Gamuda Berhad

(5398 | GAM MK) Main | Construction

***Maintain* BUY**

Entry into the green space

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

KEY INVESTMENT HIGHLIGHTS

- **Acquiring 30% stake solar EPCC company ERS Energy for RM200m**
- **Gamuda seeking renewable energy concession with strong cash flows and IRR**
- **Special dividend of 38 sen from toll business exit, ex-date Dec 13, payment date Dec 23**
- **Still the preferred construction counter, effective diversification strategy**
- **Maintain BUY with unchanged target price of RM4.71**

Entry into the green space. Construction giant Gamuda is purchasing a 30% stake in ERS Energy Sdn Bhd, a solar energy engineering, procurement, construction and commissioning (EPCC) firm, which will mark its entry into green infrastructure, in a bid to rebuild its recurring income after exiting the toll business.

Details of the deal. Gamuda will pay in cash RM200m for the 30% stake, or for 4.3m of new ordinary shares in ERS, using internally generated funds and borrowing. The first tranche will be RM80mil for 12% of the company and the second tranche of RM120m to subscribe to the other 18% will be based on ERS' funding requirement, which will be mutually agreed between both parties. The first tranche is expected to be completed within three months.

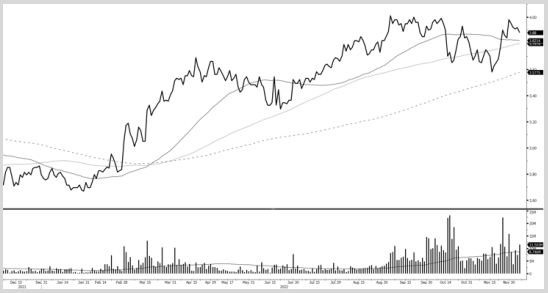
About ERS. Established on Aug 28, 2009, its main business is solar photovoltaics EPCC and system integrations from small to large-scale deployments. It is among the largest players in Malaysia and the region, with some 700MW completed large-scale solar projects. Other businesses include electric vehicle charging solutions, operation and maintenance of solar PV systems, solar PV energy storage solutions and trading and wholesaling of solar PV equipment.

Ongoing JV arrangement. ERS is currently a JV partner of Gamuda via NEDA Pekan Sdn Bhd to develop a 39MW solar power plant under the New Enhanced Dispatch Arrangement (NEDA) framework, which allows power producers to supply energy to Single Buyer, without having to enter into a power purchase agreement (PPA). Post-acquisition, Gamuda will effectively hold 64% in NEDA Pekan.

Our view. The acquisition of the 30% stake in ERS marks the jump start of Gamuda into the renewable energy space as it seeks new recurring income businesses in the form of green infrastructure, coupled with its ambition to grow its renewable energy asset portfolio to over 800MW in the next few years. Rather than having to grow a new business segment organically, Gamuda is able to fast track this process through knowledge transfer and the acquisition of the right talents and

RETURN STATISTICS	
Price @ 7th Dec 2022 (RM)	**3.88**
Expected share price return (%)	**+21.39**
Expected dividend yield (%)	**+10.62**
Expected total return (%)	**+32.01**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.5	1.7
3 months	-1.3	-0.1
12 months	37.6	40.5

KEY STATISTICS	
FBM KLCI	1,466.88
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆☆
Issue shares (m)	2553.93
Estimated free float (%)	47.23
Market Capitalisation (RM'm)	10,053.35
52-wk price range	RM2.77 - RM4.06
Beta vs FBM KLCI (x)	1.01
3-mth average daily volume (m)	8.69
3-mth average daily value (RM'm)	33.43
Top Shareholders (%)	
Employees Provident Fund Board	15.45
Amanah Saham Nasional Bhd	14.15
Kumpulan Wang Persaraan Diperbadankan	5.77

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entities. We believe there could be more acquisitions or partnerships by Gamuda in the green energy space as it focusses on securing renewable energy concessions with strong cash flows with healthy internal rate of returns (IRRs).

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 Lebuhraya Rakyat (ALR), marking Gamuda's exit from the toll concession business. The group announced its special dividend of 38 sen per share last month. The ex-date is on Dec 13 while payment date is on Dec 23.

Earnings estimates. We are making no changes to our earnings estimates.

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 them from being too overly exposed to the ups and downs on the construction sector cycle in Malaysia, of which the rollout of mega infrastructure projects remains obscure for now with potential delays or terminations. While we do not expect the MRT3 to be terminated as it is a crucial line to complete the rail network in the Klang Valley, we do not discount the possibility of a delay that could possibly come from reviews or revisions. Gamuda is among the favourites to secure package CMC303 with its partner MMC, which we estimate to be RM16.3b. With a record high outstanding order book of RM15b, there are strong earnings visibility up to FY26. 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%	r2.1%

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