

30 June 2022

# Gamuda Bhd

## 9MFY22 Beats on Strong Margins

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9MFY22 CNP of RM551m came above market expectations on stronger property and construction margins. Meanwhile, a 6.0 sen dividend declared coupled with 9MFY22 property sales of RM2.7b was within expectations. With strong YTD wins of RM9.5b, Gamuda has guided for stronger replenishment of RM25b spread across FY22 and FY23. Consequently, we raise our FY23E replenishment to RM12.5b (from RM7.5b) in-line with the new guidance. Post results, we raise FY22/23E earnings by 11%/19. Keep OP on higher SoP-TP of RM4.20 (from RM4.00).

**Strongly above expectations.** 3QFY22 CNP of RM221.5m led 9MFY22 CNP to RM551m; way above ours/consensus expectations at 81%/89% of estimates respectively. The positive deviation stemmed from (i) stronger than expected margins from both its construction and property division and (ii) our overly aggressive tax assumptions for the year arising from 'Cukai Makmur'. Meanwhile, a 6.0sen dividend declared brought YTD dividends to 12.0sen – in-line with our expectations.

**Sales inline.** 3QFY22 sales of RM0.8b led 9MFY22 sales to RM2.7b – within our RM3.7b target (company targets RM4.0b). Property unbilled sales stood at a high of RM5.4b (3x cover).

**Highlights.** 3QFY22 CNP of RM221.5m increased 25% QoQ mainly on stronger property PAT contributions (+158%) as its Vietnam operations picked up substantially due to normalised productivity levels post lockdowns. This led the property's revenue to increase by 15% which lifted PAT margins by 9ppt on operating leverage effect. 9MFY22 CNP of RM551m surged 47% YoY attributed to stronger construction and property segments. The construction segment saw stronger margins upon cost saving recognition from its MRT2 project while the property division was less affected by lockdowns.

### Outlook and Key highlights from briefing as below:

- The tolls sale is delayed by c.2 months. GAMUDA and LITRAK will call for an EGM to obtain shareholders' approval within 14 days after the circulars is released on Bursa. Subsequent to the approval, they will approach Sukuk investors for the fund raising which is anticipated to complete by August-22.
- The approval for Penang South Island's (PSI) EIA could be as early as July-22 with latest being in 4QCY22.
- MRT2's cost saving will continue to flow into 1HFY23. We previously expected the contract (and cost savings) to end by FY22.
- GAMUDA and John Holland (50:50 JV) has been shortlisted for a new Melbourne project called North East Link highway worth AUD2.0b. The tentative tender and award is slated for 4QCY22 and 1QCY23 respectively.
- Gamuda will be partnering MMCCORP for the MRT3 tunnelling package.
- Gamuda is targeting replenishment of RM8-10b/annum from FY24 onwards.
- Almost all Gamuda's ongoing contracts has been embedded with a price escalation clause (should material prices increase) to protect margins with exception to its Singapore contracts and Sydney Metro West Tunnel.

**GAMUDA has increased their replenishment target to RM25b (from RM20b)** spread across FY22 and FY23 (YTD wins of RM9.5b). Key contracts to make up the remaining c.RM15.5b include: (i) MRT3 underground package – RM5-6b (50% stake), (ii) Penang South Reclamation Project – RM5b, (iii) North East Link – RM3b (50% stake), (iv) Rasau Treatment Plant, and (v) other international contracts from Taiwan/Singapore. Consequent to the healthy pipeline of potential contracts, we raise our FY23E replenishment to RM12.5b (from RM7.5b) – in line with companies' guidance. Note that our FY22E replenishment target stands at RM12.5b. **Current construction orderbook stands healthy at RM12.4b.**

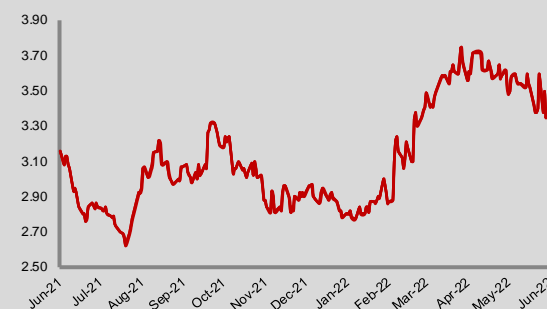
**Earnings assumptions.** We increase FY22 earnings by 11% to reflect (i) higher property and construction margins and (ii) less aggressive tax rates. As for FY23 earnings, we increase it by 19% to factor in (i) cost savings from MRT2 to continue flowing into 1HFY23 (which we did not previously) (ii) higher FY23E construction replenishment of RM12.5b and (iii) better margins from its property and construction division.

**Maintain OP with higher SoP-TP of RM4.20** (from RM4.00) on (i) higher construction profits based on unchanged 18x PER and (ii) switching its property valuation methodology to 60% discount to RNAV (from 0.5x PBV). Our 60% discount to RNAV is benchmarked to peers who operate predominantly within the township space.

**OUTPERFORM** ↔

Price : RM3.42  
Target Price : RM4.20 ↑

### Share Price Performance



KLCI	1,451.48
YTD KLCI chg	-7.4%
YTD stock price chg	17.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GAM MK Equity
Market Cap (RM m)	8,734.4
Shares Outstanding	2,553.9
52-week range (H)	3.75
52-week range (L)	2.60
3-mth avg daily vol:	2,430,077
Free Float	43%
Beta	1.0

### Major Shareholders

Employees Provident Fund Board	14.7%
Amanah Saham Nasional	14.6%
Kumpulan Wang Persaraan	8.1%

### Summary Earnings Table

FYE Jul (RM m)	2021A	2022E	2023E
Turnover	3517.2	4654.1	4608.8
EBIT	586.1	637.1	681.9
PBT	786.3	922.1	753.9
<b>Net Profit</b>	<b>588.3</b>	<b>753.1</b>	<b>608.5</b>
<b>Core PATAMI</b>	<b>588.3</b>	<b>753.1</b>	<b>608.5</b>
Consensus (NP)	n.a.	622.2	648.2
Earnings Revision	n.a.	11%	19%
Core EPS (sen)	23.9	30.6	24.8
Core EPS growth (%)	13%	28%	-19%
NDPS (sen)	0.0	12.0	12.0
NTA per Share (RM)	3.84	4.03	4.15
PER (x)	14.3	11.2	13.8
Price to NTA (x)	0.9	0.8	0.8
Debt-to-Equity ratio (x)	0.4	0.4	0.3
Return on Asset (%)	3.5%	4.2%	3.4%
Return on Equity (%)	6.2%	7.6%	6.0%
Net Div. Yield (%)	0.0%	3.5%	3.5%

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**Risks to our call include:** (i) absence/delay of MRT3 rollout, (ii) failing to secure a single win from their two outstanding Australian bids, and (iii) sudden halt in PTMP land reclamations due to environmental issues.

**Results Highlight**

FYE July (RM m)	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Revenue (JV not included)	1,180.6	1,288.3	-8%	971.2	22%	3,216.1	2,630.5	22%
<b>Operating profit</b>	<b>214.0</b>	<b>145.0</b>	48%	<b>165.2</b>	30%	<b>462.2</b>	<b>355.3</b>	30%
Finance cost	-20.2	-47.0	-57%	-24.7	-18%	-77.0	-79.3	-3%
Associates	13.4	32.7	-59%	32.3	-58%	74.7	100.6	-26%
JV	62.5	96.4	-35%	28.2	122%	228.6	119.8	91%
<b>Pre-EI pretax profit</b>	<b>269.8</b>	<b>227.2</b>	19%	<b>201.0</b>	34%	<b>688.5</b>	<b>497.3</b>	38%
Exceptionals	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Pretax profit</b>	<b>269.8</b>	<b>227.2</b>	19%	<b>201.0</b>	34%	<b>688.5</b>	<b>497.3</b>	38%
Tax	-40.3	-39.3	3%	-54.2	-26%	-106.8	-94.7	13%
Minority interests	-8.0	-10.8	-26%	-4.9	62%	-30.7	-28.3	8%
<b>Net profit</b>	<b>221.5</b>	<b>177.1</b>	25%	<b>141.8</b>	56%	<b>551.0</b>	<b>374.2</b>	47%
<b>Normalised net profit</b>	<b>221.5</b>	<b>177.1</b>	25%	<b>141.8</b>	56%	<b>551.0</b>	<b>374.2</b>	47%
DPS (sen)	6.0	0.0	n.a.	0.0	n.a.	12.0	0.0	n.a.
EPS	8.8	7.0	25%	5.6	56%	21.9	14.9	47%
EBIT margin	18%	11%		17%		14%	14%	
Pretax margin	23%	18%		21%		21%	19%	
NP margin	19%	14%		15%		17%	14%	
CNP margin	19%	14%		15%		17%	14%	
Effective tax	-15%	-17%		-27%		-16%	-19%	

Source: Company, Kenanga Research

**Segmental Breakdown**

Revenue (Reported + JV)	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Engineering and Construction	476.6	915.4	-48%	507.3	-6%	2,247.3	2,569.3	-13%
Property Development	739.5	641.5	15%	468.4	58%	1,672.1	1,060.6	58%
Water and Expressways Concessions	87.2	117.8	-26%	99.0	-12%	311.2	337.9	-8%
<b>Total</b>	<b>1,303.3</b>	<b>1,674.7</b>	<b>-22%</b>	<b>1,074.7</b>	<b>21%</b>	<b>4,230.5</b>	<b>3,967.8</b>	<b>7%</b>
<b>PAT Segmentation</b>								
Engineering and Construction	62.5	82.8	-25%	52.2	20%	226.7	162.1	40%
Property Development	126.8	49.1	158%	43.2	193%	200.0	61.3	226%
Water and Expressways Concessions	32.3	45.3	-29%	46.4	-30%	124.3	150.9	-18%
<b>Total</b>	<b>221.5</b>	<b>177.1</b>	<b>25%</b>	<b>141.8</b>	<b>56%</b>	<b>551.0</b>	<b>374.2</b>	<b>47%</b>
<b>PAT margins</b>								
Engineering and Construction	13%	9%		10%		10%	6%	
Property Development	17%	8%		9%		12%	6%	
Water and Expressways Concessions	37%	38%		47%		40%	45%	
<b>Total</b>	<b>17%</b>	<b>11%</b>		<b>13%</b>		<b>13%</b>	<b>9%</b>	

Source: Company, Kenanga Research

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**Sum of Parts Table (NEW)**

<b>GAMUDA SoP</b>	<b>Stake</b>	<b>Valuation Method</b>	<b>PAT/DCF</b>	<b>Probability</b>	<b>Valuations (PER/PBV)</b>	<b>Value (m)</b>
Construction (Base case assumes 5b replenishment)	100%	PER	258		18	4645
Property	100%	60% discount to RNAV	2866			2866
Gamuda Waters (GWSB)	80%	DCF	639			511
Kesas	70%	ALR offer	954			898
Sprint	52%	ALR offer	755			466
Smart	50%	ALR offer	206			0
LDP	44%	ALR offer	2090			970
<b>Sum</b>						<b>10357</b>
Number of Shares						2458
<b>SOP/share</b>						<b>4.20</b>

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><u>STOCKS UNDER COVERAGE</u></b>														
GAMUDA BHD	3.42	8,734.4	Y	07/2022	14.3	11.2	13.8	0.8	0.8	7.6%	3.5%	4.20	OP	
IJM CORP BHD	1.74	6,139.0	Y	03/2023	25.8	20.4	19.1	0.6	0.6	3.8%	3.4%	1.90	MP	
KERJAYA PROSPEK GROUP BHD	1.11	1,399.8	Y	12/2022	14.6	10.2	9.1	1.4	1.3	13.1%	4.1%	1.42	OP	
KIMLUN CORP BHD	0.715	252.7	Y	12/2022	N.A.	9.3	5.8	0.4	0.4	4.0%	2.1%	1.10	OP	
MUHIBBAH ENGINEERING (M) BHD	0.505	367.1	Y	12/2022	N.A.	126.3	9.7	0.2	0.3	0.2%	0.0%	0.535	MP	
SUNWAY CONSTRUCTION GROUP BHD	1.49	1,921.1	Y	12/2022	15.1	15.1	15.2	3.0	2.9	19.4%	3.4%	1.52	MP	
WCT HOLDINGS BHD	0.445	630.7	Y	12/2022	N.A.	7.1	9.0	0.2	0.2	4.4%	0.0%	0.620	OP	
<b>Simple Average</b>					<b>17.5</b>	<b>28.7</b>	<b>12.1</b>	<b>1.0</b>	<b>0.9</b>	<b>7.5%</b>	<b>2.4%</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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