Gamuda Berhad

(5398 | GAM MK) Main | Construction

Maintain BUY

Strengthening its regional foothold

***Revised* Target Price: RM4.71**

(Previously RM4.02)

KEY INVESTMENT HIGHLIGHTS

- **FY22 core net profit jumped +38.1% to RM805.8m, beating estimates**
- **Construction PBT grew +14.3% to RM389.5m, mainly due to MRT2 cost savings**
- **Both revenue and earnings for property division doubled on the back of strong presales in Vietnam and Singapore**
- **Order book at record high of RM14b**
- **Special dividend of 38 sen from toll business exit expected by end-2022**
- **Maintain BUY with revised target price of RM4.71**

Exceed Expectation. Gamuda Berhad's 4QFY22 core net profit soared +23%yoy to RM253.5m, driven by stronger earnings contributions from both its construction and property divisions. For the entire FY22, core earnings came in +38.1% higher at RM805.8m, beating our expectations and the street's by 23.6% and 5.4% respectively. We came away from management's results briefing yesterday feeling positive, cementing our view of having Gamuda as our top pick for the construction sector.

Highest construction earnings. The group's construction division posted a PBT of RM389.5m in FY22, which was an increase of +14.3% over FY21, despite a marginal increase of only +0.15% in its revenue to RM3.29b. The improved earnings were attributable to the cost savings from MRT2, which is currently at 94% completion stage. Management is projecting a construction revenue of RM5b in FY23, with some 90% from its current outstanding order book. Excluding inter-segment revenue, we would expect it to be c.RM4.6b. Management also guided that construction revenue in FY24 and FY25 could hit RM8b and RM9b respectively.

Overseas sales lifts property earnings. Gamuda's property division PBT doubled to RM438.2m in FY22, on the back of a revenue which also doubled to RM2.73b. These were largely driven by its property sales in Celadon City in Ho Chi Minh and the OLA Executive Condo in Singapore, which drew presales of RM635m and RM1.08b respectively while Malaysia property presales grew +82% to RM2.04b in FY22. Gamuda's unbilled property sales currently stands at RM6.2b. Management has guided that property revenue in FY23, FY24 and FY25 would be in the range of RM4b, RM5b and RM6b respectively. It has pencilled in a target to grow presales by 50% to RM6b by FY24 through its portfolio of quick turnaround projects (QTP) that it is aggressively building up. The QTPs are targeted to deliver RM2b of presales by FY24.

Record high order book. Gamuda's outstanding order book remains at a record high of RM14b, mainly from overseas jobs, which is now at RM10.7b or 76% of its order book. The bulk of it comes from Australia,

RETURN STATISTICS	
Price @ 29th Sept 2022 (RM)	**3.85**
Expected share price return (%)	**+22.34**
Expected dividend yield (%)	**+10.62**
Expected total return (%)	**+32.96**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.9	10.1
3 months	7.3	16.0
12 months	27.2	40.1

KEY STATISTICS	
FBM KLCI	1,397.50
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆
Issue shares (m)	2513.53
Estimated free float (%)	44.10
Market Capitalisation (RM'm)	9,949.71
52-wk price range	RM2.76–RM4.06
Beta vs FBM KLCI (x)	1.08
3-mth average daily volume (m)	3.34
3-mth average daily value (RM'm)	12.76
Top Shareholders (%)	
Amanah Saham Nasional Bhd	14.38
Employees Provident Fund Board	14.31
Kumpulan Wang Persaraan Diperbadan	7.34

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totalling RM8.2b, followed by RM3.3b in Malaysia, RM1.5b in Singapore and RM1b in Taiwan, boosting its earnings visibility up to FY26. Replenishment target for FY23 is about RM13b and thereafter RM12b annually in subsequent years. In line with management's aim to be a regional player, the RM12b annual target comprises RM9m of Australian job wins and RM1b each from Malaysia, Taiwan and Singapore. Management is also exploring opportunities in two more countries. Note that Gamuda has recently been shortlisted for two more projects in Melbourne. One is the northern section of the North East Link, which is set to be the largest road project in the state of Victoria. While there has yet to be any guidance on the contract size for the northern section, the total estimated project cost is about AUD16b. It has also formed a JV with John Holland to bid for one of the Suburban Rail Loop (SRL) two tunnelling contracts, the first between Cheltenham and Glen Waverly which will be the longest tunnelling package in the history of Victoria and the second contract from Glen Waverly to Box Hill. The first contract will be awarded next year. The SRL is a 90km orbital line that will connect all major suburban lines, with a total project size of AUD50b. Outcomes for both bids will be known in 2023. Locally, apart from MRT3, management is also expecting the that the Penang South Islands project may be approved next month which would allow for reclamation works to kick off.

Upcoming special dividend. Amanat Lebuhraya Rakyat (ALR), the entity that is acquiring the four major highway concessions – Kesas, Sprint, Litrak and Smart – has successfully priced its RM5.5b AAA-rated Sustainability Sukuk Murabahah on the 23rd of September, which received an oversubscription of the order book. The issuance of the sukuk is expected to be by the 14th of October and pending green light from the Government, Gamuda should be able to receive its share of the proceeds on the same day for the stakes it directly owns and all the concessions would be transferred to ALR. Recall that Gamuda's stakes in these concessionaires were 70% in Kesas, 51.6% in Sprint, 43.2% in Litrak and 50% in Smart. It would then take roughly another two weeks for Litrak to announce its special dividend from the proceeds. Gamuda is expected to receive its entire proceeds of RM2.33b by the end of October. We expect the special dividend of 38 sen per share, which would be about RM1b of the proceeds, to be issued in November.

Going green to replace toll earnings. The toll concession business has been a defensive one for Gamuda so it will be losing out about RM170m in earnings or about 20% to 25% of the group's earnings following the completion of the restructuring. Although the void in earnings will be filled up by the stronger construction and property division performances, Gamuda intends to rebuild the recurring income through the renewable energy sector. It is currently conducting due diligence on a regional outfit that it has an equity opportunity on.

Optimistic on MRT3 chances. Banking on its vast experience from MRT1 and MRT2, we expect Gamuda and its partner MMC to be able to secure package CMC303 of the upcoming MRT3, the package with the longest underground works, expected to be about 10km plus 6km of elevated works. We have previously estimated the size of CMC303 to be about RM14.29b. Management is equally optimistic on their chances to clinch the project. The deadline of the tender submission for CMC302 and CMC303 is today and we expect the packages to be awarded by November. Should Gamuda-MMC partnership win the tender, this would keep Gamuda busy for the next eight years. Assuming a conservative profit margin of about 6%, Gamuda's share of the MRT3 earnings would be about RM428.7m. Recall that there is an upfront financing requirement of at least 10% of the contract value for a minimum of two years so any MRT3 related inflows for Gamuda would only be seen earliest by FY25.

Earnings estimates. We are making some revisions to our FY23-FY24 estimates and we introduce our estimates for FY25. We revise our FY23E and FY24F earnings by +16.7% and +6.6% respectively to RM813.9m and RM773.2m on the back stellar construction earnings from its bulging order book and strong property sales expected.

Target price. We are revising our TP to **RM4.71** by pegging a forward PER of 15x based on +0.5SD above its three-year historical mean to the group's FY23 EPS of 31.4 sen.

Maintain BUY. Gamuda remains our top pick for the construction sector, premised on its effective diversification strategy out of Malaysia in a bid to become a strong regional player. This also shields Gamuda from being too overly exposed to the ups and downs on the construction sector cycle in Malaysia, though it is one that we have a positive call on, with the impending rollout of the MRT3 breathing a new life into the sector. We are positive on management's focus to secure RM9b of jobs in Australia annually. With its current portfolio, we believe Gamuda is in a good position to bid for more jobs Down Under, which is now going through an infrastructure boom period, with forecasts pointing at an expenditure of about AUD248b (RM747b) across all states in Australia. Gamuda's net gearing currently stands at a healthy 12.5%, which

will turn into a net cash position of about RM1b after it receives its proceeds from the toll concession restructuring. This will further strengthen its ability to take on more infrastructure projects in Malaysia that could potentially be rolled out on a PFI/PPP basis, apart from the MRT3. All factors considered; we are maintaining our **BUY** recommendation on **Gamuda.**

INVESTMENT STATISTICS

Annual Standardized	2021A	2022A	2023E	2024F	2025F
Revenue	3,517.2	5,089.5	8,130.0	10,569.0	12,154.4
Profit from Operations	586.1	685.3	1,124.5	1,548.6	1,699.5
Finance costs	(114.5)	(93.8)	(241.2)	(284.1)	(303.7)
Share of profit of associated companies	97.9	75.0	201.3	237.2	250.9
Share of profit of joint ventures	216.8	341.7	491.2	666.5	772.3
Profit Before Tax	786.3	1,008.2	1,575.8	2,168.3	2,419.0
Tax Expense	(154.1)	(168.9)	(327.9)	(413.3)	(456.3)
Reported Net Profit	588.3	806.2	813.9	773.2	864.1
Core Net Profit	583.7	805.8	813.9	773.2	864.1
Core EPS	22.5	31.1	31.4	29.8	33.3
DPS	0.0	12.0	50.0	12.0	12.0
Dividend Yield	0.0	3.1%	2.1%	2.1%	2.1%

Source: Company, MIDFR

GAMUDA BHD: 4QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q422**	**Q322**	**Q421**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Revenue	1,873.4	1,180.6	886.7	**59%**	**>+100%**	5,774.8	3,517.2	**64%**
Profit from Operations	223.1	214.0	230.7	**4%**	**-3%**	591.5	586.1	**1%**
Finance costs	(16.7)	(20.2)	(35.1)	**17%**	**52%**	(18.8)	(114.5)	**84%**
Share of profit of associated companies	0.3	13.4	(3.6)	**-98%**	**>+100%**	416.7	97.9	**>+100%**
Share of profit of joint ventures	113.1	62.5	97.0	**81%**	**17%**	1,350.0	216.8	**>+100%**
Profit Before Tax	319.8	269.8	289.0	**19%**	**11%**	839.3	786.3	**7%**
Tax Expense	(62.1)	(40.3)	(59.3)	**-54%**	**-5%**	(78.4)	(154.1)	**49%**
Minority Interest	59.8	8.0	15.6	**>+100%**	**>+100%**	896.7	43.9	**>+100%**
Reported Net Profit	255.2	221.5	214.1	**15%**	**19%**	1,612.0	588.3	**>+100%**
Core Net Profit	253.5	227.7	206.1	**11%**	**23.0%**	805.8	583.7	**38.1%**

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