Gamuda Berhad

(5398 | GAM MK) Main | Construction

Maintain BUY

The winning streak continues

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

KEY INVESTMENT HIGHLIGHTS

- **Scores a RM2b water treatment plant from Air Selangor**
- **New win elevates outstanding order book to new record high of RM14.4b**
- **Project to commence next week, expected to take 3 years to complete**
- **Risks of rising costs mitigated with sound margin protection measures**
- **Maintain BUY with an unchanged target price of RM4.02**

RETURN STATISTICS	
Price @ 1st July 2022 (RM)	**3.55**
Expected share price return (%)	**+13.2**
Expected dividend yield (%)	**+12.4**
Expected total return (%)	**+25.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.3	6.4
3 months	-0.8	12.2
12 months	16.0	22.7

KEY STATISTICS	
FBM KLCI	1,449.74
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆
Issue shares (m)	2513.53
Estimated free float (%)	43.37
Market Capitalisation (RM'm)	9,066.45
52-wk price range	RM2.6 - RM3.75
Beta vs FBM KLCI (x)	1.03
Monthly velocity (%)	0.00
Monthly volatility (%)	34.70
3-mth average daily volume (m)	2.45
3-mth average daily value (RM'm)	8.72
Top Shareholders (%)	
Amanah Saham Nasional Bhd	14.74
Employees Provident Fund Board	14.59
Kumpulan Wang Persaraan Diperbadan	8.07

Another one in the bag. Fresh from its strong 3QFY22 results, Gamuda scored another major project valued at RM1.97b, as the main contractor for stage 1 of the new Sungai Rasau Water Supply Scheme. This pushes Gamuda's order book to another new high of RM14.37b.

Project description. Awarded by Pengurusan Air Selangor, the water treatment plant project requires Gamuda to build an intake structure of a 1,400m-litre-a-day (MLD) capacity to draw augmented raw water from ex-mining ponds in Taman Putra Permai, Puchong and a 700 MLD water treatment plant near Tanjung Dua Belas. Other works include a 2.4 metre diameter twin-pipe to connect the intake structure and water treatment plant and two overhead bridges crossing the Elite and SKVE highways.

Strengthened earnings visibility. This project commences next Friday (July 15th), with a targeted completion date of June 30th, 2025, providing Gamuda stronger earnings visibility over the next three years. Its previous outstanding orderbook excluding this project already provides earnings visibility until FY26. Again, taking into consideration our conservative profit margin estimates of 5%, this water treatment plant project is expected to deliver an additional RM32.8m in net profit annually until FY25.

Risk of higher costs. Though fluctuations in prices especially raw materials remains a concern for the construction industry, we remain optimistic on Gamuda's margin protection measures which includes cost escalation clauses for its contracts. This allows the Group to pass on additional costs to its clients. During Gamuda's 3QFY22 earnings call last Wednesday, management guided that the spike in costs in terms of raw materials, labour and fuel has minimal impact to its margins.

Earnings estimates. We are making no changes to our FY22-FY24 estimates.

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

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Maintain BUY. Gamuda remains one of our top picks for the construction sector with its sizeable order book wins in recent months and its strength in protecting its margins despite rising prices. Our strong conviction in Gamuda lies in its huge presence in Australia with projects amounting to 59.2% of its current outstanding orderbook and the prospects of it securing more projects in the Land Down Under. Locally, our optimism lies in its ability with partner MMC to clinch the largest MRT3 package, the CMC303, which we estimate to be RM14.29b. We are also looking forward to the sale of its highway concessions to Amanat Lebuhraya Rakyat, likely to be completed by August which will see Gamuda rewarding shareholders with a bumper dividend of about 38 sen per share. The sale will also strengthen the Group's net cash position to north of RM1b, from the current net debt level of RM1.1b. All factors considered, we maintain our **BUY** recommendation on Gamuda.

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

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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