

24 March 2023

Gamuda

Bullish on MRT3

By Lum Joe Shen | lumjs@kenanga.com.my

GAMUDA's 1HFY23 results met our expectation but beat consensus'. Having secured RM8.5b new jobs thus far in FY23, it is not slowing down, eyeing more contracts such as work packages from MRT3 (civil and system), Penang South Island (PSI) and overseas markets, particularly Australia. We maintain our forecasts, TP of RM5.15 and OUTPERFORM call.

A stronger 2HFY23. 1HFY23 core net profit of RM340m (after stripping out disposal gains and discontinued operating profits of its toll highways amounting to RM1.0b) came in at 38% and 48% of our full-year forecast and the full-year consensus estimate, respectively. Though beating market expectation, we consider the results in line as we anticipate a bumper 2HFY23 as progress billings from its Australian projects are expected to move up the S-curve.

YoY, 1HFY23 core net profit was up by 3% despite the absence of toll highways operations, thanks to stronger construction and property contributions from overseas.

YTD, it has secured RM8.5b of construction contracts, and is on track to meet our full-year assumption of RM15.5b. It could bag more jobs before FY23 is out, including from: (i) MRT3, (ii) PSI, and (iii) overseas markets such as Australia (Suburban Rail Loop), Singapore and Taiwan. As at end-2QFY23, its outstanding construction order book stood at RM20.5b.

In terms of property sales, it achieved RM1.0b in 1HFY23 which appears to be lagging its full-year target as well as our assumption of RM4.5b significantly. However, we are unperturbed as we anticipate its property sales to pick up in 2HFY23, backed by new launches worth a total of RM3b (particularly in Ho Chi Minh City, Vietnam). As at end-1QFY23, its unbilled sales stood at RM5.4b.

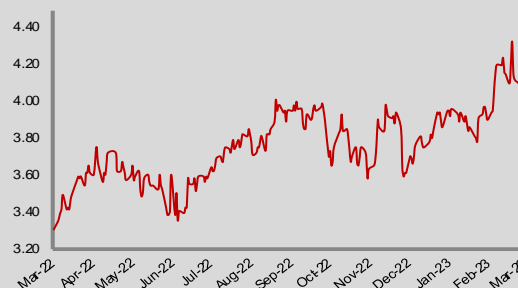
The key takeaways from the post earnings briefing are as follows:

- GAMUDA is confident of securing the MRT3 tunnelling package with its highly competitive bid. While the government intends to reduce the project cost by 10% to RM45b, GAMUDA believes the civil packages will be left intact as the savings are more likely to come from lower project management fees and land acquisition cost.
- Apart from the tunnelling package, it is also eyeing the system package for MRT3 worth RM5b-RM7b. It believes it stands a good chance given that it is the only local company with experience in executing system integration, ensuring timely delivery of the entire rail project i.e. MRT1 and MRT2 vs. the local competitors that only procures the system.
- GAMUDA reiterated its ambition to own large non-solar renewable energy assets capable of generating 800MW of green energy. Meanwhile, GAMUDA has submitted its bid for a slice of action in the government's Corporate Green Power Programme initiative to provide green electricity supply to corporations through virtual power purchase agreements.
- For the new environmental impact assessment (EIA) report for PSI submitted in Aug 2022, GAMUDA now guided for a decision from the authority by April 2023 (from Jan 2023 as previously guided).

OUTPERFORM ↔

Price : **RM4.14**
Target Price : **RM5.15** ↔

Share Price Performance



KLCI	1,410.98
YTD KLCI chg	-5.7%
YTD stock price chg	10.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GAM MK Equity
Market Cap (RM m)	11,006.5
Shares Outstanding	2,658.6
52-week range (H)	4.33
52-week range (L)	3.00
3-mth avg daily vol:	10,122,520
Free Float	49%
Beta	0.9

Major Shareholders

Employees Provident Fund	14.8%
Amanah Saham Nasional	13.8%
Kumpulan Wang Persaraan	5.3%

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)	n.a.	703.5	800.6
Earnings Revision	n.a.	0%	0%
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)	12.2	11.4	9.1
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	12.1	2.9



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Forecasts. We maintain our FY23F and FY24F earnings 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, (iii) delays in PFI project due to funding/environmental issues.

Results Highlights

FYE July (RM m)	2Q23	1Q23	QoQ	2Q22	YoY	1H23	1H22	YoY
Revenue (JV not included)	1,443.0	1,306.6	10%	1,288.3	12%	2,749.6	2,035.4	35%
Operating profit	175.6	147.9	19%	145.0	21%	323.5	248.2	30%
Finance cost	-27.6	-27.5	1%	-47.0	-41%	-55.1	-56.9	-3%
Associates	0.2	1.6	-87%	32.7	-99%	1.8	61.3	-97%
JV	82.0	62.7	31%	96.4	-15%	144.6	166.1	-13%
Pre-EI pretax profit	230.1	184.7	25%	227.2	1%	414.8	418.7	-1%
Exceptionals	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Pretax profit	230.1	184.7	25%	227.2	1%	414.8	418.7	-1%
Tax	-31.2	-28.0	11%	-39.3	-21%	-59.2	-66.5	-11%
Minority interests	-4.3	-11.7	-63%	-10.8	-60%	-16.1	-22.7	-29%
Net profit	194.6	145.0	34%	177.1	10%	339.6	329.5	3%
Normalised net profit	194.6	145.0	34%	177.1	10%	339.6	329.5	3%
Disposal gains and profits from discontinued ops	1023.0	n.a.		n.a.		1023.0	n.a.	
DPS (sen)	0.0	6.0	-100%	0.0	n.a.	6.0	6.0	0%
EPS	7.5	5.7	31%	7.0	6%	13.1	13.1	0%
EBIT margin	12%	11%		11%		12%	12%	
Pretax margin	16%	14%		18%		15%	21%	
NP margin	13%	11%		14%		12%	16%	
CNP margin	13%	11%		14%		12%	16%	
Effective tax	-14%	-15%		-17%		-14%	-16%	

Source: Company, Kenanga Research

Segmental Breakdown

Revenue (Reported + JV)	2Q23	1Q23	QoQ	2Q22	YoY	1H23	1H22	YoY
Engineering and Construction	1,692.3	759.2	123%	915.4	85%	2,451.4	1,770.6	38%
Property Development	558.7	644.2	-13%	641.5	-13%	1,202.8	932.6	29%
Water and Expressways Concessions	-45.4	93.0	-149%	117.8	-139%	47.7	224.0	-79%
Total	2,205.6	1,496.4	47%	1,674.7	32%	3,701.9	2,927.2	26%
PAT Segmentation								
Engineering and Construction	143.9	83.3	73%	82.8	74%	227.2	164.2	38%
Property Development	54.0	58.4	-8%	49.1	10%	112.4	73.2	53%
Water and Expressways Concessions	-3.3	3.3	-200%	45.3	-107%	0.0	92.0	-100%
Total	194.6	145.0	34%	177.1	10%	339.6	329.5	3%
PAT margins								
Engineering and Construction	9%	11%		9%		9%	9%	
Property Development	10%	9%		8%		9%	8%	
Water and Expressways Concessions	n.a.	4%		38%		0%	41%	
Total	9%	10%		11%		9%	11%	

Source: Company, Kenanga Research

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GAMUDA's Sum-of-Parts Valuation

Segment	Value (RM'm)	Valuation Basis
Construction	9,324	18x FY23F PER
Property	2,866	60% discount to RNAV (see following table)
Gamuda Waters (80%-owned)	511	WACC of 10%
Total	12,695	
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

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. 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
		2,802	52,249	1,291
Unbilled Sales (as of Oct-22)	100%		6200	323
Property Shareholders Fund				5,551.5
Total RNAV (RM m)				7,165.8
Discount to RNAV (%)				60
Discounted RNAV				2,866

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	4.14	5.15	24.40%	11,006.5	Y	07/2023	35.0	43.6	7.4%	24.7%	11.4	9.1	1.2	10.4%	50.0	12.1%
IJM CORP BHD	MP	1.61	1.67	3.73%	5,655.8	Y	03/2023	8.6	9.2	26.2%	6.9%	18.9	17.7	0.6	3.8%	6.0	3.7%
KERJAYA PROSPEK GROUP BHD	OP	1.16	1.50	29.31%	1,462.8	Y	12/2023	12.2	14.0	31.0%	14.6%	9.5	8.3	1.3	14.6%	6.0	5.2%
KIMLUN CORP BHD	OP	0.735	1.12	52.38%	259.7	Y	12/2023	12.9	15.6	18.9%	20.5%	6.0	4.9	0.4	6.6%	2.0	2.7%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.62	2.13	31.48%	2,088.8	Y	12/2023	9.9	12.6	14.3%	28.1%	16.4	12.8	3.1	19.5%	5.0	3.1%
WCT HOLDINGS BHD	OP	0.425	0.600	41.18%	602.3	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.9	11.5	0.2	2.7%	0.5	1.2%
Simple Average					21,075.9					12.2%	20.9%	13.5	11.2	0.9	6.4%		4.7%

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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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 E-mail: research@kenanga.com.my

