

25 June 2021

# Gamuda Bhd

## 9MFY21 Below Expectations

By Lum Joe Shen | [lumjs@kenanga.com.my](mailto:lumjs@kenanga.com.my)

**3QFY21 CNP of RM142m brought 9MFY21 CNP to RM374m – below expectations in anticipation for a weaker 4Q arising from the numerous MCOs. YTD property sales of RM2.2b is broadly inline as we expect 4Q to be driven by Vietnam. No dividends disappointed expectations. Trim FY21E earnings by 14% and reiterate OP with lower SoP-TP of RM3.90 (from RM4.17) post rollover in valuation.**

**Below expectation mainly due to FMCO.** 3QFY21 CNP of RM142m (+15% QoQ; +253% YoY) lifted 9MFY21 CNP to RM374m (-4% YoY) accounting for 70%/69% of our/consensus full-year estimates. This is deem below our expectation as we expect the MCO 3.0 and FMCO imposed in May and June to affect its: (i) construction and property progress billings, and (ii) tolled highways' traffic flows. The absence of an anticipated 6.0 sen dividend also disappointed expectations. Note that Gamuda typically declares dividends in the 1<sup>st</sup> and 3<sup>rd</sup> quarters of its financial year.

Meanwhile, **3QFY21 property sales of RM0.7b brought 9MFY21 property sales to RM2.2b – broadly within** our/management's target of RM3.3b/RM3.5b. We expect Vietnam to drive sales in 4QFY21.

**Highlights.** 3QFY21 CNP of RM142m increased 15% **QoQ** mainly due to stronger property contributions (+4.3x) from Vietnam as building permits for Celadon City which were previously backlogged have been approved – allowing Gamuda to recognise the progress completion this quarter. By the same reason, 9MFY21 CNP was marginally lower, 4% **YoY**, as Celadon City's unrecognised profits in 1HFY21 had caused property contributions to slump 36% - overshadowing the better performance at its construction and concession divisions.

**Three key updates.** Over in Australia, Gamuda-BMD has lost out in its bid for the AUD2.6b M6 motorway project. That said, we are still optimistic that Gamuda will secure at least one of the two outstanding tenders there:- the Sydney Metro West project (by 4QCY21) and the Sydney Airport Link (by 4QCY21/1QCY22). This is because these two tenders have similar technical requirements with the Malaysian MRT project where Gamuda can use their existing TBMs for those projects. In addition, their JV partners for these two tenders i.e., John Holland and Laing O'Rourke are also more experienced and larger in size as compared to BMD (Gamuda's partner for the M6 tender).

**Secondly, the MRT3 tender which was earlier targeted for Aug 2021** will likely be delayed by 2-3 months amidst the FMCO with some changes in plan as a new chairman for MRT Corp has been appointed in May. Lastly, the PSR commencement is now delayed to Aug 2021 (from May) as Gamuda works towards obtaining the Environmental Management Plan.

**As of 2QFY21, outstanding order-book stood at RM4.9b,** mainly comprising KVMRT2 (RM3.0b) which would continue to drive construction earnings till early FY22. Meanwhile, its order-book is poised to be bumped up by RM5b (from PSR land reclamation works) pending the finalization of JV agreement between Penang state government and SRS.

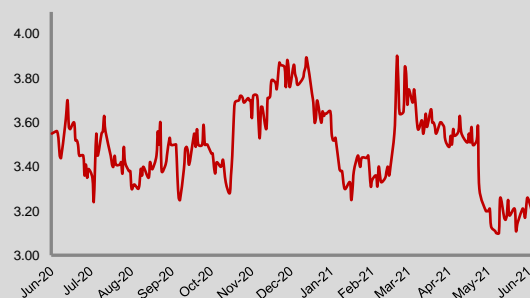
**Trim FY21E earnings by 14%** to cater for the FMCO impact. Nonetheless, we keep FY22E numbers unchanged.

**Maintain OUTPERFORM with lower SoP-based TP of RM3.90 (from RM4.17)** as we remove M6 from our SoP valuations and roll valuation base year forward to FY22E for the construction segment. The drop in TP post rollover is due to the lower construction contributions in FY22E as MRT2 contributions will come off upon its completion while the PSR project will gradually take time to pick up pace.

**OUTPERFORM** ↔

Price : **RM3.12**  
Target Price : **RM3.90** ↓

### Share Price Performance



KLCI	1,555.71
YTD KLCI chg	-4.4%
YTD stock price chg	-19.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GAM MK Equity
Market Cap (RM m)	7,842.2
Shares Outstanding	2,513.5
52-week range (H)	4.00
52-week range (L)	3.01
3-mth avg daily vol:	6,954,120
Free Float	48%
Beta	1.1

### Major Shareholders

Employees Provident Fund Board	14.5%
Amanah Saham Nasional	13.7%
Kumpulan Wang Persaraan	8.2%

### Summary Earnings Table

FYE Jul (RM m)	2020A	2021E	2022E
Turnover	3663.0	4525.3	4657.8
EBIT	564.5	556.8	740.8
PBT	585.5	609.1	806.8
<b>Net Profit</b>	<b>371.7</b>	<b>461.1</b>	<b>589.3</b>
<b>Core PATAMI</b>	<b>519.8</b>	<b>461.1</b>	<b>589.3</b>
Consensus (NP)	517.0	542.8	630.2
Earnings Revision	n.a.	-14%	0%
Core EPS (sen)	21.1	18.8	24.0
Core EPS growth (%)	-28%	-11%	28%
NDPS (sen)	6.0	0.0	6.0
NTA per Share (RM)	3.60	3.79	3.97
PER (x)	14.8	16.6	13.0
Price to NTA (x)	0.9	0.8	0.8
Debt-to-Equity ratio (x)	0.3	0.4	0.4
Return on Asset (%)	3.2%	2.7%	3.3%
Return on Equity (%)	5.9%	5.0%	6.0%
Net Div. Yield (%)	1.9%	0.0%	1.9%



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**Risks to our call include:** (i) changes in MRT3 project, (ii) failing to secure a single win from their three Australian bids, and (iii) sudden halt in PTMP land reclamations due to environmental issues.

**Results Highlight**

FYE July (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Revenue	971.2	895.4	8%	549.9	77%	2,630.5	2,736.4	-4%
<b>Operating profit</b>	<b>165.2</b>	<b>96.2</b>	72%	<b>5.7</b>	2796%	<b>355.3</b>	<b>330.6</b>	7%
Finance cost	-24.7	-27.5	-10%	-17.3	43%	-79.3	-76.3	4%
Associates	32.3	41.2	-22%	15.3	111%	100.6	91.4	10%
JV	28.2	45.5	-38%	61.4	-54%	119.8	157.0	-24%
<b>Pre-EI pretax profit</b>	<b>201.0</b>	<b>155.5</b>	29%	<b>65.1</b>	209%	<b>497.3</b>	<b>502.8</b>	-1%
Exceptionals	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Pretax profit</b>	<b>201.0</b>	<b>155.5</b>	29%	<b>65.1</b>	209%	<b>497.3</b>	<b>502.8</b>	-1%
Tax	-54.2	-20.3	167%	-17.7	207%	-94.7	-83.9	13%
Minority interests	-4.9	-12.1	-59%	-7.2	-31%	-28.3	-29.9	-5%
<b>Net profit</b>	<b>141.8</b>	<b>123.1</b>	15%	<b>40.2</b>	253%	<b>374.2</b>	<b>389.0</b>	-4%
<b>Normalised net profit</b>	<b>141.8</b>	<b>123.1</b>	15%	<b>40.2</b>	253%	<b>374.2</b>	<b>389.0</b>	-4%
DPS (sen)	0.0	0.0	n.a.	0.0	n.a.	0.0	6.0	-100%
EPS	5.6	4.9	15%	1.6	253%	14.9	15.5	-4%
EBIT margin	17%	11%		1%		14%	12%	
Pretax margin	21%	17%		12%		19%	18%	
NP margin	15%	14%		7%		14%	14%	
CNP margin	15%	14%		7%		14%	14%	
Effective tax	-27%	-13%		-27%		-19%	-17%	

Source: Company, Kenanga Research

**Segmental Breakdown**

Revenue (Reported + JV)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Engineering and Construction	507.3	992.5	-49%	694.8	-27%	2,569.3	3,362.8	-24%
Property Development	468.4	273.8	71%	197.9	137%	1,060.6	1,302.7	-19%
Water and Expressways Concessions	99.0	112.7	-12%	97.1	2%	337.9	349.8	-3%
<b>Total</b>	<b>1,074.7</b>	<b>1,379.0</b>	<b>-22%</b>	<b>989.8</b>	<b>9%</b>	<b>3,967.8</b>	<b>5,015.3</b>	<b>-21%</b>
<b>PAT Segmentation</b>								
Engineering and Construction	52.2	51.6	1%	8.3	530%	162.1	149.1	9%
Property Development	43.2	8.1	431%	7.7	460%	61.3	95.6	-36%
Water and Expressways Concessions	46.4	63.4	-27%	24.2	91%	150.9	144.4	5%
<b>Total</b>	<b>141.8</b>	<b>123.1</b>	<b>15%</b>	<b>40.2</b>	<b>253%</b>	<b>374.2</b>	<b>389.0</b>	<b>-4%</b>
<b>PAT margins</b>								
Engineering and Construction	10%	5%		1%		6%	4%	
Property Development	9%	3%		4%		6%	7%	
Water and Expressways Concessions	47%	56%		25%		45%	41%	
<b>Total</b>	<b>13%</b>	<b>9%</b>		<b>4%</b>		<b>9%</b>	<b>8%</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%	FY22E PER	206		20	3773
+						
<b>DCF value of potential projects</b>						
MRT3 Underground	50%	DCF*Probability	525	100%		263
MRT3 Above ground	50%	DCF*Probability	385	100%		193
Sydney Metro West	50%	DCF*Probability	450	100%		225
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	35%		168
Property	100%	FY21E PBV	3482		0.5	1741
Gamuda Waters (GWSB)	80%	DCF	656			525
Kesas	70%	DCF	1017			712
Sprint	52%	DCF	758			394
Smart	50%	DCF	210			105
LDP	44%	DCF	2491			1096
Remaining cash from SPLASH Sale	100%					234
<b>Sum</b>						<b>9572</b>
					Number of Shares	2458
					<b>Target Price (RM)</b>	<b>3.90</b>
					FY21E CNP (RM m)	461
					Implied Fwd PER (x)	20.8

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 DivYld (%)	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	3.12	7,842.2	Y	07/2021	14.8	16.6	13.0	0.9	0.9	5.4%	0.0%	3.90	OP	
GEORGE KENT (MALAYSIA) BHD	0.725	379.0	Y	03/2021	8.2	7.6	8.8	0.8	0.8	10.1%	4.7%	NOT RATED	NOT RATED	
HOCK SENG LEE BERHAD	0.970	533.0	Y	12/2021	16.7	12.6	9.6	0.7	0.6	5.1%	1.9%	1.20	OP	
IJM CORP BHD	1.86	6,718.5	Y	03/2022	18.4	20.0	23.0	0.7	0.7	4.4%	14.0%	2.35	OP	
KERJAYA PROSPEK GROUP BHD	1.24	1,534.3	Y	12/2021	16.9	13.7	9.7	1.6	1.4	10.8%	2.6%	1.75	OP	
KIMLUN CORP BHD	0.850	300.4	Y	12/2021	19.0	10.5	6.6	0.4	0.4	4.1%	2.0%	1.30	OP	
MITRAJAYA HOLDINGS BHD	0.270	222.2	Y	12/2021	23.1	N.A.	N.A.	0.3	0.3	-1.8%	0.0%	0.205	UP	
MUHIBBAH ENGINEERING (M) BHD	0.970	468.9	Y	12/2021	N.A.	N.A.	19.4	0.4	0.4	-1.7%	1.0%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.72	2,217.7	Y	12/2021	26.9	21.8	16.4	3.5	3.3	15.4%	2.3%	1.85	OP	
WCT HOLDINGS BHD	0.550	771.8	Y	12/2021	N.A.	12.0	9.4	0.3	0.2	3.6%	0.0%	0.640	OP	
<b>Simple Average</b>					<b>18.0</b>	<b>14.3</b>	<b>12.9</b>	<b>1.0</b>	<b>0.9</b>	<b>5.5%</b>	<b>2.8%</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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

