Gamuda Berhad

(5398 | GAM MK) Main | Construction

***Maintain* BUY**

A modest start

***Revised* Target Price: RM4.67**

(Previously RM4.71)

KEY INVESTMENT HIGHLIGHTS

- **FY22 core net profit grew +28.2%yoy to RM144.3m, driven by stronger construction and property earnings**
- **Construction PBT grew +3.2%yoy to RM101.1m, margins improved from 11.4% to 13.3%**
- **Top and bottom lines of property division more than doubled due to Vietnam's strong property market**
- **Construction order book at record high of RM14.8b, earnings visibility up to FY26/FY27**
- **Interim dividend of 6 sen, alongside 38 sen special dividend**
- **Maintain BUY with revised target price of RM4.67**

Below expectations. Gamuda Bhd's 1QFY23 core net profit from continuing operations grew +28.2%yoy to RM144.3m, driven by stronger earnings contributions from both its construction and property divisions. The amount was arrived at after removing the one-off cash gain of RM1.11b from the sale of its toll concessions and its profit from the segment until the completion of the sale in October. The results were slightly below our expectations but in line with consensus, making up 17.7% and 20.4% respectively of full year estimates.

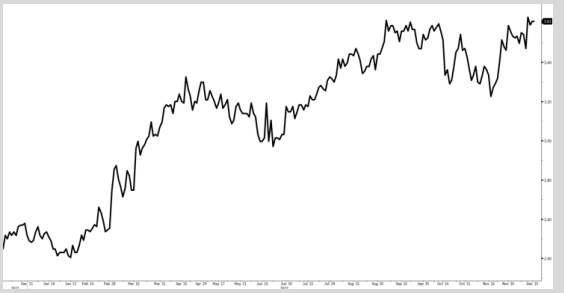
Better construction margins. The group's construction division posted a PBT of RM101.1m in 1QFY23, which was an increase of +3.2%yoy over 1QFY22, despite a -11.2%yoy decline in revenue to RM759.2m. The PBT margin marked an improvement to 13.3% as compared to 11.4% in the same period last year, which was in line with our expectations of softening building material prices, on top of Gamuda's ability to improve its productivity levels. Management guided that FY23 construction earnings are fairly secured while FY24 earnings would depend on the ramping up of newer projects.

Vietnam lifts property earnings. Gamuda's property division recorded a PBT of RM73.2m for the quarter, which was 2.6 times larger than the amount recorded in 1QFY22, on the back of a 2.4 times higher revenue at RM644.2m. PBT margin saw an improvement from 9.6% to 11.4%. This was driven by the group's projects in Vietnam amidst a strong property market. Meanwhile, property presales saw a 43% decline to RM480m for the quarter as its OLA project in Singapore and Celadon City in Vietnam were almost fully sold, while domestic presales were equivalent to the same quarter last year. Management has guided its presales target of RM4.5b for FY23, expecting the momentum in domestic presales to pick up in the next few quarters. Gamuda will be building up its quick turnaround projects (QTP) aggressively in the United Kingdom, Vietnam, Australia and Singapore. The group has unbilled property sales of some RM6b.

Record high order book. Gamuda's outstanding construction order book remains at a record high of RM14.8b, giving it an earnings visibility

RETURN STATISTICS	
Price @ 16th Dec 2022 (RM)	**3.61**
Expected share price return (%)	**+29.36**
Expected dividend yield (%)	**+1.28**
Expected total return (%)	**+30.64**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	11.9	9.6
3 months	1.9	0.6
12 months	42.0	42.6

KEY STATISTICS	
FBM KLCI	1,478.54
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆
Issue shares (m)	2553.93
Estimated free float (%)	47.71
Market Capitalisation (RM'm)	9,436.19
52-wk price range	RM2.49 - RM3.65
Beta vs FBM KLCI (x)	1.01
3-mth average daily volume (m)	9.02
3-mth average daily value (RM'm)	34.54
Top Shareholders (%)	
Employees Provident Fund Board	15.31
Amanah Saham Nasional Bhd	14.03
Kumpulan Wang Persaraan Diperbadan	5.71

Analyst
Royce Tan Seng Hooi
royce.tan@midf.com.my
03-2173 8461

up to FY26/FY27. These are mainly from overseas jobs which is now at a record high of RM14.8b, giving it an earnings visibility up to FY26/FY27. These are mainly from overseas jobs, which is now at RM11.6b or 78% of its order book, out of which RM8b is from Australia. The group also has RM2.1b worth of jobs in Taiwan and RM1.5b in Singapore and the remaining RM3.2b in Malaysia. We are fairly confident that management is able to hit the target of securing RM25b worth of new jobs in two years. Gamuda's tender win rate is about 40%.

MRT3 chances. We remain optimistic on the Gamuda-MMC partnership to secure package CMC303 of MRT3, which is set to be the largest package of about RM16.3b, with an estimated 10km of underground works. This is based on their vast experience in MRT1 and MRT2, and Gamuda's status as the tunnelling expert and the largest contractor in Malaysia. The only setback, as highlighted in our 2023 Market Outlook, would be a delay in the contract awards. Note that MRT3 contracts were supposed to be awarded by 4QCY22. We reiterate our view that termination is not on the cards, as MRT3 is a crucial final piece to complete the urban rail network in the Klang Valley and its ability to pump prime the national economy in a post-Covid environment. Potential amendments if any, could be the shifting of the alignment and that is still unlikely at this juncture. Management concurred that the start up of MRT3 will not be a fast one as the required land has yet to be acquired and the railway scheme has yet to be approved. We remain hopeful of the MRT3 contract awards in 2023, which is set to be the bright spot for the sector.

Australia as a major market. Gamuda has set its sights on going huge in Australia, aiming to go it alone for projects in the land Down Under in the long-term. Management did not discount the possibility of acquiring a local capability to expand its presence in the country.

Investments into renewable energy (RE). Management has allocated RM2b for investments into the RE space over the next five years. They aspire to build a new recurring income division to replace the income from its recently divested toll concessions business. Among plans is to develop hydro plants, locally and overseas. The rationale is for Gamuda to secure the construction earnings up front as infrastructure contractors and move on to concession type returns as the asset owners. Among other forms of RE being considered are waste and solar. Recall that Gamuda is acquiring a 30% stake in ERS Energy Sdn Bhd, a solar energy engineering, procurement, construction and commissioning (EPCC) firm for RM200m. Instead of its EPCC capability, the group intends to play front runners in the Corporate Green Power Programme (CGPP) via ERS Energy's New Enhanced Dispatch Arrangement (NEDA) quota, which is the backbone of the CGPP.

Dividends galore. Gamuda declared its first interim dividend of 6 sen per share for FY23. It will also be paying out a special dividend of 38 sen per share on Friday, to reward shareholders out of the RM2.33b of proceeds that it received from the disposal of its four major highway concessions – Kesas, Sprint, Litrak and Smart – to Amanat Lebuhraya Rakyat, which marked Gamuda's exit from the toll concession business.

Earnings estimates. We are retaining our top and bottom-line estimates for Gamuda.

Target price. We are revising our TP to **RM4.67** by pegging a forward PER of 15x based on +0.5SD above its three-year historical mean to the group's FY23 EPS of 31.1 sen, taking into account its enlarged share capital following the exercise of its employee share option scheme (ESOS) on Dec 14 which saw the issuance of 396.9k new shares at RM2.85 per unit and the issuance of 37.1m new ordinary shares on Sept 5 due to its dividend reinvestment plan.

Maintain BUY. From its diversification strategy overseas and the behemoth player that it is in Malaysia, Gamuda remains our top pick for the sector. Its growing presence in the region shields it from being too exposed to a single country, such as Malaysia. We are still cautiously optimistic on the construction sector domestically on the back of potential delays and reviews of mega projects but issues such as elevated building material prices and labour shortage have started to dissipate. While we had initially projected a slight drop in Gamuda's earnings due to disposal of its toll concessions, it seems that this will quickly be replaced by its stronger construction and property earnings. Management guided that the group's bottom line for FY23 will at least match FY22, if not higher. 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)
Minority Interest	43.9	29.4	88.3	102.6	106.8
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	31.1	29.6	33.1
DPS	0.0	12.0	50.0	12.0	12.0
Dividend Yield	0.0	3.1%	10.7%	2.6%	2.6%

Source: Company, MIDFR

GAMUDA BHD: 1QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
Income Statement	**Q123**	**Q422**	**Q122**	**QoQ**	**YoY**
Revenue	1,306.6	1,873.4	687.9	**-30%**	**89.9%**
Profit from operations	147.9	223.1	75.1	**-34%**	**97%**
Finance costs	(27.5)	(16.7)	(6.7)	**-64%**	**-308%**
Share of profit of associated companies	1.6	0.3	2.3	**508%**	**-31%**
Share of profit of joint ventures	62.7	113.1	71.9	**-45%**	**-13%**
Profit before tax	184.7	319.8	142.7	**-42%**	**29%**
Tax expense	(28.0)	(62.1)	(21.3)	**55%**	**-31%**
Profit from continuing operations	156.7	257.7	121.3	**-39%**	**29%**
Profit from discontinued operations	57.2	(3.7)	42.9	**1652%**	**33%**
Minority interest	11.7	(1.8)	6.2	**770%**	**89.2%**
Reported net profit	145.0	195.4	115.1	**-26%**	**25.9%**
Core net profit	144.3	193.6	112.6	**-25%**	**28.2%**

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