

Gamuda Berhad

(5398 | GAM MK) Main | Construction

Total revenue almost halved

KEY INVESTMENT HIGHLIGHTS

- **Earnings lagged expectation**
- **Construction revenue declined -29.0%yoy in 3QFY20**
- **Outstanding order book stood at RM7.5b**
- **Property division performance remains disappointing**
- **Revised earnings downwards**
- **Downgrade to NEUTRAL (from BUY) with lower TP of RM3.35 (from RM3.70)**

Earnings lagged expectation. Total revenue was down by -47.0%yoy to RM549.90m in 3QFY20. Moreover, its 3QFY20 earnings dropped -77.7%yoy to RM40.23m. Cumulatively, its 9MFY20 earnings declined -25.4%yoy to RM389.02m which lagged our expectation as it accounted for only 59.8% of full year FY20 earnings estimate. The lower than expected earnings was attributable to the MCO implementation which also led to (1) cessation of almost all construction and properties activities, and (2) much lower traffic volumes on its toll roads.

Construction revenue declined -29.0%yoy in 3QFY20. Its construction segment reported RM694.83m revenue in 3QFY20, lower by -29.0%yoy compared to RM978.35m in 3QFY19. The contraction in revenue was mainly on the back of the nationwide MCO lockdown. However, only critical construction works were allowed to continue uninterrupted, i.e. underground tunneling works and critical long-span launching above ground works for the MRT2 project. On another note, it is worth noting that PTMP PDP agreement is expected to be signed soon. We understand that the recent change in the Federal government could delay some components within the PTMP, but the Penang South Reclamation (PSR) component is likely to go ahead pending the State's final decision. The PDP agreement is now expected to be signed in 3Q this year.

Outstanding order book stood at RM7.5b. The current order book is estimated to provide earnings visibility of between 2.0 to 2.5 years. The broad breakdowns of the order book are (1) MRT2 project accounts for circa 70% of the order book value, and (2) overseas projects comprise about 17%.

Downgrade to NEUTRAL

(from BUY)

Adjusted Target Price:RM3.35

(from RM3.70)

RETURN STATISTICS

Price @ 24 June 2020 (RM)	RM3.53
Expected share price return (%)	-4.97
Expected dividend yield (%)	+3.40
Expected total return (%)	-1.57

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.6	-8.8
3 months	24.7	14.5
12 months	-2.5	8.8


KEY STATISTICS

FBM KLCI	1,502.63
Syariah compliant	Yes
Issue shares (m)	2472.32
Estimated free float (%)	55.84
Market Capitalisation (RM'm)	8,872.75
52-wk price range	RM2.36 - RM4.3
Beta vs FBM KLCI (x)	1.41
Monthly velocity (%)	0.35
Monthly volatility (%)	15.35
3-mth average daily volume (m)	4.04
3-mth average daily value (RM'm)	13.88
Top Shareholders (%)	
Employees Provident Fund Board	14.02
Amanah Saham Nasional Bhd	9.11
Kumpulan Wang Persaraan Diperbadan	7.92

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Property division performance remains disappointing. In 3QFY20, Gamuda's property division registered lower revenue of RM197.90m (-68.1%yoy) and lower earnings of RM7.72m (-87.9%yoy). The significant decline in both revenue and earnings were mainly attributable to the MCO lockdown which saw almost complete halt to all property activities. Year-to-date, presales totalled RM1.2b (-40%yoy) and unbilled sales stand at RM3b. We note that OLA was launched just before Singapore implemented its circuit breaker. This RM2.0b GDV executive condo project achieved sales of RM670m in under a week. Altogether, OLA sees 35% initial take up rate.

Revised earnings downwards. We cut our FY20F and FY21F earnings estimates by -18.5% and -9.1% on the back of (1) slower progress in construction activities post-MCO period, as well as (2) uncertain business prospects due to potential economic fallout from the pandemic.

Downgrade to NEUTRAL (from BUY) with lower TP of RM3.35 (from RM3.70). We downgrade our BUY recommendation to NEUTRAL on Gamuda Berhad with a lower TP of RM3.35 from RM3.70, pegging its FY21EPS to PE of 14.0x. 

INVESTMENT STATISTICS

FYE July	FY17	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	3211.40	4227.00	4565.10	3733.55	3961.81	4239.31
Pre-tax Profit (RM'm)	656.20	729.30	908.85	745.10	821.70	807.15
PATAMI (RM'm)	602.00	513.80	706.10	529.10	594.21	590.59
FD EPS (sen)	24.80	20.80	28.60	21.33	23.96	23.81
EPS growth (%)	-1.98	-16.13	37.50	-25.40	12.31	-0.61
PER (x)	14.35	17.12	12.45	0.00	14.73	14.82
Net Dividend (sen)	11.00	11.90	12.00	11.00	12.00	12.00
Net Dividend Yield (%)	3.09	3.34	3.37	3.12	3.40	3.40

Source: Company, MIDFR

3QFY20 RESULTS REVIEW

FYE Jul (RM'm)	Quarterly Results					Cumulative		
	3QFY20	3QFY19	2QFY20	YoY	QoQ	9MFY20	9MFY19	YoY
Revenue	549.90	1036.68	1090.71	-47.0%	-49.6%	2736.45	3065.69	-10.7%
EBIT	5.71	193.25	154.73	-97.0%	-96.3%	330.56	545.73	-39.4%
Pre-tax profit	65.09	235.56	219.71	-72.4%	-70.4%	502.76	685.16	-26.6%
Tax	-17.68	-45.73	-33.81	-61.4%	-47.7%	-83.86	-119.60	-29.9%
Core Net Profit	40.23	175.99	175.17	-77.1%	-77.0%	389.02	521.17	-25.4%
EPS (sen)	1.60	7.13	7.06	-77.6%	-77.3%	15.63	21.11	-26.0%
	3QFY20	3QFY19	2QFY20	(+ppts)	(+ppts)	9MFY20	9MFY19	(+ppts)
EBIT margin	1.0%	18.6%	14.2%	-17.60	-13.15	12.1%	17.8%	-5.72
Pre-tax margin	11.8%	22.7%	20.1%	-10.89	-8.31	18.4%	22.3%	-3.98
Net profit margin	7.3%	17.0%	16.1%	-9.66	-8.74	14.2%	17.0%	-2.78
Effective tax rate	-3.2%	-4.4%	-3.1%	1.20	-0.11	-3.1%	-3.9%	0.84
Revenue Breakdown								
Segments	3QFY20	3QFY19	2QFY20	YoY	QoQ	9MFY20	9MFY19	YoY
Engineering & Construction	694.83	978.35	1524.36	-29.0%	-54.4%	3362.84	3132.34	7.4%
Property Development	197.90	619.78	574.68	-68.1%	-65.6%	1302.66	1684.64	-22.7%
Water & Expressway Concessions	97.11	126.46	125.75	-23.2%	-22.8%	349.84	386.64	-9.5%
Total	989.84	1724.60	2224.79	-42.6%	-55.5%	5015.34	5203.62	-3.6%
Net Profit Breakdown								
Segments	3QFY20	3QFY19	2QFY20	YoY	QoQ	9MFY20	9MFY19	YoY
Engineering & Construction	8.29	62.95	73.55	-86.8%	-88.7%	149.08	194.83	-23.5%
Property Development	7.72	63.58	40.14	-87.9%	-80.8%	95.59	149.90	-36.2%
Concessions	24.23	49.46	61.48	-51.0%	-60.6%	144.36	176.44	-18.2%
Total	40.23	175.99	175.17	-77.1%	-77.0%	389.02	521.17	-25.4%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.