

20 November 2023

## Gamuda

### A Postcard from Sydney

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We came away from a 2-day working visit to Sydney last week organised by GAMUDA feeling upbeat on its potential in Australia. From site visits, we could glean that its projects in Sydney are in good hands. According to the Australian Trade and Investment Commission (Austrade) and other experts, the prospects of the infrastructure construction market there is bright. We maintain our forecasts, TP of RM5.45 and OUTPERFORM call.

**Day 1: Parramatta metro station site, Rosehill Services Facility, and Eastern Creek Precast Facility.**

The key observations from the site visits are as follows:

- Sydney Metro West (SMW) is part of Australia's biggest public transport project – Sydney Metro, which builds on a vision of three cities (i.e., Eastern Harbour City, River City and Western Parkland City within the Greater Sydney by 2056) where people live 30 minutes from jobs, education, services and great places. (refer to Page 2)
- By 2030, Sydney Metro will have a network of four metro lines, 46 stations and 113km of new metro rail. It consists of the operational Metro North-West Line and three projects under construction, such as City & Southwest, SMW, and Western Sydney Airport. SMW which construction started in 2020, and will connect Parramatta (Central River City) and the Sydney CBD (Eastern Harbour City).
- The new underground 24km railway SMW consists of three tunnelling packages, i.e. (i) Western Tunnelling Package (WTP) which was awarded to Gamuda Australia (GA) - Laing O'Rourke Consortium in March 2022, (ii) Central Tunnelling Package which was awarded to Acciona Ferrovial JV in June 2021, and (iii) Eastern Tunnelling Package which was awarded to John Holland, CPB Contractor and Ghella JV in November 2022. (refer to Page 2)
- To refresh, the WTP contract was awarded to the GA-led consortium for AUD2.16b on 1 March 2022 with GA as the head contractor while Laing O'Rourke as the delivery partner providing project management services for an agreed fee. This is a tunnelling and civil works package that consists of a 9km tunnelling between Westmead and Sydney Olympic Park, two new metro stations, stabling and maintenance facility and a precast facility.
- As of end-July, the project was 40% complete. Both two tunnel boring machines (TBM) have already been deployed with the speed of excavation of up to 300m per week. However, the best drill speed is averaging 180m-190m per week currently which is much better than GAMUDA's experiences in MRT1 and MRT 2 of 70m-105m per week previously given the better soil condition in Sydney. It is on track to complete the project by 2026.
- Concern of potential cancellation of the SMW project is cleared as last Thursday (16 November 2023) the Australian Infrastructure Minister has released a list of 50 infrastructure projects to lose federal funding which none of Sydney Metro projects were affected.

**OUTPERFORM** ↔

**Price: RM4.66**  
**Target Price: RM5.45** ↔

#### Share Price Performance



KLCI	1,460.67
YTD KLCI chg	-2.3%
YTD stock price chg	24.3%

#### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GAM MK Equity
Market Cap (RM m)	12,576.4
Shares Outstanding	2,698.8
52-week range (H)	4.72
52-week range (L)	3.22
3-mth avg daily vol:	5,109,640
Free Float	55%
Beta	0.6

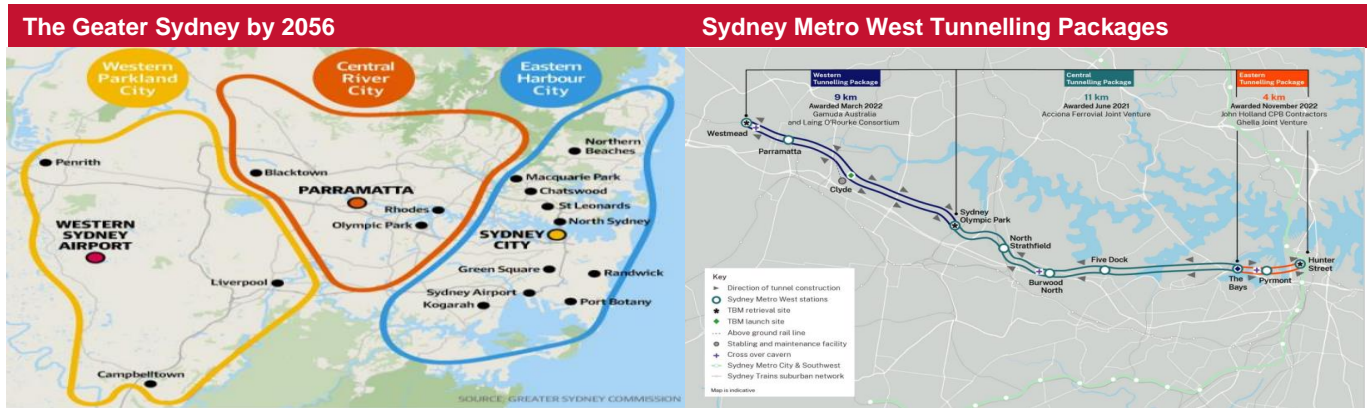
#### Major Shareholders

Amanah Saham Nasional	14.1%
Employees Provident Fund	11.1%
Kumpulan Wang Persaraan	4.2%

#### Summary Earnings Table

FY Jul (RM m)	2023A	2024F	2025F
Turnover	8233.6	11664.5	13800.0
EBIT	922.8	1275.6	1432.0
PBT	1067.6	1377.6	1614.0
<b>Net Profit</b>	<b>1840.2</b>	<b>1114.0</b>	<b>1327.6</b>
<b>Core Net Profit</b>	<b>860.1</b>	<b>1114.0</b>	<b>1327.6</b>
Consensus	-	1011.5	1158.3
Earnings Revision (%)	-	-	-
Core EPS (sen)	31.9	41.3	49.2
Core EPS growth (%)	6.7	29.5	19.2
NDPS (sen)	50.0	12.0	12.0
NTA per Share (RM)	4.46	4.79	5.21
PER (x)	14.6	11.3	9.5
Price to NTA (x)	1.0	1.0	0.9
Debt-to-Equity ratio (x)	0.1	0.3	1.3
ROA (%)	2.3	3.7	4.1
ROE (%)	7.2	8.6	9.4
Net Div. Yield (%)	10.7	2.6	2.6

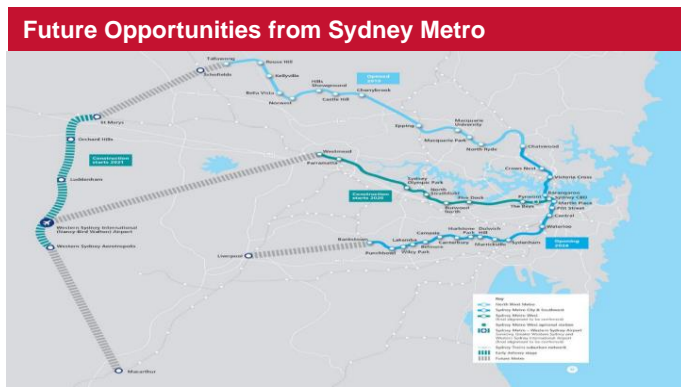




Source: Company/Great Sydney Commission

Source: Company/Sydney Metro

- Meanwhile, there are four more additional lines are in the works to be expanded from current lines. These lines include: (i) Liverpool to Bankstown, (ii) Western Sydney International to Westmead, (iii) St Mary's to Tallawong, and, (iv) Western Sydney Aerotropolis to Macarthur.



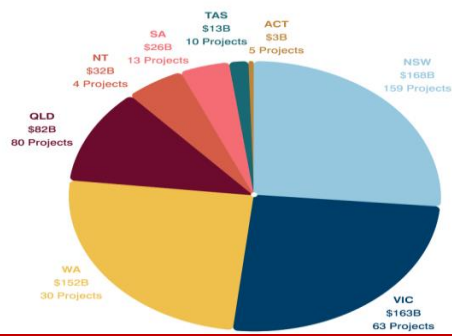
Source: Company

**Day 2: The office of the Australian Trade and Investment Commission (Austrade)** (Malaysia's Ministry of International Trade and Industry or MITI-equivalent), with presentations from Austrade, Infrastructure Partnerships Australia (IPA), Ernst & Young (EY), GA and DT Infrastructure (DTI). The key takeaways from the presentations are as follows:

**“Overview of Australia Infrastructure and RE prospects” by Austrade, IPA and EY**

- Australia is a RE superpower, the world's 6<sup>th</sup> largest solar electricity producer in 2021 with 3m or 30% of its households powered by rooftop solar PV. It is the world's number two for solar power potential given its vast land size and geographical location, and ranked 3<sup>rd</sup> lowest cost for generating solar power among major solar-power producers. In addition, the country is the 6<sup>th</sup> most attractive country for RE investment in the world. Australia is the largest producer of lithium in the world and the first country to export hydrogen
- The Australian government is very supportive of RE development. In its Budget 2023-2024, the government has committed an initial public investment of AUD40b for the RE industry. This includes AUD20b to upgrade the electricity grid, a National Reconstruction Fund of AUD3b to support clean technologies. AUD10b Capacity Investment Scheme in 6GW for clean dispatchable capacity by 2030, an AUD2b hydrogen head-start program to support large-scale renewable hydrogen production.
- It creates opportunities related to energy transition, infrastructure, and circular economy as such, grid infrastructure & transmission, hydrogen, renewables (wind, solar and etc), resources – critical & battery minerals, future transport, rail, biofuels, circular economy and recycling, as well as waste to energy.
- There are 364 infrastructure projects valued at AUD639b in the pipeline that are yet to be awarded, with more than half coming from the states of New South Wales (NSW, 159 projects worth AUD168b) and Victoria (63 projects worth AUD163b). Energy-related infrastructure projects are the key expenditure for the next 15 years, followed by rail and road.

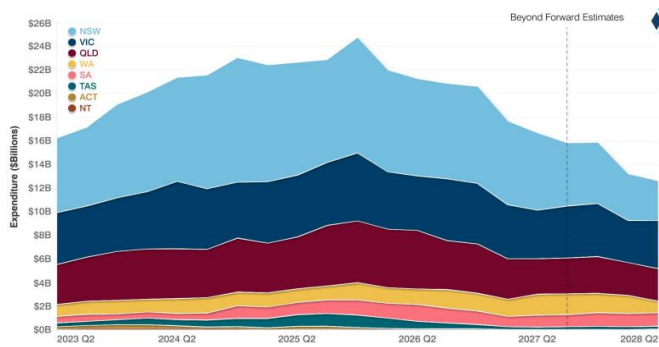
**Australian Infrastructure Future Project Pipeline**



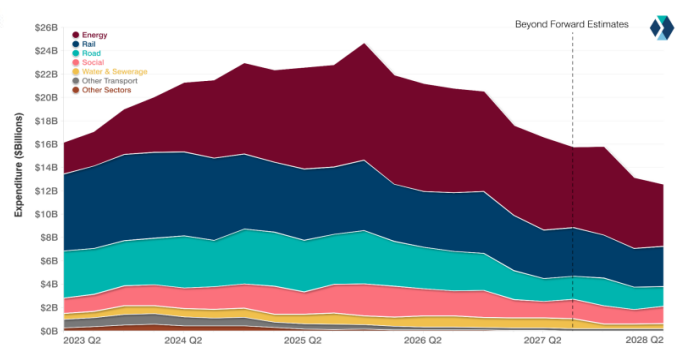
Source: Infrastructure Partnership Australia

- Currently, 72% of its population are in the major cities which only accounts for 52% of the infrastructure pipeline. 56% of the inner and outer regional pipeline is made up of energy projects. It has been forecasted that NSW quarterly expenditure will average AUD7b over the next five years with a forecast to peak at AUD24.2b in 4QCY25 while energy expenditure is expected to peak at AUD9.9b at the same time.

**Australian Forecast Expenditure by Jurisdiction**      **Australian Forecast Expenditure by Sector**



Source: Infrastructure Partnership Australia



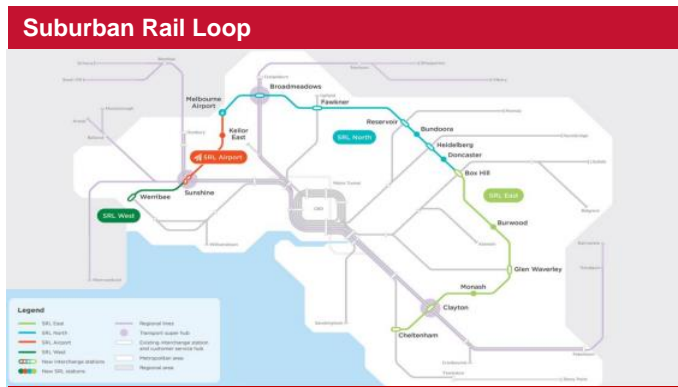
Source: Infrastructure Partnership Australia

- Australia encourages investment in RE and battery storage. An AUD3b national reconstruction fund is available for renewables and lower-emissions technologies. Australia has RE targets of 82% of power generation mix by 2030, 43% emissions reduction by 2030, 30% minimum reduction in methane emission by 2030 and Net Zero by 2050.
- EY has estimated a high equity IRR for an early RE development project at >14% given the execution capabilities such as navigating permit and land acquisition, ability to commit development capital while players with internal EPC generally generate better returns. Equity IRR of 10%-14% is usually for a RE project at a late development stage while a lower 8%-10% equity IRR is for RE project that is ready to be built or constructed. A typical equity IRR of 6%-8% is often seen for operational RE project.

**“GAMUDA’s journey in Australia” by GA**

- Gamuda Engineering Australia (GEA) was established in 2019 after Austrade invited GAMUDA to explore business opportunity in Australia. In 2022, it acquired Tunnelling Solutions (TunSol), a local tunnelling expert specialising in mined tunnelling and drill and blast capabilities. With the acquisition of DTI in May 2023, GA is now a Tier 1 player in Australian infrastructure industry. GA has grown from a small team of six staff initially to nearly 2,000 employees (GEA: 485; TunSol: 192 and DTI: 1,168).
- Since inception, GA has secured three major projects, namely Sydney Metro - WTP (worth AUD2.16b), Coffs Harbour Bypass (AUD1.35b) and Raymond Terrace (AUD1.02b) in all NSW. GA is keen to participate in the 90km Suburban Rail Loop (SRL, worth >AUD50b) in Melbourne. SRL will connect to every major rail line which will transition Melbourne’s rail network from its current radial status to an orbital network. The Loop will consist of four sections: SRL East, SRL North, SRL Airport and SRL West.

20 November 2023



Source: Company/Victoria's Big Build

- The acquisition of TunSol has opened GA up to hydro opportunities where TunSol is pursuing early works for Lake King William Tunnel Construction project while GEA is pursuing main works for Tarraleah Power Station Redevelopment project. GA aims to achieve sustainable annual revenue of AUD2b-AUD3b within the next 2-3 years, building its RE capabilities while expanding greater geographical spread from NSW currently into Victoria and Queensland.

#### “Unlocking Opportunities” by DTI

- DTI is involved in three complex infrastructure construction segments, i.e. (i) rail, (ii) road and bridge, and (iii) defence, energy and marine. In addition, it also has niche complementary offerings, such as: (i) rail systems engineering, signalling, communication, (ii) rail maintenance and renewal, (iii) traction power & overhead line equipment, and (iii) intelligent transport systems. Its ongoing major projects are (i) AUD2b Metronet Thornlie-Cockburn Link and Yanchep Rail Extension in Metropolitan Region, Western Australia (project duration: 2019-2025), (ii) AUD1b Waurn Ponds Rail Duplication in Geelong, Victoria (2022-2024), (iii) AUD800m QTMP Ormeau Facility in Gold Coast, Queensland (2023-2026), (iv) AUD1.5b Warringah Freeway Upgrade in North Sydney, NSW (2020-2025), (v) Parramatta Light Rail in Parramatta, NSW (2018-2023), and (vi) AUD250m RAFF Base in Williamstown, NSW (2022-2024).
- Going forward, DTI will focus on rail infrastructure, roads, bridges and structures, renewable generation and balance of plant (BoP), as well as defence. It has targeted seven projects to tender which are worth a total of AUD8.1b in NSW, Victoria, Queensland, and Western Australia.

#### “Project Prospects” by GEA

- Three ways to grow the company: (i) Build – to build up capacity organically; (ii) Borrow – to establish strong relationships with JV and delivery partners; and (iii) Buy – development rights, invest in concession and acquire businesses. Key business focus will be tunnel, roads, rail, transmission, water, and clean energy.
- There are four new road projects in the pipeline – North East Link-West Package in Victoria, Milton Ulla Dulla Bypass in NSW, Moruya Bypass (NSW) and Muswellbrook Bypass in NSW and five tunnel projects – SMW Line Wide in NSW, Suburban Rail Loop East (SRL) – WPD in Victoria, SMW Stations Package West in NSW, Parramatta Light Rail Stage 2 in NSW and SRL East WPC/WPD in Victoria. These are followed by three hydro projects namely, Borumba Pumped Hydro in Queensland, Tarraleah Power Station in Tasmania, and Oven Mountain Pumped Hydro in NSW and two solar projects namely Maurulan Solar and Solar Development Rights. And lastly, there are two transmission projects namely New England REZ and Hunter Transmission REZ both in NSW.
- New focus on clean energy transformation phase for the construction market as the government is targeting NetZero policy. To leverage on GAMUDA's current capability, for: (i) solar; GA will develop its own green field sites, acquires “shovel ready” sites, or co-invests where it is the EPC contractor, (ii) for hydro; pumped hydro energy storage (PHES) has been identified as an entry into the clean energy market, and (iii) for transmission/wind; GA will partner with a transmission specialist. The transmission and grids pipeline are worth in excess of AUD35b in NSW alone is a huge opportunity for GA. On the other hand, GA also has a partnership with ERS Energy to engage directly with developers and offer an equity+EPC deal. This provides a fast track into the solar and battery energy storage system (BESS) market segment.

**Conclusion:** Overall, we are optimistic about GA's prospects in Australia given the huge pipeline of infrastructure investment there. We are also positive with the DTI's acquisition as it offers GA with system capability especially for the rail system. As such, GA could play a bigger and wider role rail projects in the future.

**Forecasts.** Maintained.

20 November 2023

**Outlook.** Back at home, we expect a significant revitalisation of the domestic construction sector in 2024 backed by: (i) the roll-out of the RM45b MRT3 project, RM9.5b Bayan Lepas LRT Line and six flood mitigation projects reportedly worth RM13b, and (ii) the vibrant private sector construction market, underpinned by massive investment in new semiconductor foundries and data centres.

GAMUDA has guided for RM25b new contracts over FY24 and FY25, including six big-ticket projects by Apr 2025. Other than the Taiwanese MRT job and Sabah hydropower plant both were awarded in October 2023, the rest could potentially comprise the Bayan Lepas LRT Line, MRT3, Pan Borneo Sabah highway and one contract from Australia.

We continue to like GAMUDA for: (i) being the front-runner for the tunnelling job for the MRT3, (ii) its ability to secure new jobs in overseas markets, (iii) its strong war chest after the disposal of its toll highways, (iv) its strong earnings visibility underpinned by a record outstanding order book of RM25.6b, and (v) its inroads into the renewable energy space.

We maintain our TP of RM5.45 which includes a 5% premium given a 4-star ESG rating as appraised by us (see Pages 6 and 8). Maintain **OUTPERFORM**.

**Risks to our call include:** (i) delays in the roll-out of key public infrastructure projects in Malaysia such as the MRT3, (ii) rising input costs and labour shortage, (iii) risks associated with operations in overseas markets such as the change in government policies towards foreign businesses and forex, and (iv) liquidated ascertained damages (LAD) from cost overrun and delays.

<b>GAMUDA's Outstanding Construction Order Book</b>			
<b>Project</b>	<b>Stake (%)</b>	<b>Outstanding Value (RM b)</b>	<b>Completion (%)</b>
<b>Malaysia</b>			
Silicon Island - Phase 1	100	3.7	0
Upper Padas Hydroelectric Power Plant*	45	2.0	0
Rasau WTP - Phase 1	100	1.9	5
Pan Borneo Sarawak	65	0.0	99
Second Trunk Road Sarawak	100	0.0	50
Residential building works	100	0.1	88
Data centres and others	100	0.2	Various
		<b>7.9</b>	
<b>Taiwan</b>			
Marine Bridge	70	0.1	84
Seawall Reclamation	70	0.2	65
Transmission Line	50	0.2	9
Marine Bridge Extension	70	0.1	65
Tao Yuan Underground	60	1.3	0
Kaohsiung MRT	88	3.0	0
		<b>5.0</b>	
<b>Singapore</b>			
Bus Depot	100	0.5	42
Defu Station	60	0.9	7
		<b>1.4</b>	
<b>Australia</b>			
Sydney Metro West	100	4.1	37
Coffs Harbour Bypass	50	1.8	11
M1 Extension	40	1.1	4
DTI	100	4.4	Various
		<b>12.4</b>	
<b>Total</b>		<b>25.6</b>	

\*Pending approvals

Source: Kenanga Research, Company

20 November 2023

GAMUDA's Sum-of-Parts Valuation		
Segment	Value (RM m)	Valuation Basis
Construction	9,318	18x FY24F PER
Property	3,620	50% discount to RNAV (see the following table)
Gamuda Waters (80%-owned)	511	WACC of 10%
<b>Total</b>	<b>13,449</b>	
Paid-up Capital (m shares)	2,591	
<b>SoP/share (RM)</b>	<b>5.19</b>	
Add: 5% premium for 4-star ESG rating (RM)	0.26	
<b>TP (RM)</b>	<b>5.45</b>	

Source: Kenanga Research

RNAV of GAMUDA's Property Development Projects				
Project	Stake (%)	Remaining Area (acres)	Outstanding GDV (RM m)	NPV of profit (RM m) (effective)
<b>Malaysia</b>				
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	1,402	20,878	466
6. Kundang Estates	100	25	178	4
7. New Kundang Land	100	532	3,300	74
7. Others	100	49	2,612	58
<b>Vietnam</b>				
1. Gamuda City	100	268	11,374	254
2. Celadon City	100	10	389	40
<b>Fast-track Projects</b>				
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
		3,334	55,549	1,365
<b>Unbilled Sales (as of Oct 22)</b>	100%		5,200	323
Property Shareholders Fund				5,551.5
<b>Total RNAV (RM m)</b>				<b>7,239</b>
Discount to RNAV (%)				50
<b>Discounted RNAV</b>				<b>3,620</b>

Source: Kenanga Research, Company

20 November 2023

## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
GAMUDA	OP	4.66	5.45	17.0%	12,576.4	Y	07/2024	43.6	52.0	29.5%	19.2%	12.8	10.3	1.0	9.8%	12.0	2.6%
IJM	OP	1.88	2.15	14.4%	6,591.6	Y	03/2024	9.2	8.6	-2.1%	-6.3%	20.6	22.0	0.7	4.0%	6.0	3.2%
KERJAYA	OP	1.49	1.75	17.4%	1,879.0	Y	12/2023	12.2	14.8	31.6%	20.8%	12.2	10.7	1.4	12.1%	6.0	4.0%
KIMLUN	OP	0.780	0.910	16.7%	275.6	Y	12/2023	9.5	11.9	-12.6%	25.9%	7.8	6.7	0.3	4.1%	1.0	1.3%
SUNCON	OP	1.95	2.39	22.6%	2,514.3	Y	12/2023	11.3	12.6	1.5%	11.7%	15.4	14.7	2.9	17.7%	5.0	2.6%
WCT	OP	0.520	0.740	42.3%	737.0	Y	12/2023	2.5	3.7	-28.6%	48.6%	20.6	14.1	0.2	2.7%	0.5	1.0%
<b>Sector Aggregate</b>					<b>24,573.8</b>					<b>17.3%</b>	<b>14.7%</b>	<b>13.6</b>	<b>11.8</b>	<b>0.9</b>	<b>6.5%</b>		<b>2.4%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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