

24 June 2020

# Gamuda Bhd

## 9MFY20 Below Expectations

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**9MFY20 results came below market expectations as the MCO disruption lasting six weeks had squeezed profits harder than we anticipated. It missed its traditional bi-annual dividend of 6.0 sen for the first time in 10 years. Lowered FY20/21E earnings by 15%/3%. Overall, we are still optimistic on GAMUDA which will remain as the biggest beneficiary of any pump priming initiatives – hence, maintain OP with lowered TP of RM4.10.**

**Below expectations.** Despite already lowering our assumptions earlier this month (through our sector report), 9MFY20 CNP of RM389m still came in below at 68%/63% of our/consensus forecasts due to worse-than-expected MCO disruptions to all operations.

**Missed its traditional bi-annual 6.0 sen dividend** for the first time since 2010 due to the weak profits. To conserve cash amidst this crisis, we believe GAMUDA will also miss their 1<sup>st</sup> interim dividend in FY21 which is typically announced in Dec along with 1Q results.

**Highlights.** 3QFY20 CNP of RM40.2m was down 77% **QoQ** due to the MCO disruptions which had caused revenue to dip 50% on the back of fixed costs. Construction and property segments saw PAT dwindled 89% and 81%, respectively, from lower progress of works while its concession was down 61% as toll traffic fell 80-90%. 9MFY20 CNP was down 25% YoY due to the same reasons.

**3Q is the worst** and 4Q will be better. 4QFY20 only saw two weeks of disruptions (vs. six weeks in 3Q). Hence, we expect revenue run-rate of 4QFY20 to be 80% of a normalized level vs. 3Q's 50%. Most one-off costs were also sunk in 3QFY20.

**Management's property sales target** reduced to RM2b (from RM4b). Management is confident the RM2b is achievable backed by outstanding bookings of RM1.2b. Unbilled sales of RM3b would last the group 1.5 years.

**Current order-book stands at RM7.5b** with the bulk of it derived from MRT2. In 3QCY20, GAMUDA-NAIM JV had secured a Sarawak trunk road project worth RM224m. In our replenishment forecast, we have built in RM2.5b worth of replenishments from MRT3 for FY21.

**Reduce FY20/21E earnings forecasts** by 15%/3%, respectively, after (i) reducing margin assumptions for construction and property projects and (ii) reducing FY20E property sales target to RM2b (from our initial forecast of RM2.4b).

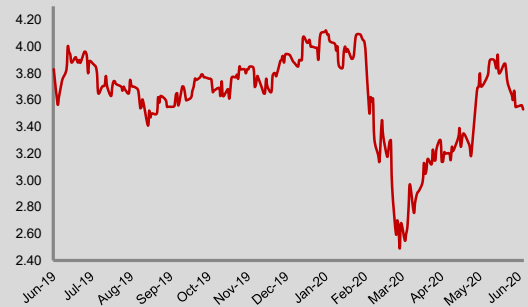
**Maintain OUTPERFORM** with lowered SoP-based TP of RM4.10 (from RM4.30) after adjusting earnings and lowering the probability assumptions of potential projects i.e. HSR, Penang LRT which is built into our valuations. We continue to like GAMUDA for their dominant position in the construction space in Malaysia which is bound to benefit from any pump priming initiatives.

**Risks to our call include:** (i) no MRT3 project, (ii) wide resurgence of Covid-19, and (iii) a snap election.

# OUTPERFORM ↔

Price : **RM3.53**  
Target Price : **RM4.10** ↓

### Share Price Performance



KLCI	1,502.63
YTD KLCI chg	-5.4%
YTD stock price chg	-9.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	Gam MK Equity
Market Cap (RM m)	8,872.8
Shares Outstanding	2,513.5
52-week range (H)	4.30
52-week range (L)	2.36
3-mth avg daily vol:	4,044,800
Free Float	56%
Beta	1.4

### Major Shareholders

Employees Provident Fund Board	14.0%
Kumpulan Wang Persaraan	9.1%
Raja Dato' Seri Eleena binti	7.9%

### Summary Earnings Table

FYE Jul (RM m)	2019A	2020E	2021E
Turnover	4565.1	3537.4	5113.7
EBIT	689.3	501.7	795.3
PBT	908.8	632.9	911.3
<b>Net Profit</b>	<b>706.1</b>	<b>485.0</b>	<b>670.8</b>
<b>Core PATAMI</b>	<b>720.1</b>	<b>485.0</b>	<b>670.8</b>
Consensus (NP)	n.a.	617.3	642.0
Earnings Revision	n.a.	-15%	-3%
Core EPS (sen)	29.3	19.7	27.3
Core EPS growth (%)	-12	-33	38
NDPS (sen)	12.0	6.0	6.0
NTA per Share (RM)	3.45	3.59	3.80
PER (x)	12.1	18.0	13.0
Price to NTA (x)	1.0	1.0	0.9
Debt-to-Equity ratio (x)	0.5	0.4	0.4
Return on Asset (%)	4.3	2.9	3.8
Return on Equity (%)	8.5	5.5	7.2
Net Div. Yield (%)	3.4	1.7	1.7

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**Key updates from briefing**

**PTMP PDP agreement signing agreement delayed** to 3QCY20 (from 2QCY20). This signing will officially give SRS Consortium (of which Gamuda is a 60% partner) the mandate to start works in Penang. While the Penang LRT will be put on the back burner given the unlikely funding support from federal government, the state will push through with the land reclamation (of Island A worth RM8b) with commencement of works tentatively in 1HCY21.

**MRT3 a crucial link** for the first 2 MRT projects and should go on. Management is firm that MRT3 is the most effective way to keep the construction space going to support the broad economy. While talks are ongoing with the government, no firm decision has been made.

**Australia's M6 project worth AUD2.6b** will only see awards dished out earliest in December 2020, after considering that the ongoing tender will close in Aug 2020 with another three months for evaluations. We think Gamuda-BMD JV stands a good chance to win this project against its main contender CPB-Ghella JV.

**Toll highway sale deal likely to fall through.** Since the switch in government, talks over the toll highway sale has dropped under the radar and management thinks that it is highly unlikely for the existing government to go through with it. It is a matter of time before the government officially cancels it.

**Property sales target** reduced to RM2b (from RM4b). Management is confident the RM2b is achievable backed by outstanding bookings of RM1.2b – where RM680m is derived from recently launched OLA residence in Singapore which had an amazing take-up of 35% despite it being launched only for one week before SG's circuit breaker kicked in. Unbilled sales of RM3b would last the group 1.5 years.

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## Results Highlight

FYE July (RM m)	3Q20	2Q20	QoQ	3Q19	YoY	9M20	9M19	YoY
Revenue	549.9	1,090.7	-50%	1,036.7	-47%	2,736.4	3,065.7	-11%
<b>Operating profit</b>	<b>5.7</b>	<b>154.7</b>	<b>-96%</b>	<b>193.2</b>	<b>-97%</b>	<b>330.6</b>	<b>545.7</b>	<b>-39%</b>
Finance cost	-17.3	-23.7	-27%	-24.9	-30%	-76.3	-73.4	4%
Associates	15.3	44.9	-66%	18.6	-18%	91.4	78.5	16%
JV	61.4	43.8	40%	48.6	26%	157.0	134.3	17%
<b>Pre-EI pretax profit</b>	<b>65.1</b>	<b>219.7</b>	<b>-70%</b>	<b>235.6</b>	<b>-72%</b>	<b>502.8</b>	<b>685.2</b>	<b>-27%</b>
Exceptionals	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Pretax profit</b>	<b>65.1</b>	<b>219.7</b>	<b>-70%</b>	<b>235.6</b>	<b>-72%</b>	<b>502.8</b>	<b>685.2</b>	<b>-27%</b>
Tax	-17.7	-33.8	-48%	-45.7	-61%	-83.9	-119.6	-30%
Minority interests	-7.2	-10.7	-33%	-13.8	-48%	-29.9	-44.4	-33%
<b>Net profit</b>	<b>40.2</b>	<b>175.2</b>	<b>-77%</b>	<b>176.0</b>	<b>-77%</b>	<b>389.0</b>	<b>521.2</b>	<b>-25%</b>
<b>Normalised net profit</b>	<b>40.2</b>	<b>175.2</b>	<b>-77%</b>	<b>176.0</b>	<b>-77%</b>	<b>389.0</b>	<b>521.2</b>	<b>-25%</b>
DPS (sen)	0.0	0.0	n.a.	6.0	-100%	6.0	12.0	-50%
EPS	1.6	7.0	-77%	7.0	-77%	15.5	20.7	-25%
EBIT margin	1%	14%		19%		12%	18%	
Pretax margin	12%	20%		23%		18%	22%	
NP margin	7%	16%		17%		14%	17%	
CNP margin	7%	16%		17%		14%	17%	
Effective tax	-27%	-15%		-19%		-17%	-17%	

Source: Company, Kenanga Research

## Segmental Breakdown

Revenue (Reported + JV)	3Q20	2Q20	QoQ	3Q19	YoY	9M20	9M19	YoY
Engineering and Construction	694.8	1,524.4	-54%	978.4	-29%	3,362.8	3,132.3	7%
Property Development	197.9	574.7	-66%	619.8	-68%	1,302.7	1,684.6	-23%
Water and Expressways Concessions	97.1	125.7	-23%	126.5	-23%	349.8	386.6	-10%
<b>Total</b>	<b>989.8</b>	<b>2,224.8</b>	<b>-56%</b>	<b>1,724.6</b>	<b>-43%</b>	<b>5,015.3</b>	<b>5,203.6</b>	<b>-4%</b>
<b>PAT Segmentation</b>								
Engineering and Construction	8.3	73.6	-89%	62.9	-87%	149.1	194.8	-23%
Property Development	7.7	40.1	-81%	63.6	-88%	95.6	149.9	-36%
Water and Expressways Concessions	24.2	61.5	-61%	49.5	-51%	144.4	176.4	-18%
<b>Total</b>	<b>40.2</b>	<b>175.2</b>	<b>-77%</b>	<b>176.0</b>	<b>-77%</b>	<b>389.0</b>	<b>521.2</b>	<b>-25%</b>
<b>PAT margins</b>								
Engineering and Construction	1%	5%		6%		4%	6%	
Property Development	4%	7%		10%		7%	9%	
Water and Expressways Concessions	25%	49%		39%		41%	46%	
<b>Total</b>	<b>4%</b>	<b>8%</b>		<b>10%</b>		<b>8%</b>	<b>10%</b>	

Source: Company, Kenanga Research

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**Sum of Parts Table**

<b>GAMUDA SoP</b>	<b>Stake</b>	<b>Valuation Method</b>	<b>PAT/DCF/BV</b>	<b>Probability</b>	<b>Valuation multiple (x)</b>	<b>Value (m)</b>
Construction (Base case assumes 2.5b replenishment)	100%	FY21E PER	212		20	4233
+						
<b>DCF value of potential projects</b>						
MRT3 Underground	50%	DCF*Probability	450	50%		113
MRT3 Above ground	50%	DCF*Probability	385	50%		96
HSR	50%	DCF*Probability	1200	10%		60
M6 (Australia)	50%	DCF*Probability	511	50%		128
PTMP (Land Reclamation)	60%	DCF*Probability	1440	35%		302
PTMP (LRT)	60%	DCF*Probability	480	10%		29
Pan Island Link (PIL)	100%	DCF*Probability	480	10%		168
Property	100%	FY21E PBV	3482		0.5	1741
Gamuda Waters (GWSB)	80%	DCF	723			579
Kesas	70%	DCF	1053			737
Sprint	52%	DCF	759			395
Smart	50%	DCF	211			105
LDP	44%	DCF	2512			1105
Remaining cash from SPLASH Sale	100%					234
<b>Sum</b>						<b>10024</b>
					Number of Shares	2458
					<b>Target Price</b>	<b>4.10</b>
					FY21E CNP (RM m)	671
					Implied Fwd PER	14.9

Source: Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>														
GAMUDA BHD	3.53	8,872.8	Y	07/2020	12.0	17.9	12.9	1.0	1.0	5.6%	1.7%	4.10	OP	
GEORGE KENT (MALAYSIA) BHD	0.655	346.7	Y	01/2020	8.7	10.6	7.0	0.7	0.7	6.7%	2.4%	0.510	UP	
HOCK SENG LEE BERHAD	1.06	582.5	Y	12/2020	10.5	20.0	9.5	0.7	0.7	3.5%	0.9%	1.25	OP	
IJM CORP BHD	1.84	6,678.2	Y	03/2020	15.2	34.7	29.2	0.7	0.7	2.3%	1.6%	2.00	MP	
KERJAYA PROSPEK GROUP BHD	1.07	1,313.4	Y	12/2020	8.8	12.6	8.7	1.4	1.2	10.2%	2.9%	1.45	OP	
KIMLUN CORP BHD	0.740	251.5	Y	12/2020	4.1	9.5	5.2	0.4	0.3	3.8%	6.4%	1.00	OP	
MITRAJAYA HOLDINGS BHD	0.200	167.9	Y	12/2020	N.A.	N.A.	N.A.	0.2	0.3	-3.9%	n.a.	0.200	MP	
MUHIBBAH ENGINEERING (M) BHD	0.950	459.3	Y	12/2020	12.0	16.7	6.1	0.4	0.4	2.3%	1.1%	1.15	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.89	2,436.9	Y	12/2020	18.5	35.0	15.2	3.9	3.7	10.9%	1.3%	2.45	OP	
WCT HOLDINGS BHD	0.505	704.9	Y	12/2020	9.4	90.2	10.9	0.2	0.2	0.2%	n.a.	0.550	MP	
<b>Simple Average</b>					<b>11.0</b>	<b>27.5</b>	<b>11.6</b>	<b>1.0</b>	<b>0.9</b>	<b>4.2%</b>	<b>2.3%</b>			

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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