Gamuda Berhad

(5398 | GAM MK) Main | Construction

***Maintain* BUY**

Another win in Taiwan

***Unchanged* Target Price: RM4.71**

KEY INVESTMENT HIGHLIGHTS

- **Bags new rail project in Taiwan worth NTD14.5b (RM2.13b)**
- **Package won by unincorporated 60:40 JV between Gamuda and AWEC**
- **Work scope comprises 3.7km underground track and station, among others**
- **Order book at record high of RM15.3b, strong earnings visibility until FY26**
- **Special dividend of 38 sen from toll business exit expected by end-2022**
- **Maintain BUY with unchanged target price of RM4.71**

New Taiwan win. Tunnelling and rail expert Gamuda Berhad has secured its latest win in Taiwan with a NTD14.5b (RM2.13b) underground railway project from the Taiwan Ministry of Transportation and Communications' Railway Bureau, a state-owned railway company.

Project details. The project involves works for the Pingzhen Commuter Station, under Package CJ18 of the Construction and Completion of the Taoyuan City Underground Railway Project, to be completed in eight years. The package was awarded to Gamuda and Taiwanese firm Asia World Engineering & Construction Co (AWEC), who will be undertaking the job via an unincorporated JV on a 60:40 basis. The package includes a construction of a 3.734km underground twin bound railway track with an underground commuter station at Pingzhen, beneath an existing train station. Other scope of works include protection works for the Zhongfeng Bridge, relocation of the Laojie river bridge and the construction of a temporary above ground commuter station in Pingzhen.

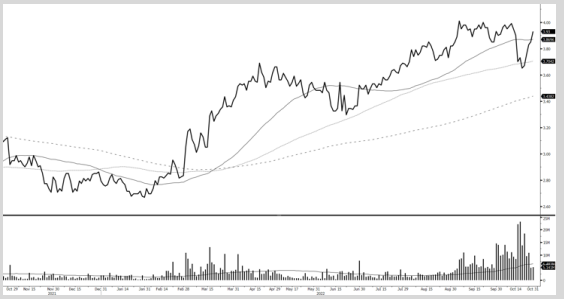
Financial impact. Gamuda's share of the revenue is expected to be RM1.28b. Assuming a rather conservative margin of 6%, the project is expected to deliver net earnings of about RM76.8m, or RM9.6m annually until FY31.

Another record high. Gamuda's continues to outdo itself by setting another outstanding order book high of RM15.28b, which is heavily weighted towards overseas jobs, providing it strong earnings visibility up to FY26. The bulk of it still comes from jobs in Australia, totalling RM8.2b, or 53.7% of its order book. The new job win in Taiwan lifts its outstanding jobs in Taiwan to RM2.28b. The other components of its order book are RM3.3b of jobs in Malaysia and RM1.5b in Singapore. This is in line with management's aim of making Gamuda a regional player.

Upcoming special dividend. The restructuring of the four major highway concessions – Kesas, Sprint, Litrak and Smart– was completed on Oct 13 which saw all four entities fully acquired by Amanat

RETURN STATISTICS	
Price @ 27th Oct 2022 (RM)	**3.93**
Expected share price return (%)	**+19.85**
Expected dividend yield (%)	**+10.62**
Expected total return (%)	**+30.47**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.3	-2.3
3 months	0.0	9.8
12 months	22.4	31.9

KEY STATISTICS	
FBM KLCI	1,454.09
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆
Issue shares (m)	2553.93
Estimated free float (%)	44.75
Market Capitalisation (RM'm)	10,182.90
52-wk price range	RM2.76 - RM4.06
Beta vs FBM KLCI (x)	0.97
3-mth average daily volume (m)	6.24
3-mth average daily value (RM'm)	24.07
Top Shareholders (%)	
Employees Provident Fund Board	14.51
Amanah Saham Nasional Bhd	14.38
Kumpulan Wang Persaraan Diperbadankan	6.49

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Lebuhraya Rakyat (ALR), marking Gamuda's exit from the toll concession business. This also means that the much-awaited special dividend will soon be issued, which we expect to be in December. Gamuda's 43.2%-owned Lingkaran Trans Kota Holdings Bhd recently announced a special dividend of RM4.57, with an ex date of Nov 10, of which payment will be received on Nov 18. We expect Gamuda to announce its special dividend of 38 sen per share towards the end of November, equivalent to about RM1b of its RM2.33b in total proceeds.

Earnings estimates. We are making no changes to our earnings estimates as the new job win is in line with our expectation.

Target price. We are maintaining our **TP** of **RM4.71,** which was arrived 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 believe more excitement can be expected from Gamuda in the coming months, as we are optimistic on its chances for more mega projects such as package CMC303 of the upcoming MRT3 and two more projects in Australia that it was shortlisted for. All factors considered, we are maintaining our **BUY** recommendation on **Gamuda.**

INVESTMENT STATISTICS

FYE 31st July	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

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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