

Gamuda Berhad

(5398 | GAM MK) Main | Construction

Lifted by Construction Segment Earnings

KEY INVESTMENT HIGHLIGHTS

- **Gamuda registered revenue of RM2186.5m (+7.8%yoy) in 6MFY20**
- **During the quarter, construction revenue expanded strongly by +35.9%yoy**
- **Property division disappoints**
- **Earnings forecasts unchanged**
- **Maintain BUY with unchanged TP of RM3.70**

Gamuda registered revenue of RM2186.5m in 6MFY20, +7.8%yoy growth from RM2029.0m in 6MFY19. Meanwhile, earnings came in at RM348.8m in 6MFY20, higher by +1.0%yoy in comparison to the same period last year. Its bottomline was within our expectation but above consensus' at 53.7% and 63.7% of respective annual earnings forecasts.

During the quarter, construction revenue expanded strongly by +35.9%yoy. Its construction segment recorded RM1524.4m revenue in 2QFY20, higher by +35.9%yoy compared to RM1122.0m in 2QFY19. Moreover, earnings of construction segment improved +23.1%yoy to RM73.6m in 2QFY20 from RM59.7m in 2QFY19 on the back of higher contribution from MRT Line 2 project. It is worth noting that, the overall cumulative progress of MRT Line 2 at the end of January 2020 were as follows: (1) Elevated Works Package was on schedule at 72%, and (2) Underground Works Package was on schedule at 72%. Also, we learn that structural works as well as mechanical & electrical works are progressing well across all stations. Six tunnel drives have been completed with post tunnelling works in progress and it is anticipated that the tunnel drives will be completed by mid FY20. On a separate note, we note that Gamuda was appointed as Project Delivery Partner (PDP) of PTMP on 2nd March 2020. However, due to the recent change in the Federal government – which makes Penang an opposition State again – this could delay some components within the PTMP. As for the PSR (Penang South Reclamation) component, it is likely to go ahead pending the State's final decision. Meanwhile, the PDP agreement is now slated to be signed in the second quarter this year. In the near term, earnings continue to be supported by the Group's healthy order book of RM8.2b.

Maintain BUY

Unchanged Target Price: RM3.70

RETURN STATISTICS

Price @ 25 March 2020 (RM)	RM2.65
Expected share price return (%)	+39.62
Expected dividend yield (%)	+4.53
Expected total return (%)	+44.15

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-26.80	-17.05
3 months	-32.05	-18.33
12 months	-6.69	16.18


KEY STATISTICS

FBM KLCI	1324.5
Syariah compliant	Yes
Issue shares (m)	2472.32
Estimated free float (%)	57.09
Market Capitalisation (RM'm)	6660.23
52-wk price range	RM2.36 - RM4.3
Beta vs FBM KLCI (x)	1.54
Monthly velocity (%)	11.02
Monthly volatility (%)	34.70
3-mth average daily volume (m)	6.65
3-mth average daily value (RM'm)	23.31
Top Shareholders (%)	
Employees Provident Fund Board	13.48
Kumpulan Wang Persaraan Diperbadan	7.15
Sultan Azlan Shah Eleena Binti	4.69

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Property division disappoints. In 2QFY20, Gamuda's property division registered lower revenue of RM574.7m (-7%yoy) and lower earnings of RM40.1m (-21.8%yoy) due to significant upfront costs associated with several new townships. The property division sold RM1b worth of properties in the 1HFY20 compared with RM1.3b in 1HFY19. It is worth pointing out that overseas projects contributed two-thirds of overall sales. The overseas projects, namely (1) Gamuda City in Hanoi, and (2) Celadon City in Ho Chi Minh City, remained the biggest contributors to sales. Moreover, OLA executive condominium at Anchorvale Crescent in Singapore was recently launched on 21 March 2020 and the Group received good response at its launch. As for the domestic property market, it is expected to remain soft in FY20 on the back of prevailing overhang situation and low consumer confidence. Despite the gloomy domestic market, we note that all 3 major townships have completed several placemaking initiatives. They are, (1) The Discovery Park in Gamuda Cove is now open to the public, (2) the Waterfront Village in Gamuda Gardens, a lakeside retail village, has been completed, and (3) twentyfive.7 in Quayside Mall is on track to open to the public in 3 months time.

Earnings forecasts unchanged. Post 2QFY20 financial results, we make no adjustments to our earnings forecasts as the earnings were in line with our expectation.

Maintain BUY with unchanged TP of RM3.70. Moving forward, overseas property sales (especially Vietnam) and the continued progress of MRT Line 2 are expected to boost Gamuda's FY20 performance. Additionally, given that the ongoing coronavirus pandemic, oil shock and turmoil in the financial markets, the Government is expected to announce a more comprehensive stimulus package next week which may include new infrastructure awards. We maintain our BUY recommendation on Gamuda Berhad with an unchanged TP of RM3.70, pegging its FY21EPS to PE of 14.0x. 

INVESTMENT STATISTICS

FYE July	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	4227.00	4565.10	3934.55	3961.82	4239.31
EBIT (RM'm)	696.60	689.30	668.87	673.51	686.47
Pre-tax Profit (RM'm)	729.30	908.85	865.60	871.60	836.02
PATAMI (RM'm)	513.80	706.10	649.20	653.70	623.50
FD EPS (sen)	20.80	28.60	26.18	26.36	25.14
EPS growth (%)	-16.13	37.50	-8.47	0.69	-4.62
PER (x)	17.12	12.45	0.00	10.05	10.54
Net Dividend (sen)	11.90	12.00	11.00	12.00	12.00
Net Dividend Yield (%)	3.34	3.37	4.15	4.53	4.53

Source: Company, MIDFR

2QFY20 RESULTS REVIEW

FYE Jul (RM'm)	Quarterly Results					Cumulative		
	2QFY20	2QFY19	1QFY20	YoY	QoQ	6MFY20	6MFY19	YoY
Revenue	1090.71	1125.13	1095.83	-3.1%	-0.5%	2186.54	2029.01	7.8%
EBIT	154.73	162.51	170.13	-4.8%	-9.1%	324.85	352.48	-7.8%
Pre-tax profit	219.71	223.45	217.97	-1.7%	0.8%	437.67	449.61	-2.7%
Tax	-33.81	-34.15	-32.37	-1.0%	4.4%	-66.18	-73.86	-10.4%
Core Net Profit	175.17	173.14	173.62	1.2%	0.9%	348.79	345.18	1.0%
EPS (sen)	7.06	7.01	7.01	0.7%	0.7%	14.07	13.98	0.6%
	2QFY20	2QFY19	1QFY20	(+-ppts)	(+-ppts)	6MFY20	6MFY19	(+-ppts)
EBIT margin	14.2%	14.4%	15.52%	-0.26	-1.34	14.9%	17.4%	-2.51
Pre-tax margin	20.1%	19.9%	19.89%	0.28	0.25	20.0%	22.2%	-2.14
Net profit margin	16.1%	15.4%	15.84%	0.67	0.22	16.0%	17.0%	-1.06
Effective tax rate	-3.1%	-3.0%	-2.95%	-0.06	-0.15	-3.0%	-3.6%	0.61
Revenue Breakdown								
Segments	2QFY20	2QFY19	1QFY20	YoY	QoQ	6MFY20	6MFY19	YoY
Engineering & Construction	1524.36	1121.97	1143.65	35.9%	33.3%	2688.01	2153.99	24.8%
Property Development	574.68	617.86	530.09	-7.0%	8.4%	1104.77	1064.86	3.7%
Water & Expressway Concessions	125.75	130.46	126.98	-3.6%	-1.0%	252.73	260.17	-2.9%
Total	2224.79	1870.29	1800.72	19.0%	23.5%	4045.51	3479.02	16.3%
Net Profit Breakdown								
Segments	2QFY20	2QFY19	1QFY20	YoY	QoQ	6MFY20	6MFY19	YoY
Engineering & Construction	73.55	59.73	67.24	23.1%	9.4%	140.79	131.88	6.8%
Property Development	40.14	51.32	47.73	-21.8%	-15.9%	87.87	86.32	1.8%
Concessions	61.48	62.09	58.65	-1.0%	4.8%	120.13	126.98	-5.4%
Total	175.17	173.14	173.62	1.2%	0.9%	348.79	345.18	1.0%

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.