

28 September 2020

Gamuda Bhd

FY20 Slightly Above Expectations

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4QFY20 CNP of RM131m* lifted FY20 CNP to RM520m – slightly above our expectations (at 106%) due to stronger than expected highway contributions but within consensus (at 100%). No dividends as expected. No change to FY21 earnings and introduce FY22E earnings of RM589m. Overall, we remain optimistic on GAMUDA which will remain the biggest beneficiary of any pump priming initiatives – hence, maintain OP and TP of RM4.10.

Marginally above our expectations. 4QFY20 CNP of RM131m* lifted FY20 earnings to RM520m – slightly above ours (at 106%) but well within consensus (at 100%). The positive deviation against ours is due to the stronger-than-expected contributions from their highway assets (LDP, Kesas and Sprint) attributable to strong rebound in traffic post lockdowns and lower maintenance costs. Meanwhile FY20 property sales of RM2.2b was within our/management's RM2.0b target. No dividends as expected.

*We have excluded the RM148m one off impairment of their IBS plant to derive our core earnings. This impairment arose from Gamuda's decision to mothball their Sepang IBS plant due to the weak demand landscape and only operate from their Banting IBS Plant.

Highlights. 4QFY20 CNP of RM131m increased 225% **QoQ** due to the less severe MCO disruptions whereby most construction and business activities gradually restarted at the beginning of 4QFY20 ie when CMCO commenced on 4th May. Needless to say, FY20 CNP of RM520m was down 28% YoY from the unprecedented Covid-19 crisis lockdowns.

FY21 is poised to be an exciting year for Gamuda's construction segment as they are (i) vying for their first major Australian project, (ii) hopeful that MRT3 will get the Federal's greenlight, and (iii) officially commence reclamation works at Penang South. Current order-book of RM6.9b provides 2x cover with a bulk (RM4.6b) of it derived from MRT2.

Meanwhile, management is guiding FY21 property sales target of RM3.5b; from which RM1.3b are local and RM2.2b international. We are slightly less optimistic on the local front and hence only project FY21 sales of RM3.2b. Unbilled sales of RM3.3b would last the group 2 years.

No changes to FY21E earnings and introduce FY22E earnings of RM589m. Note that the 13% YoY decline in our FY22E estimates is mainly due to (i) the loss of contribution from MRT2 project as it completes in FY21E coupled with (ii) the ramp up of new projects being gradual. We have built in a cumulative replenishment assumption of RM5b for FY21E and FY22E or an average of RM2.5b/annum.

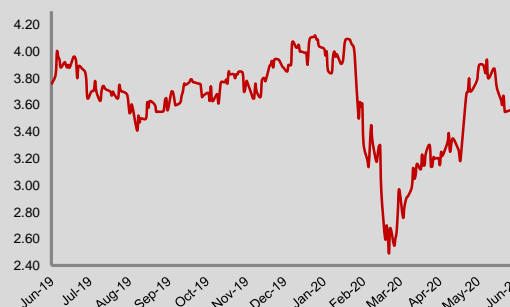
Maintain OUTPERFORM and SoP-based TP of RM4.10. We continue to like GAMUDA for their dominant position over the construction space in Malaysia which is bound to benefit from any pump priming initiatives.

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

OUTPERFORM ↔

Price : **RM3.25**
Target Price : **RM4.10** ↔

Share Price Performance



KLCI	1,509.14
YTD KLCI chg	-5.0%
YTD stock price chg	-16.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	Gam MK Equity
Market Cap (RM m)	8,169.0
Shares Outstanding	2,513.5
52-week range (H)	4.30
52-week range (L)	2.36
3-mth avg daily vol:	2,858,522
Free Float	51%
Beta	1.3

Major Shareholders

Employees Provident Fund Board	14.1%
Kumpulan Wang Persaraan	9.1%
Raja Dato' Seri Eleena binti	7.9%

Summary Earnings Table

FYE Jul (RM m)	2020A	2021E	2022E
Turnover	3663.0	5113.7	4657.8
EBIT	564.5	795.3	752.1
PBT	585.5	911.3	818.0
Net Profit	371.7	670.8	589.4
Core PATAMI	519.8	670.8	589.4
Consensus (NP)	517.0	620.0	615.0
Earnings Revision	0%	0%	NEW
Core EPS (sen)	21.1	27.3	24.0
Core EPS growth (%)	-28%	29%	-12%
NDPS (sen)	6.0	6.0	12.0
NTA per Share (RM)	3.60	3.81	3.93
PER (x)	15.4	11.9	13.6
Price to NTA (x)	0.9	0.9	0.8
Debt-to-Equity ratio (x)	0.3	0.4	0.4
Return on Asset (%)	3.2%	3.8%	3.3%
Return on Equity (%)	5.9%	7.2%	6.1%
Net Div. Yield (%)	1.8%	1.8%	3.7%

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Key Briefing Updates

Confident to score in Australia. Gamuda has been shortlisted to tender for 2 major Australian projects namely the M6 highway and the Sydney Metro West. Aside from these 2 projects, Gamuda also alluded that they are trying to get shortlisted for a third major project in Australia. In terms of technical aspects, Gamuda has likened the M6 highway (tunnel portion) to the SMART tunnel project whereas Sydney Metro West is likened to the MRT project. Timeline wise, Gamuda has guided that they expect the M6 tender to be awarded in 2QCY21 while the Sydney Metro West's first package would be award by the end of next year. We note that there has been a slightly delay in guidance as they had previously guided the M6 highway to be awarded by this year end (Dec-20).

For the Sydney Metro West Project, which has 2 tunneling components ie the Central Tunneling and Western Tunnelling, we note that 2 out of the 3 shortlisted JVs will win a part of this project. That said, we think this is almost a sure win for Gamuda and their JV partner Laing O'Rourke. We say this because among the 3 JVs, the one where Acciona is in has an extremely low chance given their bad blood with the state of NSW. To recap, Acciona had sued the NSW's Transport department back in March-18 after not being able to claim for works done for the Sydney LRT, causing a 1-year delay to the job. Since then, Acciona has yet to secure any new jobs from the NSW government. We believe this sour relationship puts them last in the pecking order for this new Sydney West job. In terms of contract quantum, we use the last NSW tunneling package awarded to John Holland CBP Ghella back in 2017 as a gauge. The award was AUD2.8b for 15.5km of tunnelling works – indicating a cost of AUD181m/km. Extrapolating from this, the Sydney Metro West Central tunneling package worth 11km is c.AUD2.0b while the western package of 9km is c.AUD1.6b.

Penang South Reclamation will go ahead latest by 2QCY21 (next June) regardless. Gamuda is adamant that the 2.5b Penang South Reclamation will go ahead despite the funding deficit by the State. To recap, SRS Consortium will provide RM1.3b borrowings to fund the project while the other RM1.2b will be funded by the state. Currently, SRS Consortium is in the midst of preparing funding strategies for the state for a smooth implementation of the project. That said, we note that the state has also requested Gamuda to prepare for a possibility where the state cannot come up with the funds. Should such case arise, we believe SRS consortium will likely have to bear the funding gap. Should this happen, we believe Gamuda should still be able to cough out the funding quantum but dividends are unlikely to be maintained at 12.0 sen/annum. Meanwhile, Gamuda is currently complying with the prerequisite criteria's (70+ of them) in order to obtain the official greenlight from the Ministry of Environment (Federal). Gamuda is confident that there are no issues complying with these criteria's and the necessary approvals are well obtainable.

Good progress at KVMRT3. According to management, Gamuda has been in close contact with the government in regards to the negotiation of the KVMRT3 – and the general flow of things have been rather positive. Management believes a final decision should be made soon and are optimistic over the outcome.

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Results Highlight

FYE July (RM m)	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
Revenue	926.5	549.9	68%	1,499.4	-38%	3,663.0	4,565.1	-20%
Operating profit	233.9	5.7	3999%	143.6	63%	564.5	689.3	-18%
Finance cost	-63.1	-17.3	265%	-18.6	240%	-139.3	-91.9	52%
Associates	24.8	15.3	62%	48.1	-48%	116.2	126.6	-8%
JV	35.2	61.4	-43%	50.6	-30%	192.2	184.8	4%
Pre-EI pretax profit	230.8	65.1	255%	237.7	-3%	733.6	922.8	-21%
Exceptionals	-148.1	0.0	n.a.	-14.0	958%	-148.1	-14.0	958%
Pretax profit	82.7	65.1	27%	223.7	-63%	585.5	908.8	-36%
Tax	-77.4	-17.7	338%	-31.1	149%	-161.3	-150.7	7%
Minority interests	-22.6	-7.2	215%	-7.7	195%	-52.5	-52.1	1%
Net profit	-17.3	40.2	-143%	184.9	-109%	371.7	706.1	-47%
Normalised net profit	130.8	40.2	225%	198.9	-34%	519.8	720.1	-28%
DPS (sen)	0.0	0.0	n.a.	0.0	n.a.	6.0	12.0	-50%
EPS	5.2	1.6	225%	7.9	-34%	20.7	28.6	-28%
EBIT margin	25%	1%		10%		15%	15%	
Pretax margin	9%	12%		15%		16%	20%	
NP margin	-2%	7%		12%		10%	15%	
CNP margin	14%	7%		13%		14%	16%	
Effective tax	-94%	-27%		-14%		-28%	-17%	

Source: Company, Kenanga Research

Segmental Breakdown

Revenue (Reported + JV)	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
Engineering and Construction	1,426.3	694.8	105%	1,005.4	42%	4,789.1	4,137.7	16%
Property Development	217.9	197.9	10%	861.8	-75%	1,520.5	2,546.5	-40%
Water and Expressways Concessions	145.5	97.1	50%	110.0	32%	495.3	496.6	0%
Total	1,789.6	989.8	81%	1,977.2	-9%	6,804.9	7,180.8	-5%
PAT Segmentation								
Engineering and Construction	24.1	8.3	190%	42.3	-43%	173.1	237.1	-27%
Property Development	30.9	7.7	301%	109.5	-72%	126.5	259.4	-51%
Water and Expressways Concessions	75.8	24.2	213%	27.2	179%	220.1	203.6	8%
Total	130.8	40.2	225%	179.0	-27%	519.8	720.1	-26%
PAT margins								
Engineering and Construction	2%	1%		4%		4%	6%	
Property Development	14%	4%		13%		8%	10%	
Water and Expressways Concessions	52%	25%		25%		44%	41%	
Total	7%	4%		9%		8%	10%	

Source: Company, Kenanga Research

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Sum of Parts Table

GAMUDA SoP	Stake	Valuation Method	PAT/DCF/BV	Probability	Valuation multiple (x)	Value (m)	
Construction (Base case assumes 2.5b replenishment)	100%	FY21E PER	212		20	4233	
+							
DCF value of potential projects							
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	
Sum						10024	
						Number of Shares	2458
						Target Price (RM)	4.10
						FY21E CNP (RM m)	671
						Implied Fwd PER (x)	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.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.25	8,169.0	Y	07/2021	15.4	11.9	13.6	0.9	0.9	5.6%	1.8%	4.10	OP	
GEORGE KENT (MALAYSIA) BHD	0.675	355.9	Y	01/2021	9.0	10.9	7.2	0.7	0.7	6.7%	2.4%	0.510	UP	
HOCK SENG LEE BERHAD	0.840	461.6	Y	12/2020	8.3	15.8	7.5	0.6	0.5	3.5%	1.2%	1.25	OP	
IJM CORP BHD	1.37	4,961.2	Y	03/2021	14.7	21.7	17.8	0.5	0.5	2.3%	2.2%	2.00	OP	
KERJAYA PROSPEK GROUP BHD	1.00	1,238.3	Y	12/2020	8.3	11.8	7.9	1.3	1.1	10.2%	3.0%	1.50	OP	
KIMLUN CORP BHD	0.760	258.2	Y	12/2020	4.4	10.1	5.8	0.4	0.4	3.8%	6.2%	0.960	OP	
MITRAJAYA HOLDINGS BHD	0.205	171.0	Y	12/2020	N.A.	12.8	10.8	0.2	0.2	1.8%	0.0%	0.215	MP	
MUHIKBAH ENGINEERING (M) BHD	0.770	372.3	Y	12/2020	9.7	154.0	6.2	0.3	0.3	0.2%	1.3%	1.05	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.78	2,295.1	Y	12/2020	17.5	33.0	14.4	3.7	3.5	10.9%	1.4%	2.45	OP	
WCT HOLDINGS BHD	0.395	556.9	Y	12/2020	3.6	39.5	10.4	0.2	0.2	0.4%	0.0%	0.470	OP	
Simple Average					9.6	32.6	10.0	0.9	0.8	4.5%	1.9%			

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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