

28 March 2023

Gamuda Bhd

Office Refurbishment Project in London

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In a five-year plan, GAMUDA will acquire the Winchester House London building in London, refurbish it into a top-rated ESG-centric office building to be leased to MNCs, and divest it by end-2027. We are positive on this project that could potentially fetch an attractive equity IRR of 27% and enhance GAMUDA's sustainability agenda globally. We maintain our forecasts as the project's contributions are beyond our forecast period. We also keep our TP of RM5.15 and OUTPERFORM call.

GAMUDA via a partnership with CastleForge (on a 75:25 equity stake basis) is acquiring Winchester House London, an office building currently housing Deutsche Bank's London headquarters for GBP257m (or RM1,392m). Upon Deutsche Bank's lease expiry in April 2024, GAMUDA plans to refurbish and upgrade Winchester House into a top-rated ESG-centric office building, secure a new lease for this upgraded asset and divest it by the fifth-year mark i.e. 2027. Note, post acquisition of Winchester House but prior to the refurbishment, GAMUDA intends to reduce its 75% stake below 50% (ideally 38%) to ensure the debts for this development will not be consolidated into its balance sheet.

The key takeaways from a special analyst briefing in conjunction with the announcement of the deal are as follows:

1. It sees an outsized opportunity to supply top-quality ESG office buildings to MNCs in London given the escalating demand but constrained supply no thanks to Brexit and Covid which had restricted new builds. It intends to achieve the highest ever ESG credentials attainable for Winchester House i.e. the "BREEAM Outstanding Rating" which has been obtained by only a handful of buildings in London. For context, BREEAM (Building Research Establishment Environmental Assessment Method) is the world's leading sustainability assessment method recognised widely across Europe.
2. Prior to the refurbishment completion, it targets to secure at least 30% of pre-leases from MNCs and sees strong demand potential from HSBC, Macquarie and the London Stock Exchange which have leases expiring by between 2027 and 2028.
3. The total cost estimated for the entire development is GBP733m (include building acquisition, refurbishment, operating, leasing and financing costs) for which 35% will be equity funded while the remaining 65% will be debt funded.
4. By conservatively assuming rental of GBP92 psf on the newly refurbished net lettable area of 492.5k sf (current BREEAM offices rent for GBP90-100psf) and an exit cap rate of 4.5%, Winchester House London would fetch an exit value of GBP1.1b. For GAMUDA's 38% eventual JV stake (after paring down its initial 75%), this would net a gain of c.GBP95m in which implies a 27% IRR on its initial equity of GBP97m over the 5-year horizon.

Overall, we view the quick turnaround plan for Winchester House positively as it maximises GAMUDA's return of capital post its toll highways disposal and further enhances its sustainable agenda within the international space.

OUTPERFORM ↔

Price : **RM4.17**
Target Price : **RM5.15** ↔

Share Price Performance



KLCI	1,396.60
YTD KLCI chg	-6.6%
YTD stock price chg	11.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GAM MK Equity
Market Cap (RM m)	11,089.3
Shares Outstanding	2,659.3
52-week range (H)	4.33
52-week range (L)	3.00
3-mth avg daily vol:	10,113,580
Free Float	49%
Beta	0.9

Major Shareholders

Employees Provident Fund Board	14.8%
Amanah Saham Nasional	13.8%
Kumpulan Wang Persaraan	5.2%

Summary Earnings Table

FYE Jul (RM m)	2022A	2023F	2024F
Turnover	5162.6	8451.8	11664.5
EBIT	685.3	1155.1	1275.6
PBT	1015.5	1143.1	1377.6
Net Profit	806.2	893.5	1114.0
Core PATAMI	832.2	893.5	1114.0
Consensus (NP)	-	723.9	826.5
Earnings Revision	-	-	-
Core EPS (sen)	33.9	36.4	45.3
Core EPS growth (%)	41	7	25
NDPS (sen)	12.0	50.0	12.0
NTA per Share (RM)	4.06	4.30	4.63
PER (x)	12.3	11.5	9.2
Price to NTA (x)	1.0	1.0	0.9
Debt-to-Equity ratio (x)	0.3	0.1	0.3
Return on Asset (%)	4.5	4.4	4.9
Return on Equity (%)	8.3	8.5	9.8
Net Div. Yield (%)	2.9	12.0	2.9

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Should GAMUDA fail to pare down its stake below 50% to effectively classify Winchester House as a JV (versus a subsidiary), the debts obtained for the development would be consolidated and its net gearing would increase to 0.32x (from current 0.07x) which is still manageable against GAMUDA's self-imposed net gearing ceiling cap of 0.70x.

Forecasts. As the entire Winchester House development will only see fruition in end-2027, we make no changes to our FY23F and FY24F numbers which are backed by unchanged construction replenishment of RM15.5b and RM12.0b, respectively.

We continue to like GAMUDA for: (i) it being the front-runner for the tunnelling job for MRT3, (ii) its job wins in Australia and Singapore that speak eloquently for its competitiveness in the international market, (iii) its strong balance sheet after the disposal of its toll highways, (iv) its strong earnings visibility underpinned by a robust outstanding order book of RM20.5b, and (v) its efforts to expedite growth in the renewable energy space in line with global sustainability goals.

We maintain our SoP-TP of RM5.15 that value its construction business at 18x forward PER. There is a 5% premium accorded to its TP given a 4-star ESG rating as appraised by us (see Page 6). Maintain **OUTPERFORM**.

Risks to our call include: (i) governments cutting back on public infrastructure spending, (ii) delays in the roll-out of key public infrastructure projects in Malaysia such as MRT3, and (iii) delays in PFI project due to funding/environmental issues.

GAMUDA's Sum-of-Parts Valuations

Segment	Value (RM m)	Valuation Basis
Construction*	9,324	18x FY23F PER
Property	2,896	60% discount to RNAV
Gamuda Waters (80%-owned)	511	WACC of 10%
Total	12,725	
Paid-up Capital (m shares)	2,591	
SOP/share (RM)	4.90	
Add: 5% premium for 4-star ESG rating (RM)	0.25	
TP (RM)	5.15	

Source: Kenanga Research

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RNAV of GAMUDA's Property Development Projects

Project		Remaining Area (acres)	Outstanding GDV (RM m)	NPV of profits (effective)
Malaysia				
1. Horizon Hill	100%	304	2,406	54
2. Jade Hills	100%	5	604	13
3. Gamuda Gardens	100%	620	7,839	175
4. twentyfive.7	100%	119	2,989	67
5. Gamuda Cove	100%	1402	20,878	466
6. Kundang Estates	100%	25	178	4
7. Kundang Jaya, Rawang	100%	532	3,300	74
8. Others	100%	49	2,612	58
Vietnam				
1. Gamuda City	100%	268	11,374	254
2. Celadon City	100%	10	389	40
Fast-track Projects				
1. Aldgate, London	90%		230	11
2. West Hampstead, London	85%		320	14
3. Normanby	100%		560	32
4. UG5.6 Binh Duong, HCMC	100%		560	32
5. HN 2.8, HCMC	100%		1100	62
6. 95 SKR,	100%		210	12
		3334	55,549	1,365
Unbilled Sales (as of Oct-22)	100%		6200	323
Property Shareholders Fund				5,551.5
Total RNAV (RM m)				7,239.4
Discount to RNAV (%)				60
Discounted RNAV				2,896

Source: Kenanga Research, Company

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GAMUDA's Outstanding Construction Order Book

Project	Stake (%)	Outstanding Value (RM b)	Completion (%)
Malaysia			
KVMRT2	50	0	100
Pan Borneo Sarawak	65	0	99
Second Trunk Road Sarawak	100	0.1	42
Residential building works	100	0.1	77
Other civil works	100	0.2	64
Rasau WTP - Phase 1	100	2	1
Taiwan			
Marine Bridge	70	0.1	75
Seawall Reclamation	70	0.3	50
Transmission line	50	0.2	0
Marine Bridge Extension	70	0.2	12
Tao Yuan Underground	60	1.3	0
Singapore			
Bus Depot	100	0.6	30
Defu Station	60	0.8	3
Australia			
Sydney Metro West	100	5.5	15
Coffs Harbour Bypass	50	1.9	5
M1 Extension	40	1.2	0
DTI	100	6	various
Total		20.5	

Source: Kenanga Research, Company

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div.Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
GAMUDA BHD	OP	4.17	5.15	23.50%	11,089.0	Y	07/2023	35.0	43.6	7.4%	24.7%	11.5	9.2	1.2	10.4%	50.0	12.0%
IJM CORP BHD	MP	1.58	1.67	5.70%	5,763.0	Y	03/2023	8.6	9.2	26.2%	6.9%	18.5	17.3	0.6	3.8%	6.0	3.8%
KERJAYA PROSPEK GROUP BHD	OP	1.15	1.50	30.43%	1,457.0	Y	12/2023	12.2	14.0	31.0%	14.6%	9.4	8.2	1.3	14.6%	6.0	5.2%
KIMLUN CORP BHD	OP	0.750	1.12	49.33%	265.0	Y	12/2023	12.9	15.6	18.9%	20.5%	6.1	5.0	0.4	6.6%	2.0	2.7%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.67	2.13	27.54%	2,159.0	Y	12/2023	12.6	13.2	19.4%	4.8%	13.1	12.6	3.2	24.9%	5.0	3.0%
WCT HOLDINGS BHD	OP	0.415	0.600	44.58%	588.5	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.5	11.3	0.2	2.7%	0.5	1.2%
Simple Average					21,321.6					12.8%	18.7%	13.3	11.2	0.9	6.5%		4.6%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★	☆	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	☆	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
	OVERALL	★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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