Gamuda

A Good Start to FY24

OUTPERFORM ↔

Price:	**RM4.41**	
Target Price:	**RM5.45**	↔

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GAMUDA's 1QFY24 results met expectations. Its 1QFY24 core profit grew 35% YoY largely driven by construction earnings from Australia. Separately, it has bagged a RM1.8b MRT civil construction contract in Singapore. It guided for Bayan Lepas LRT to get off the ground "within the next 3-4 months" while the status of MRT3 is "unclear". We maintain our forecasts, TP of RM5.45 and OUTPERFORM rating.

Its 1QFY24 core net profit of RM195.0m came in at only 18% and 19% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the results within expectations as we expect stronger earnings in coming quarters. It declared a first interim NDPS of 6.0 sen in 1QFY24, against a total of 44.0 sen NDPS (inclusive of 38.0 sen special dividend) paid in 1QFY23.

YoY, its 1QFY24 revenue more than doubled driven largely by construction billings from Sydney Metro West (SMW) and maiden contribution from Australian unit DT Infrastructure. However, its core profit only rose 35% to RM195.0m due to a lower blended construction margin, with lower margins from overseas jobs.

A lower PBT margin of 9% (vs. 14% a year ago) was attributable to: (i) revenue-mix that was skewed heavily towards low-margin overseas projects (84% vs. 16% of local projects), (ii) overseas projects being in initial stages of implementation with limited profit recognition, and (iii) the high base in 1QFY23 due to lumpy profits from the completion of MRT2.

QoQ. Its 1QFY24 revenue fell 18% on lower top line contributions from both construction (-12%) as well as property (-36%) due to normal quarterly fluctuation in billings. Its core profit declined 23% for the same reason.

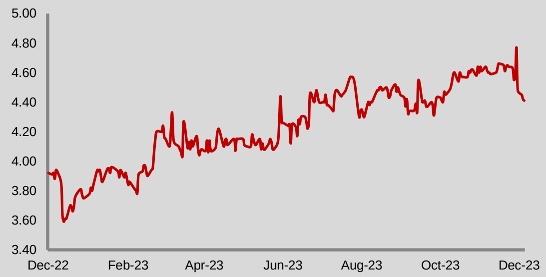
Separately, it announced a contract win, i.e. a SGD509.6m (c.RM1.77b) Singapore MRT contract for West Coast station and two tunnels (approximately 1.9km) under the Cross Island Line Phase 2 from the Land Transport Authority of Singapore. This is the third of the six sizeable projects GAMUDA had said it could win in FY24 and FY25, which it delivered accordingly. Recall, it also bagged a RM3.03b Taiwanese MRT job and a hydropower plant contract in Sabah worth c.RM2b in Oct 2023. The latest job contract has boosted its YTD FY24 job wins to RM6.5b (on track to meet our full-year job win assumption of RM13b) and its outstanding construction orderbook to RM27.8b.

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

1. It guided for the Bayan Lepas LRT project to get off the ground within the next 3-4 months. It is in "advanced" discussions with the government to finalise the implementation model of the project. It guided for a project cost of RM10b comprising land acquisition cost of about RM1.5b and construction cost of RM7b-RM8b. On a less encouraging note, it said that the status of MRT3 is still "unclear" while the validity of tenders has been extended for a fourth time to end-Mar 2024.

2. It guided for an 8% PBT margin for the new Singapore MRT contract, which is in-line with that of Singapore projects post-COVID from 5% previously. It raised its guidance for margins for its Australian projects to above 8% (vs. 6%-8% previously). Our forecasts assume about 9%.

Share Price Performance



KLCI	1,445.82
YTD KLCI chg	-3.3%
YTD stock price chg	17.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GAM MK Equity
Market Cap (RM m)	11,903.5
Shares Outstanding	2,699.2
52-week range (H)	4.77
52-week range (L)	3.43
3-mth avg daily vol:	5,563,393
Free Float	56%
Beta	0.6

Major Shareholders

Amanah Saham Nasional	14.0%
Employees Provident Fund	10.4%
AIA Bhd	4.2%

Summary Earnings Table

FY Jul (RM m)	2023A	2024F	2025F
Turnover	8,234	11,665	13,800
EBIT	923	1,276	1,432
PBT	1,068	1,378	1,614
Net Profit	**1,840**	**1,114**	**1,328**
Core Net Profit	**860**	**1,114**	**1,328**
Consensus	-	1,018	1,172
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)	13.8	10.7	9.0
Price to NTA (x)	1.0	0.9	0.8
Debt-to-Equity ratio (x)	0.10	0.25	0.26
ROA (%)	2.3	3.7	4.1
ROE (%)	7.2	8.6	9.4
Net Div. Yield (%)	11.3	2.7	2.7

3. As of end-Oct 2023, GAMUDA has an outstanding orderbook of RM4.7b for SMW projects, which included a new RM1.2b variation order with 39% completion status. Meanwhile in Melbourne, GAMUDA has been shortlisted for another highway project (undisclosed name and value due to sensitivity)
4. For the property arm – Gamuda Land, its 1QFY24 revenue fell 9% largely led by overseas revenue (-24%) as Celadon City (HCMC, Vietnam project) reached its tail-end which was mitigated by local revenue (+12%). Its 1QFY24 property sales was RM454m (vs. RM480m in 1QFY23) and it expects stronger sales in the coming quarters, to be underpinned by stronger domestic sales (including the maiden launch of Gamuda Park) and overseas quick-turnaround projects (QTPs). It has a total of eight QTPs in its current portfolio. It is expected to add another two QTPs in 2024, and 2-3 new QTPs every year thereafter. Meanwhile, unbilled sales now stand at RM6.7b.

Forecasts. Maintained.

We maintain our SoP-based TP of RM5.45 that values its construction business at 18x forward PER and includes a 5% premium given a 4-star ESG rating as appraised by us (see Pages 3, 4 and 6).

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 RM27.8 b, and (v) its inroads into the renewable energy space. 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.

Income Statement

FYE Jul (RM m)	1QFY24	4QFY23	QoQ	1QFY23	YoY	3MFY24	3MFY23	YoY
Revenue	**2,804.7**	**3,416.8**	-18%	**1,306.6**	115%	**2,804.7**	**1,306.6**	115%
Operating profit	**243.2**	**344.5**	-29%	**147.9**	64%	**243.2**	**147.9**	64%
Finance cost	-37.5	-25.7	46%	-27.5	36%	-37.5	-27.5	36%
Associates	2.0	1.8	8%	1.6	21%	2.0	1.6	21%
JV	32.1	22.7	41%	62.7	-49%	32.1	62.7	-49%
Pre-EI pretax profit	**239.7**	**343.3**	**-30%**	**184.7**	**30%**	**239.7**	**184.7**	**30%**
Exceptionals	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Pretax profit	**239.7**	**343.3**	**-30%**	**184.7**	**30%**	**239.7**	**184.7**	**30%**
Tax	-37.9	-89.8	-58%	-28.0	35%	-37.9	-28.0	35%
Minority interests	-6.8	-1.8	282%	-11.7	-42%	-6.8	-11.7	-42%
Discontinued operations	0.0	0.0	N/A	879.0	-100%	0.0	879.0	-100%
Net profit	**195.0**	**251.7**	**-23%**	**1,024.0**	**-81%**	**195.0**	**1,024.0**	**-81%**
Core Profit	**195.0**	**251.7**	**-23%**	**145.0**	**35%**	**195.0**	**145.0**	**35%**
DPS (sen)	6.0	0.0	N/A	44.0	-86%	6.0	44.0	-86%
EPS	7.6	9.5	-19%	5.7	35%	7.6	5.7	35%
EBIT margin	9%	10%		11%		9%	11%	
Pretax margin	9%	10%		14%		9%	14%	
NP margin	7%	7%		78%		7%	78%	
CNP margin	7%	7%		11%		7%	11%	
Effective tax	16%	26%		15%		16%	15%	

Source: Company

Segmental Breakdown

FYE Jul (RM m)	1QFY24	4QFY23	QoQ	1QFY23	YoY	3MFY24	3MFY23	YoY
Revenue (Reported + JV)								
Engineering and Construction	2,240.2	2,532.3	-12%	688.9	225%	2,240.2	688.9	225%
Property Development	564.5	884.5	-36%	617.7	-9%	564.5	617.7	-9%
Expressways Concessions	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Total	**2,804.7**	**3,416.8**	**-18%**	**1,306.6**	**115%**	**2,804.7**	**1,306.6**	**115%**
PAT Segmentation								
Engineering and Construction	125.5	151.1	-17%	111.5	13%	125.5	111.5	13%
Property Development	76.4	102.5	-25%	73.2	4%	76.4	73.2	4%
Expressways Concessions	0.0	0.0	N/A	1,168.3	-100%	0.0	1,168.3	-100%
Total	**201.9**	**253.5**	**-20%**	**1,353.0**	**-85%**	**201.9**	**1,353.0**	**-85%**
PAT margins								
Engineering and Construction	6%	6%		16%		6%	16%	
Property Development	13%	11%		12%		13%	12%	
Expressways Concessions	N/A	N/A		N/A		N/A	N/A	
Total	**7%**	**8%**		**104%**		**7%**	**104%**	

Source: Company

GAMUDA's Outstanding Construction Order Book			
Project	**Stake (%)**	**Outstanding Value (RM b)**	**Completion (%)**
Malaysia			
Silicon Island - Phase 1	100	3.7	0
Upper Padas Hydroelectric Power Plant*	45	2.0	0
Rasau WTP - Phase 1	100	1.8	5
Pan Borneo Sarawak	65	0.0	99
Second Trunk Road Sarawak	100	0.0	50
Others	100	0.1	Various
		7.6	
Taiwan			
Marine Bridge	70	0.1	88
Seawall Reclamation	70	0.2	72
Transmission Line	50	0.2	11
Marine Bridge Extension	70	0.1	74
Tao Yuan Underground	60	1.3	1
Kaohsiung MRT	88	3.0	0
		4.9	
Singapore			
Bus Depot	100	0.5	49
Defu Station	60	0.9	10
MRT - CIL2	100	1.8	0
		3.1	
Australia			
Sydney Metro West	100	4.7	39
Coffs Harbour Bypass	50	1.1	16
M1 Extension	40	1.1	9
DTI	100	4.6	Various
		12.1	
	Total	**27.7**	

**Pending approvals*
Source: Kenanga Research, Company

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%
Total	**13,449**	
Paid-up Capital (m shares)	2,591	
SOP/share (RM)	**5.19**	
Add: 5% premium for 4-star ESG rating (RM)	0.26	
TP (RM)	**5.45**	

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)**
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	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
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
		3,334	**55,549**	**1,365**
Unbilled Sales (as of Oct 22)	100%		**5,200**	**323**
Property Shareholders Fund				5,551.5
Total RNAV (RM m)				**7,239**
Discount to RNAV (%)				50
Discounted RNAV				**3,620**

Source: Kenanga Research, Company

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.
Stocks Under Coverage																	
GAMUDA	OP	4.41	5.45	23.6%	11,903.5	Y	07/2024	4.1	4.9	29.5%	19.2%	12.1	9.7	10.1	9.8%	12.0	2.7%
IJM	OP	1.88	2.31	22.9%	6,591.6	Y	03/2024	10.4	10.7	12.7%	2.6%	20.6	22.0	0.6	3.9%	8.0	4.3%
KERJAYA	OP	1.46	1.67	14.4%	1,841.1	Y	12/2023	11.0	14.2	18.5%	29.0%	12.0	10.5	1.4	10.9%	8.0	5.5%
KIMLUN	MP	0.770	0.830	7.8%	272.1	Y	12/2023	1.9	8.3	-81.8%	335.8%	7.7	6.6	0.4	0.9%	1.0	1.3%
SUNCON	OP	1.81	2.26	24.9%	2,333.7	Y	12/2023	10.5	11.9	-5.5%	13.3%	14.3	13.6	2.8	17.0%	5.0	2.8%
WCT	OP	0.465	0.700	50.5%	659.0	Y	12/2023	0.6	3.3	-89.9%	409.8%	18.5	12.6	0.2	1.9%	0.5	1.1%
Sector Aggregate					**23,601.0**					**12.5%**	**19.1%**	**13.2**	**11.1**	**0.8**	**6.1%**		**2.9%**

Source: Kenanga Research

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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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