Gamuda Berhad

(5398 | GAM MK) Main | Construction

Maintain BUY

Gaining pace for FY23

***Unchanged* Target Price: RM4.02**

KEY INVESTMENT HIGHLIGHTS

- **3QFY22 core net profit jumped +65.2%yoy to RM222.7m**
- **Property division earnings tripled to RM127m, construction earnings up +20% to RM63m**
- **Gamuda's unbilled order book now stands at record high of RM12.4b and unbilled property sales of RM5.4b**
- **MMC-Gamuda to bid for CMC303 package of MRT3**
- **Second interim dividend of 6sen per share, bringing FY22 DPS to 12sen**
- **Maintain BUY with an unchanged target price of RM4.02**

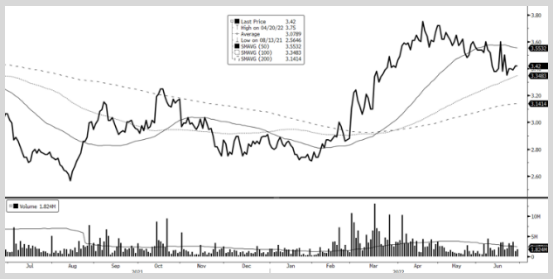
Exceed Expectation. Gamuda Berhad's 3QFY22 core net profit soared +65.2%yoy to RM222.7m, backed by stronger earnings contributions from the property and construction divisions. For the cumulative 9MFY22, core earnings came in +46.3%yoy higher at RM552.3m, beating our expectations and the street's by 13% and 18.4% respectively of the FY22 estimates. We came away from management's results briefing yesterday positively, strengthening our conviction of Gamuda as one of our top construction sector picks.

Property leads again. The Group's property division stole the limelight once again, recording a net profit of RM126.8m for the quarter ended April-22, tripling what it made in the corresponding period last year, attributable to its Celedon City township development in Ho Chi Minh City, which rebounded after Vietnam lifted its lockdown in Oct-21. For 9MFY22, earnings from the division rose more than three-fold to RM200m. A total of RM2.7b worth of properties were sold during the cumulative period, a rise of 23%yoy with overseas projects mainly in Vietnam and Singapore contributing 53% of the total sales. With only one month left to the end of Gamuda's FY22 in July, management is confident of achieving its full year sales target of RM4b. While future interest rate hikes may not bode well for the property market, management is not too unperturbed as their target market is the T20 and the upper half of the M40, adding that sales are also self-fulfilling in maturing townships.

All systems go for 2HCY22. Construction earnings rose +19.6%yoy to RM62.5m in 3QFY22, on the back of cost savings from MRT2 instead of higher progress billings. For the 9MFY22, construction earnings grew +39.9%yoy to RM226.7m. The Group's remaining period for FY22 is expected to be driven by the continue progress of MRT2, with about RM1b financial recognition remaining. Physical completion of the project is at c.98% while the amount recognised financially trails behind at 93%. We note that construction revenue saw a decline of -6%yoy to RM476.6m for the quarter as MRT2 is almost reaching its tail end. Nevertheless, we expect Gamuda to see a boost in construction

RETURN STATISTICS	
Price @ 29th June 2022 (RM)	**3.42**
Expected share price return (%)	**+17.5**
Expected dividend yield (%)	**+12.4**
Expected total return (%)	**+29.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.5	3.3
3 months	-1.2	9.4
12 months	9.3	15.4

KEY STATISTICS	
FBM KLCI	1,451.48
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆
Issue shares (m)	2513.53
Estimated free float (%)	43.42
Market Capitalisation (RM'm)	8,734.44
52-wk price range	RM2.6 - RM3.75
Beta vs FBM KLCI (x)	1.02
Monthly velocity (%)	0.00
Monthly volatility (%)	34.70
3-mth average daily volume (m)	2.43
3-mth average daily value (RM'm)	8.62
Top Shareholders (%)	
Amanah Saham Nasional Bhd	14.69
Employees Provident Fund Board	14.59
Kumpulan Wang Persaraan Diperbadan	8.07

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activities in 2HCY22 due to its massive contract wins over the past months.

Record high order book. Gamuda's outstanding order book is now at a record high of RM12.4b from RM3.8b at the start of the year, bolstered mainly by its job wins in Australia, which now comprises RM8.5b or 68.5% of its total order book. Unbilled order book in Malaysia is at RM1.7b while that in Taiwan and Singapore are RM1b and RM1.2b respectively. All these provide earnings visibility up to FY26. Management expects the portion of local jobs to catch up in the near future. Recall that on March 1, Gamuda was awarded the Sydney Metro West (SMW) – Western Tunneling Package Project with a contract sum of AUD2.16b (approximately RM6.5b) and a week prior, the contract to build the Defu Station and two tunnels in Singapore, a SGD467m (approximately RM1.45b) civil project, where it holds a 60% share. It scored another major win a fortnight ago, after being awarded an AUD1.35b (RM4.14b) contract for the main package of works for the Coffs Harbour Bypass in New South Wales (NSW), together with its 50:50 JV partner Ferrovial Construction. We are positive on further surprises from Gamuda Australia, which has been shortlisted for the delivery of the northern section of the North East Link in Melbourne. It has also partnered John Holland to bid for the Suburban Rail Loop (SRL) project which has two tunnelling contracts, one of which will be the longest tunnelling package in the history of Victoria. Management's internal target is to secure RM25b of orderbook by FY23 and following that, the annual replenishment target is RM8b to RM10b.

Eyes on largest MRT3 package. As we expected, Gamuda has confirmed setting its target on package CMC303 of the upcoming MRT3, the largest package with the longer portion of underground works spanning 10km plus 6km of elevated works. Our back-of-the-envelope calculation estimated this package to be RM14.29b. Gamuda confirmed that it will once again partner MMC to bid for CMC303 and will only focus on that particular package.

Margin compression? Not quite so. Management guided that the spike in cost in terms of raw materials, labour and fuel has minimal impact to its margins, due to the cost escalation clauses in most of its contracts. Exposure limit to projects such as MRT2, Pan Borneo and projects in Taiwan are low, or near zero. In some cases, Gamuda may even make marginal gains in instances of cost escalations. For projects in Australia, the risk is limited to a certain extent, such as the Coffs Harbour Bypass, which includes escalation clause for main materials like bitumen and diesel. Procurement against budget for SMW is on track but management is starting to see price escalation pressures. Although it does not come with escalation clauses, management believes the client would be able to release some cost buffer that has been built in. Future contracts will feature a form of cost sharing for escalations, instead of lump sum design and build contracts.

Welcome back, dividends. The Group declared a second interim dividend of 6 sen per share, bringing its total dividend back to pre-pandemic levels of 12 sen per share, which are usually declared in 1Q and 3Q of Gamuda's financial year. Management guided that such levels of dividend pay-outs can be expected for the foreseeable future. Due to the impact of Covid-19, Gamuda only issue 6 sen in FY20 and none FY21. Gamuda will also reward its shareholders with a bumper dividend of about 38 sen per share post-completion of its highway concession disposal to Amanat Labuhraya Rakyat, expected in August. This will cost RM1b in total, or 43% of the total disposal proceeds of RM2.3b. Based on our target price of RM4.02, this translates to a dividend yield of 12.4% for FY23, including the 12 sen dividend per share that can be expected annually.

Earnings estimates. We are making no changes to our FY22 and FY23 estimates.

Target price. We are maintaining our TP of **RM4.02** by pegging a four-year mean PER of 14.5x to the group's FY23 EPS of 27.7sen.

Maintain BUY. We expect Gamuda to continue delivering stellar revenue and earnings in 4QFY22 and FY23. We are positive on the construction sector, in line with the rollout of MRT3 in Malaysia, impending rollout of various infrastructure projects and Gamuda's strong foothold in Australia as it continues to clinch mega projects there. We like the fact that it will continue to distribute dividends at pre-pandemic levels and we are positive on the potential sale of the Group's highway concessions, likely to be completed in August, which will see bumper dividends issued to shareholders.

INVESTMENT STATISTICS

FYE 31st July	2020A	2021A	2022E	2023F	2024F
Revenue	3,663.0	3,517.2	4,350.0	4,380.0	4,710.0
Profit from Operations	416.4	586.1	630.4	667.6	711.7
Finance costs	(139.3)	(114.5)	(139.6)	(161.2)	(155.2)
Share of profit of associated companies	116.2	97.9	126.6	139.2	135.8
Share of profit of joint ventures	192.2	216.8	224.7	260.2	264.6
Profit Before Tax	585.5	786.3	842.1	905.8	956.8
Tax Expense	(161.3)	(154.1)	(174.6)	(200.9)	(198.8)
Reported Net Profit	371.7	588.3	651.8	697.5	725.3
Core Net Profit	130.8	583.7	651.8	527.5	725.3
Core EPS	5.3	23.2	25.9	27.7	28.9
DPS	6.0	0.0	12.0	50.0	12.0
Dividend Yield	1.8%	0.0	3.5%	12.4%	2.1%

Source: Company, MIDFR

GAMUDA BHD: 3QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**3Q22**	**2Q22**	**3Q21**	**QoQ**	**YoY**	**9M22**	**9M21**	**YoY**
Revenue	1,180.6	1,288.3	971.2	**-8%**	**22%**	3,216.1	2,630.5	**22%**
Profit from Operations	214.0	145.0	165.2	**48%**	**30%**	462.2	355.3	**30%**
Finance costs	(20.2)	(47.0)	(24.7)	**57%**	**18%**	(77.0)	(79.3)	**3%**
Share of profit of associated companies	13.4	32.7	32.3	**-59%**	**-58%**	74.7	101.4	**-26%**
Share of profit of joint ventures	62.5	96.4	28.2	**-35%**	**122%**	228.6	119.8	**91%**
Profit Before Tax	269.8	227.2	201.0	**19%**	**34%**	688.5	497.3	**38%**
Tax Expense	(40.3)	(39.3)	(54.2)	**-3%**	**26%**	(106.8)	(94.7)	**-13%**
Minority Interest	8.0	10.8	4.9	**-26%**	**62%**	30.7	28.3	**8%**
Reported Net Profit	221.5	177.1	141.8	**25%**	**56%**	551.0	374.2	**47%**
Core Net Profit	227.7	174.8	137.8	**30%**	**65%**	552.3	377.6	**46%**

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology