n.m.	(1.0)	n.m.	(3.5)	(3.5)	n.m.	(5.0)	
Total PBT	3.3	1.9	75.1	5.0	(34.1)	9.0	6.9	30.2	10.4	Below
Segment PBT margin (%):										
Warehousing and logistics	12.8%	13.3%		12.1%		13.1%	12.7%		14.0%	
Infrastructural materials	-0.3%	-11.7%		7.3%		4.3%	-2.1%		9.2%	
Agriculture	-11.0%	-72.6%		-0.5%		-20.0%	-27.1%		0.0%	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Earnings revision

FYE May (S\$m)	New			Old			% change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	113.1	120.4	126.1	120.3	125.5	130.1	-6.0%	-4.1%	-3.0%
Gross profit	31.9	36.1	38.4	34.3	37.5	39.2	-7.1%	-3.8%	-2.2%
Profit before tax	8.5	11.5	13.1	10.4	12.7	13.6	-18.6%	-9.5%	-3.7%
Net profit	5.1	7.2	8.2	6.0	7.9	8.5	-14.4%	-9.0%	-3.1%
Core EPS (Scts)	0.7	0.9	1.1	0.8	1.0	1.1	-14.4%	-9.0%	-3.1%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Sum-of-parts valuation

	CY25F net profit (S\$ m)	Multiple (x)	Valuation (S\$m)	Per share (S\$)	% of SOP	Comment
Warehousing and logistics	7.2	12x	83.2	0.11	128.3%	Based on 12x CY25F P/E
Infrastructural materials & services	1.1	6x	6.3	0.01	9.7%	Based on 6x CY25F P/E
Net debt			(24.6)	(0.03)	-37.9%	
Sum-of-parts valuation			64.9	0.08	100.0%	
No. of shares (m)			775.1			
Target Price (S\$)				0.08		

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Peers comparison

Company	Bloomberg Ticker	Recom.	Price		Market Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)			Dividend Yield (%)
			(lcl curr)	(lcl curr)		CY24F	CY25F	CY24F	CY25F	CY24F	CY24F	CY25F	
GKE Corp Ltd	GKEC SP	Hold	0.07	0.08	42	9.0	7.3	0.57	0.54	6.5	3.0	2.3	2.7
Singapore-listed logistics players													
Chasen Holdings Ltd	CHLD SP	NR	0.09	na	25	na	na	na	na	na	na	na	na
COSCO SHIPPING International S	COS SP	NR	0.16	na	263	na	na	na	na	na	na	na	na
Singapore Post Ltd	SPOST SP	Add	0.45	0.60	755	15.1	12.5	0.71	0.69	4.8	5.0	4.2	2.6
Vibrant Group Ltd	VIBG SP	NR	0.05	na	23	na	na	na	na	na	na	na	na
Average						15.1	12.5	0.71	0.69	4.8	5.0	4.2	2.6
Singapore-listed building materials players													
BRC Asia Ltd	BRC SP	Add	1.83	2.30	375	6.5	6.3	1.08	1.01	16.9	5.4	5.1	9.3
Hong Leong Asia	HLA SP	Add	0.61	1.00	340	5.9	5.4	0.45	0.42	7.8	5.0	3.9	4.2
Pan-United Corp Ltd	PAN SP	Add	0.38	0.55	197	8.4	8.2	1.13	1.07	13.7	3.5	3.1	7.1
Average						7.0	6.6	0.88	0.83	12.8	4.6	4.0	6.9

DATA AS OF 17 JAN 2024

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
Note: All forecasts for Not Rated (NR) companies are based on Bloomberg consensus estimates



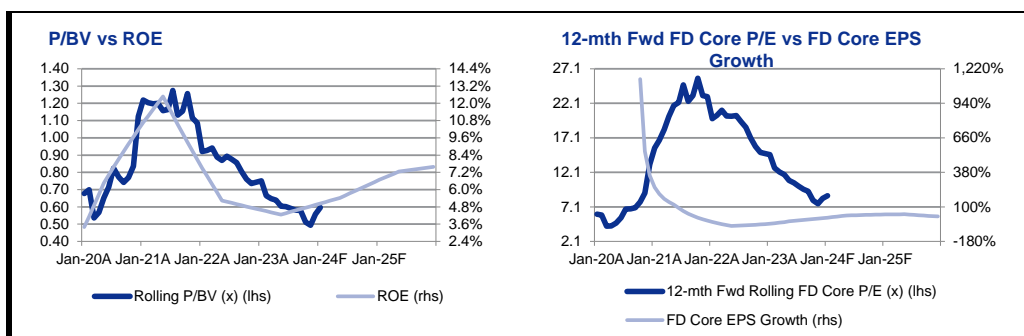
ESG in a nutshell

From an ESG perspective, we think that GKE has performed satisfactorily, thus far, with ongoing initiatives including further digitalisation adoption and venturing into vegetable farming operations. However, we note that the group encountered two cases of non-compliance in FY18-20, which we will remain watchful of.

Keep your eye on	Implications
<p>GKE is currently constructing a new recycling plant located in Cenxi. Upon commencement in CY2023, the plant will recycle material waste into reusable construction raw materials.</p>	<p>The plant is a good investment from an environmental viewpoint as it: 1) reduces wastage of materials, and 2) reduces environmental damage arising from the manufacturing of new raw materials.</p>
<p>ESG highlights</p> <p>The group aims to be more environmentally-friendly via better waste management and reduced greenhouse gas (GHG) emissions. In FY20, GKE started shifting its warehouse operations away from traditionally paper-based towards digitalisation. It has also replaced older trucks with Euro 6 models in its logistics business, in compliance with Singapore National Environmental Agency regulations, which helps to reduce the emission of pollutants and fine particulate matter.</p> <p>In Mar 2021, GKE obtained approval from the Singapore Food Agency to convert its unutilised office premise into an indoor vegetable farm. The group initially focused on growing kale as its key product, and has since expanded into lettuce and Japanese Komatsuna.</p>	<p>Implications</p> <p>As it is a leading warehousing and logistics solutions provider, we like that GKE is showing commitment to contributing to environmental sustainability.</p> <p>From a social lens, its vegetable farm aims to provide the local population access to nutritious and pesticide-free produce, allowing the group to contribute to society.</p>
<p>Trends</p> <p>GKE strives to have zero non-compliance cases every financial year. In FY18-20, GKE faced two cases of socioeconomic non-compliance, for which the group was fined. In FY18, a S\$200 fine was imposed as a consignment of goods had not been moved from the warehouse to the duties paid area even after required duties had been paid. In FY20, the group was fined S\$5k by the Ministry of Manpower for failing to ensure adequate safety measures were implemented during the unloading of goods from a shipping container.</p>	<p>Implications</p> <p>It is important for GKE to adhere to all relevant regulations in its ongoing operations. As a large proportion of GKE's business is labour-intensive, it is paramount that the group maintains stringent safety standards. We will remain watchful for any non-compliance cases.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	May-22A	May-23A	May-24F	May-25F	May-26F
Total Net Revenues	104.8	108.9	113.1	120.4	126.1
Gross Profit	26.3	30.5	31.9	36.1	38.4
Operating EBITDA	23.4	23.9	23.0	26.0	27.4
Depreciation And Amortisation	(14.4)	(15.8)	(14.0)	(14.0)	(14.0)
Operating EBIT	9.0	8.1	9.0	12.0	13.4
Financial Income/(Expense)	(2.9)	(2.8)	(3.0)	(3.0)	(2.9)
Pretax Income/(Loss) from Assoc.	0.2	0.1	0.1	0.2	0.2
Non-Operating Income/(Expense)	2.2	1.4	2.4	2.4	2.4
Profit Before Tax (pre-EI)	8.5	6.9	8.5	11.5	13.1
Exceptional Items					
Pre-tax Profit	8.5	6.9	8.5	11.5	13.1
Taxation	(3.8)	(3.0)	(3.4)	(4.3)	(4.9)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0	0.0
Profit After Tax	4.7	3.9	5.1	7.2	8.2
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4.7	3.9	5.1	7.2	8.2
Recurring Net Profit	4.7	3.9	5.1	7.2	8.2
Fully Diluted Recurring Net Profit	4.7	3.9	5.1	7.2	8.2

Cash Flow

(\$m)	May-22A	May-23A	May-24F	May-25F	May-26F
EBITDA	23.36	23.92	22.96	25.95	27.38
Cash Flow from Inv. & Assoc.	(0.22)	(0.23)	(0.10)	(0.15)	(0.20)
Change In Working Capital	2.24	2.74	(10.04)	(2.48)	(1.81)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	15.01	18.79	14.00	14.00	14.00
Other Operating Cashflow	(9.08)	(11.35)	(8.50)	(8.45)	(8.50)
Net Interest (Paid)/Received	(2.86)	(2.75)	(3.00)	(3.00)	(2.90)
Tax Paid	(2.53)	(2.94)	(3.36)	(4.34)	(4.89)
Cashflow From Operations	25.92	28.18	11.96	21.54	23.08
Capex	(5.77)	(6.31)	(7.50)	(7.50)	(7.50)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	(12.06)	0.00	0.00	0.00	0.00
Other Investing Cashflow	0.09	0.22	0.00	0.00	0.00
Cash Flow From Investing	(17.74)	(6.09)	(7.50)	(7.50)	(7.50)
Debt Raised/(repaid)	0.28	(8.37)	(5.00)	(5.00)	(5.00)
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(3.10)	(1.55)	(1.55)	(1.55)	(1.55)
Preferred Dividends					
Other Financing Cashflow	(7.63)	(9.26)	(3.00)	(3.00)	(2.90)
Cash Flow From Financing	(10.45)	(19.17)	(9.55)	(9.55)	(9.45)
Total Cash Generated	(2.27)	2.92	(5.09)	4.49	6.13
Free Cashflow To Equity	8.46	13.72	(0.54)	9.04	10.58
Free Cashflow To Firm	11.06	24.94	7.46	17.04	18.48

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet					
(\$m)	May-22A	May-23A	May-24F	May-25F	May-26F
Total Cash And Equivalents	27.1	29.8	24.7	29.2	35.3
Total Debtors	42.5	35.9	45.9	48.8	51.1
Inventories	1.1	2.0	1.0	1.0	1.1
Total Other Current Assets	1.9	1.5	1.5	1.5	1.5
Total Current Assets	72.6	69.1	73.0	80.5	89.0
Fixed Assets	132.4	123.8	117.3	110.8	104.3
Total Investments	2.2	2.0	2.1	2.3	2.5
Intangible Assets	5.7	5.1	5.1	5.1	5.1
Total Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0
Total Non-current Assets	140.4	131.0	124.6	118.3	112.0
Short-term Debt	12.6	13.0	13.0	13.0	13.0
Current Portion of Long-Term Debt					
Total Creditors	14.0	14.5	13.3	13.9	14.4
Other Current Liabilities	16.6	16.3	16.3	16.3	16.3
Total Current Liabilities	43.2	43.8	42.7	43.2	43.8
Total Long-term Debt	50.5	41.3	36.3	31.3	26.3
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	25.1	19.8	19.8	19.8	19.8
Total Non-current Liabilities	75.5	61.2	56.2	51.2	46.2
Total Provisions	3.2	2.8	2.8	2.8	2.8
Total Liabilities	122.0	107.7	101.6	97.1	92.7
Shareholders' Equity	91.0	92.4	96.0	101.6	108.2
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	91.0	92.4	96.0	101.6	108.2

Key Ratios					
	May-22A	May-23A	May-24F	May-25F	May-26F
Revenue Growth	(11.9%)	3.9%	3.8%	6.4%	4.8%
Operating EBITDA Growth	(18.0%)	2.4%	(4.0%)	13.0%	5.5%
Operating EBITDA Margin	22.3%	22.0%	20.3%	21.6%	21.7%
Net Cash Per Share (S\$)	(0.046)	(0.032)	(0.032)	(0.020)	(0.005)
BVPS (S\$)	0.12	0.12	0.12	0.13	0.14
Gross Interest Cover	3.12	2.86	2.99	3.98	4.61
Effective Tax Rate	44.8%	43.2%	39.7%	37.7%	37.4%
Net Dividend Payout Ratio	33.0%	39.7%	30.4%	21.6%	18.9%
Accounts Receivables Days	158.4	131.5	132.4	143.5	144.6
Inventory Days	4.07	7.07	6.71	4.42	4.41
Accounts Payables Days	60.77	66.32	62.66	58.89	58.80
ROIC (%)	3.39%	3.03%	3.93%	5.28%	6.11%
ROCE (%)	5.81%	5.31%	6.02%	8.05%	8.95%
Return On Average Assets	2.96%	2.67%	3.47%	4.56%	5.01%

Key Drivers					
	May-22A	May-23A	May-24F	May-25F	May-26F
Warehousing and logistics segment revenue	74.7	86.3	89.2	90.7	92.0
Infrastructural materials segment revenue	29.9	22.1	22.9	28.5	32.6
Warehousing and logistics segment PBT	8.3	11.0	11.7	12.5	13.3
Infrastructural materials segment PBT	2.7	(0.5)	1.0	3.2	4.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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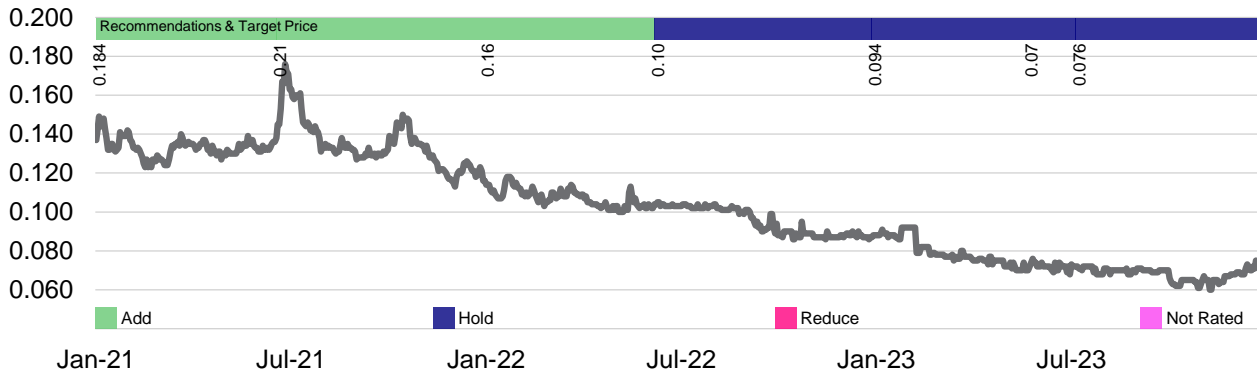
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)

GKE Corp Ltd (GKEC SP)

— Price Close



Recommendation Framework

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Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

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