

29 March 2024

Gamuda

Vying for Data Centre Building Jobs

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GAMUDA's 1HFY24 results met expectations. Its 1HFY24 core profit only grew 2% YoY but it guided for a stronger 2HFY24 on higher construction and property profits. It is poised to secure two data centre building jobs but has no intention to own data centres at this juncture. We maintain our forecasts but raise our TP by 14% to RM6.20 (from RM5.45). Maintain OUTPERFORM.

Its 1HFY24 core net profit of RM391.6m came in at only 36% and 41% 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 2HFY24 on accelerated construction and property billings. No dividend was declared in 2QFY24 as expected, as it regularly pays in 1Q and 3Q historically.

YoY. Its 1HFY24 revenue more than doubled, largely driven by overseas constructions especially from Sydney Metro West (SMW) and maiden contribution from Australian unit DT Infrastructure (DTI). Nonetheless, its core profit only grew 2% due to a lower blended construction margin due to low-margin overseas jobs.

More specifically, its 1HFY24 construction PBT margin shrank to 6% (from 17% a year ago) as overseas revenue made up 86% of total revenue (vs. only 64% previously). In addition, its overseas projects were mostly at the initial stages of implementation (which typically do not warrant aggressive profit recognition) coupled with the high base in 1HFY23 due to lumpy profits upon the completion of MRT2.

QoQ. Its 2QFY24 revenue rose 16% on higher revenue from both construction (+8%) as well as property (+62%) segments. SMW's completion stood at 48% (vs. 39% three months ago) while DTI contributed c.RM300m. Its core profit only rose 9% due to lower blended construction margins and low property profits, we believe, potentially due to recognition of lumpy marketing expenses.

The key takeaways from the results briefing are as follows:

1. It guided for a stronger 2HFY24 on: (i) maiden contribution from Penang Silicon Island (PSI) reclamation works, and (ii) stronger property profit earnings from Malaysia and Vietnam (from 2HFY24), Singapore (from 3QFY24) and UK (from 4QFY24 driven by the Winchester House project). Meanwhile, Australian property sales will kick in during FY25.
2. GAMUDA is confident on securing two data centre building jobs locally. On a separate note, at this juncture, it has no intention to own data centres. It quoted high capex and potential oversupply at some point in the future as its key concerns. Nonetheless, it holds the belief that the data centre business is still at the early stages of its up-cycle and the upward momentum could last at least for another five years.
3. It is hopeful that the award of Bayan Lepas LRT project could happen "soon", with the green light from the federal government being the last hurdle. However, it is more cautious on the timing of the award of MRT3 given its much greater impact to the government's finances. Recall, the validity of tenders for MRT3 work packages will expire at the end of the month (and bidders are likely to be asked to extend again).

Forecasts. Maintained.

OUTPERFORM ↔

Price: RM5.27
Target Price: RM6.20 ↑

Share Price Performance



KLCI 1,530.60
YTD KLCI chg 5.2%
YTD stock price chg 14.8%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker GAM MK Equity
Market Cap (RM m) 14,586.2
Shares Outstanding 2,767.8
52-week range (H) 5.29
52-week range (L) 3.99
3-mth avg. daily vol. 8,313,884
Free Float 58%
Beta 0.6

Major Shareholders

Amanah Saham Nasional 13.7%
Employees Provident Fund 8.6%
Generasi Setia M Sdn Bhd 4.1%

Summary Earnings Table

FY Jul (RM m)	2023A	2024F	2025F
Turnover	4,902	11,500	13,800
EBIT	729	1,354	1,619
PBT	992	1,348	1,626
Net Profit	806	1,114	1,328
Core Net Profit	799	1,114	1,328
Consensus	-	986	1,146
Earnings Revision (%)	-	-	-
Core EPS (sen)	32.3	40.2	48.0
Core EPS Growth (%)	37.3	39.4	19.2
NDPS (sen)	50.0	12.0	12.0
BVPS (RM)	4.05	4.18	4.54
NTA/share (RM)	3.87	3.99	4.34
PER (x)	13.3	13.1	11.0
PBV (x)	1.06	1.26	1.16
P/NTA (x)	1.11	1.32	1.21
Net Gearing (x)	0.35	0.31	0.21
Net Div. Yield (%)	11.6	2.3	2.3

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Valuations. However, we lift our SoP-based TP by 14% to RM6.20 (see Page 3) from RM5.45 previously as we roll over our valuation base year to FY25F (from FY24F). We continue to value its construction business at 18x PER and have updated its property RNAV (see Page 4). Our TP reflects a 5% premium given a 4-star ESG rating as appraised by us (see Pages 6).

We continue to like GAMUDA for: (i) being the front-runner for the Bayan Lepas LRT and 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 RM26.1b, and (v) its inroads into the renewable energy space. Maintain **OUTPERFORM**.

Risks to our call include: (i) the 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								
FY Jul (RM m)	2Q FY24	1Q FY24	Q-o-Q Chg	2Q FY23	Y-o-Y Chg	1H FY24	1H FY23	Y-o-Y Chg
Turnover	3,330.8	2,804.7	19%	1,443.0	131%	6,135.5	2,749.6	123%
EBITDA	214.3	282.3	-24%	202.2	6%	496.6	435.0	14%
Depreciation	-45.4	-39.1	16%	-26.6	71%	-84.5	-54.3	56%
EBIT	168.9	243.2	-31%	175.6	-4%	412.1	380.7	8%
Interest expense	-25.2	-37.5	-33%	-27.6	-9%	-62.7	-55.1	14%
Associates	6.8	2.0	246%	0.2	3090%	8.8	1.8	378%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	1,111.1	-100%
Pretax profit	239.6	239.7	0%	230.1	4%	479.4	1,583.2	-70%
Taxation	-23.4	-37.9	-38%	-31.2	-25%	-61.3	-59.2	4%
Profit after tax	216.2	201.9	7%	198.9	9%	418.1	1,524.0	-73%
Minority interest	-7.4	-6.8	8%	-4.3	71%	-14.2	-160.7	-91%
Net profit	208.8	195.0	7%	194.6	7%	403.8	1,363.3	-70%
Core net profit	204.0	187.6	9%	194.7	5%	391.6	384.4	2%
EPS (sen)	7.4	6.8	9%	7.0	5%	14.1	13.9	2%
DPS (sen)	0.00	6.00	N/A	0.00	0%	6.00	44.00	-86%
NTA/share (RM)	3.97	3.84	3%	3.77	5%	3.97	3.77	5%
EBITDA margin	6%	10%		14%		8%	16%	
EBIT margin	5%	9%		12%		7%	14%	
Pretax margin	7%	9%		16%		8%	58%	
Core net margin	6%	7%		13%		6%	14%	
Effective tax rate	10%	16%		14%		13%	4%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	2Q FY24	1Q FY24	Q-o-Q Chg	2Q FY23	Y-o-Y Chg	1H FY24	1H FY23	Y-o-Y Chg
Turnover								
Engineering and Construction	2,416.2	2,240.2	8%	908.2	166%	4,656.4	1,597.2	192%
Property Development	914.6	564.5	62%	534.8	71%	1,479.1	1,152.5	28%
Water and Expressways Concessions	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Group Turnover	3,330.8	2,804.7	19%	1,443.0	131%	6,135.5	2,749.6	123%
Segment Results								
Engineering and Construction	136.9	133.0	3%	152.7	-10%	269.9	264.1	2%
Property Development	102.7	106.8	-4%	77.4	33%	209.5	150.7	39%
Water and Expressways Concessions	0.0	0.0	0%	0.0	0%	0.0	1,171.1	-100%
Group PBT	239.6	239.7	0%	230.1	4%	479.4	1,585.9	-70%
PBT Margin								
Engineering and Construction	5.7%	5.9%		17%		6%	17%	
Property Development	11.2%	18.9%		14%		14%	13%	
Water and Expressways Concessions	N/A	N/A		N/A		N/A	N/A	
Group PBT Margin	7%	9%		16%		8%	58%	

Source: Company

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GAMUDA's Outstanding Construction Order Book			
Project	Stake (%)	Outstanding Value (RM b)	Completion (%)
Malaysia			
Silicon Island - Phase 1	100	3.7	1
Upper Padas Hydroelectric Power Plant*	45	2.0	0
Rasau WTP - Phase 1	100	1.7	12
Pan Borneo Sarawak	65	0.0	99
Second Trunk Road Sarawak	100	0.0	50
Others	100	0.0	Various
		7.4	
Taiwan			
Marine Bridge	70	0.0	90
Seawall Reclamation	70	0.2	75
Transmission Line	50	0.2	14
Marine Bridge Extension	70	0.1	81
Tao Yuan Underground	60	1.1	1
Kaohsiung MRT	88	2.9	0
		4.5	
Singapore			
Bus Depot	100	0.4	58
Defu Station	60	0.8	16
West Coast Station	100	1.8	0
		3.0	
Australia			
Sydney Metro West	100	4.1	48
Coffs Harbour Bypass	50	1.6	20
M1 Extension	40	1.1	15
DTI	100	4.3	Various
		11.1	
Total		26.1	

*Pending approvals

Source: Kenanga Research, Company

GAMUDA's Sum-of-Parts Valuation		
Segment	Value (RM m)	Valuation Basis
Construction	12,407.6	18x FY25F PER
Property	5,910.5	50% discount to RNAV (see the following table)
Gamuda Waters (80%-owned)	339.0	FCFF @ 10% discount rate
Net Debt	-2,314.4	Estimated FY25F
	16,342.7	
Issued share (m)	2,767.8	
SOP/share (RM)	5.90	
Add: 5% premium for 4-star ESG rating (RM)	0.30	
Target Price (RM)	6.20	

Source: Kenanga Research

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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	50	243	2,222	24.8
2. Jade Hills	100	0	100	2.2
3. Gamuda Gardens	100	582	7,168	159.8
4. Gardens Park	100	532	3,566	79.5
5. twentyfive.7	100	111	2,923	65.2
6. Gamuda Cove	100	604	19,304	430.4
7. Kundang Estates	100	25	162	3.6
8. Others	100	37	2,449	54.6
Overseas				
1. Gamuda City, Hanoi	100	232	13,154	293.3
2. Celadon City, HCMC	100	0	281	28.8
3. OLA EC, Singapore	50	0	0	0.0
4. 661 Chapel Street, Melbourne	100	0	40	4.1
Quick turnaround projects				
1. Aldgate, London	90	N/A	240	22.2
2. West Hampstead, London	85	N/A	150	13.1
3. The Canopy on Normanby, Melbourne	100	N/A	440	49.7
4. Artisan Park, HCMC	100	N/A	280	31.6
5. Elysian, HCMC	100	N/A	700	79.0
6. St Kilda, Melbourne	100	N/A	240	27.1
7. Winchester House, London	75	2	2,580	218.5
8. MCT 3.7, HCMC	100	9	4,220	476.4
9 Future QTPs	100	55	2,170	245.0
		2,432	62,389	2,308.8
Unbilled Sales (as of Oct 23)	100		6,700	624.0
Property Shareholders Fund				8,888.2
Total RNAV (RM m)				11,821.0
Discount to RNAV (%)				50.0
Discounted RNAV				5,910.5

Source: Kenanga Research, Company

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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	5.27	6.20	17.6%	14,586.2	Y	07/2024	40.2	48.0	39.4%	19.2%	14.5	11.6	1.3	10.0%	12.0	2.3%
IJM	OP	2.42	2.54	5.0%	8,484.9	Y	03/2024	11.6	12.4	62.5%	7.0%	26.6	28.4	0.9	4.7%	8.0	3.3%
KERJAYA	OP	1.78	1.90	6.7%	2,244.7	Y	12/2024	14.2	15.8	33.3%	11.3%	14.6	12.8	1.6	13.0%	10.0	5.6%
KIMLUN	MP	0.985	0.890	-9.6%	348.1	Y	12/2024	8.3	8.9	311.3%	7.9%	9.9	8.5	0.5	3.9%	1.0	1.0%
SUNCON	OP	2.94	3.16	7.5%	3,790.7	Y	12/2024	12.7	16.7	-3.2%	31.1%	23.1	22.1	3.9	17.6%	6.0	2.0%
WCT	OP	0.545	0.660	21.1%	772.4	Y	12/2024	2.5	3.0	-85.9%	18.4%	21.6	14.8	0.3	1.2%	0.5	0.9%
Sector Aggregate					30,226.9					74.3%	16.7%	15.6	13.3	1.1	7.0%		2.5%

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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