Gamuda Berhad

(5398 | GAM MK) Main | Construction

Maintain BUY

Taking a huge leap in Oz

***Revised* Target Price: RM5.04**

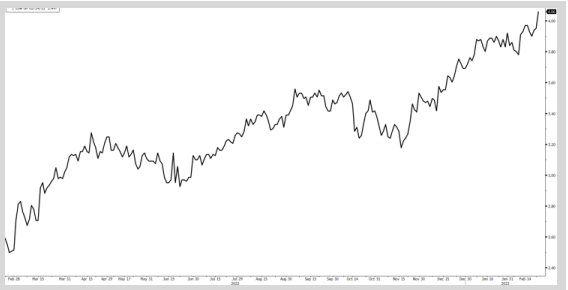
(Previously RM4.67)

KEY INVESTMENT HIGHLIGHTS

- **Acquiring Downer Group's transport projects (DTP) business in Australia Ltd for an enterprise value of AUD212m (RM636m)**
- **DTP provides civil construction services in delivering transport projects, specialising in rail**
- **Gamuda to inherit 1,100 Australian talents and gets immediate access to West Australia market**
- **Strong pipeline of rail projects in Australia**
- **Maintain BUY with revised target price of RM5.04**

RETURN STATISTICS	
Price @ 22nd Feb 2023 (RM)	**4.06**
Expected share price return (%)	**+24.1**
Expected dividend yield (%)	**+2.4**
Expected total return (%)	**+26.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.5	5.1
3 months	8.3	20.7
12 months	51.7	64.3

KEY STATISTICS	
FBM KLCI	1,464.00
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆
Issue shares (m)	2553.93
Estimated free float (%)	48.15
Market Capitalisation (RM'm)	10,641.45
52-wk price range	RM2.54 - RM4.08
Beta vs FBM KLCI (x)	0.96
3-mth average daily volume (m)	7.10
3-mth average daily value (RM'm)	27.29
Top Shareholders (%)	
Employees Provident Fund Board	15.12
Amanah Saham Nasional Bhd	13.99
Kumpulan Wang Persaraan Diperbadan	5.46

Acquiring Downer's transport business. Gamuda is making strides in Australia with the acquisition of the Downer Group's transport projects (DTP) business in Australia. Gamuda's wholly-owned Australian subsidiary DR Infrastructure Pty Ltd will be acquiring DTP from Downer EDI Works Pty Ltd (DEW) and VEC Civil Engineering Pty Ltd for an enterprise value of AUD212m (RM636m) via an asset sale agreement. DEW and VEC are both wholly-owned subsidiaries of the Downer Group.

About DTP. DTP is a division within the Downer Group which provides civil construction services in delivering transport projects, specialising in rail. Similar to Gamuda's core capabilities in Malaysia, DTP is equally competent in track infrastructure, light rail, rail maintenance and road and bridge construction, among others and its clients are mainly government customers.

Funding and completion. Gamuda will be funding the acquisition via internally generated funds and borrowings. The transaction is expected to be completed by 30 Jun 2023, subject to the approval of Australia's Foreign Investment Review Board.

Rationale of acquisition. Gamuda's aim has always been to bid alone for mega projects in Australia and we opine that this acquisition fits the bill of its long-term goal of strengthening its base in the country. The acquisition of DTP will catapult Gamuda's progress of building up its local expertise as it will inherit 1,100 Australian talents spread across the country, besides providing the group with a direct access into the Western Australia region, where DTP is primarily based. It has 404 employees in Western Australia, 298 in Victoria and 262 in New South Wales, 83 in Queensland, 43 in South Australia and 21 in Tasmania. Gamuda is currently primarily based in Sydney (New South Wales) and Melbourne (Victoria). On top of the vital skillsets, Gamuda will obtain instant access to new customer base and contacts, that will allow it to scale its operations further.

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Untapped businesses. DTP "specialises" in smaller to medium-sized projects, which are typically those below AUD800m (RM 2.42b). This is a segment that has yet to be tapped by Gamuda and the acquisition of DTP provides immediate access to this segment of the market. Such projects have shorter turnaround periods of about three years. DTP currently has AUD3.29b (RM9.94b) of projects in hand. The total that will be accretive to Gamuda's order book by the close of transaction is forecasted to be AUD2b (RM6.05b).

Record high order book. This will bring Gamuda's outstanding construction order to another record high of about RM21b, giving it an earnings visibility up to FY26/FY27. The bulk of it will be Australian jobs, making up 66.9% of the order book. Recall that Gamuda is currently working on three major projects in Australia - Sydney Metro West's Western Tunnelling Package, the Coffs Harbour Bypass Project and the M1 Motorway Extension to Raymond Terrace (from Black Hill to Tomago). The group also has RM2.1b worth of jobs in Taiwan and RM1.5b in Singapore and RM3.2b in Malaysia.

Earnings estimates. We are retaining our top and bottom line estimates for Gamuda for FY23 and we are revising our FY24 revenue forecast by +9.5% to RM11.57b and the core earnings by +7.6% to RM833.2m.

Target price. We are revising our TP to **RM5.04** as we roll forward our valuation period to FY24F, by pegging a forward PER of 15.8x based on +1SD above its five year mean to the group's FY24F EPS of 31.9 sen.

Maintain BUY. Gamuda remains our top pick for the construction sector, premised on its strong presence in Malaysia and its well-executed diversification strategy overseas, especially in Australia. While the MRT3 remains the sole bright spot for now in Malaysia, of which Gamuda is expected to be the main contender of the largest tunnelling package with its partner MMC, opportunities in Australia remains abundant, and Gamuda's position post-acquisition of the local Australian outfit places it on a better footing to seal strong job wins. Among upcoming opportunities are the AUD3b (RM9.07b) Suburban Rail Loop East line wide systems package, AUD2b (RM6.05b) Sydney Metro West line wide systems package, AUD2b (RM6.05b) Sydney Metro West stations package and the AUD1b (RM3.02b) Sydney Metro Glenfield to Leppington Metro Conversion, to name a few. 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	11,569.0	12,154.4
Profit from Operations	586.1	685.3	1,124.5	1,695.2	1,699.5
Finance costs	(114.5)	(93.8)	(241.2)	(311.0)	(303.7)
Share of profit of associated companies	97.9	75.0	201.3	259.6	250.9
Share of profit of joint ventures	216.8	341.7	491.2	729.6	772.3
Profit Before Tax	786.3	1,008.2	1,575.8	2,373.4	2,419.0
Tax Expense	(154.1)	(168.9)	(327.9)	(452.4)	(456.3)
Minority Interest	43.9	29.4	88.3	112.3	106.8
Reported Net Profit	588.3	806.2	813.9	833.2	864.1
Core Net Profit	583.7	805.8	813.9	833.2	864.1
Core EPS	22.5	31.1	31.1	31.9	33.1
DPS	0.0	12.0	50.0	12.0	12.0
Dividend Yield	0.0	3.1%	10.7%	2.4%	2.4%

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