Gamuda Berhad

(5398 | GAM MK) Main | Construction

Ventures into Digital Infrastructure

***Maintain* BUY**

***Revised* Target Price: RM10.68**
(Previously RM9.64)

KEY INVESTMENT HIGHLIGHTS

- **Digital infra to be Gamuda's third core business after construction and property**
- **JV with DNeX to deliver GDC services; acquires 20% stake in Cloud Space**
- **Outstanding order book on track to RM35b by end-2024**
- **Maintain BUY with a revised TP of RM10.68**

Entry into digital infra business. Construction giant Gamuda has marked its entry into the digital infrastructure business. Its wholly owned subsidiary Gamuda Technologies Sdn Bhd has forged a strategic partnership with DNeX Solutions Sdn Bhd to form a 50:50 JV that will deliver Google Distributed Cloud air-gapped services (GDC services) to the government and private clients.

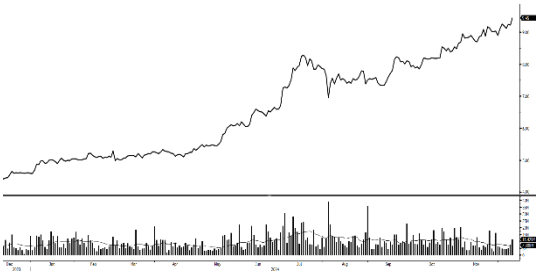
Details of the JV. DNex Solutions is a wholly owned subsidiary of Dagang NeXchange Bhd as the vehicle to undertake and deliver the GDC services. The Gamuda-DNeX JV will be authorised to act as the sole provider of the GDC services, which is said to be targeting a RM11b market across federal and state governments, and the private sector such as financial service institutions and security-sensitive organisations. GDC services is a fully managed cloud experience for organisations that require complete isolation to meet stringent sovereignty and regulatory requirements. This will involve procurement of GDC hardware, customised AI solutions, applications development, ongoing client support, data migration and infra maintenance.

20% stake in Cloud Space. In a separate bourse filing yesterday, Gamuda announced that it had entered into an agreement to acquire a 20% stake in Cloud Space Sdn Bhd for up to RM18m, which will be disbursed in three tranches. Cloud Space is an award-winning Google Cloud Premier Partner, which provides solutions and services for Google Cloud, Google Workspace, Chrome Enterprise, and Google for Education, to government and private sectors in Malaysia. Gamuda will have the first right to form any equity partnership with Cloud Space for any new large scale cloud projects in Malaysia, with a minimum equity stake of 50%. Gamuda said the acquisition aims to accelerate its digital ambitions in cloud and AI technologies, adding that Cloud Space's deep expertise in cloud engineering, augments Gamuda's in-house technology and digital capabilities in delivering large-scale complex engineering and construction projects.

A new business segment. Gamuda intends to make digital infrastructure as its third core business, after construction and property development. Other than its involvement in building data centres, we believe the JV with DNeX and the acquisition of a stake in Cloud Space will enable Gamuda to ride the growing AI wave. This is evident in plans by global hyperscalers to invest in Malaysia, notably USD2b by Google to

RETURN STATISTICS	
Price @ 10th Dec 2024 (RM)	9.45
Expected share price return (%)	+13.0
Expected dividend yield (%)	2.1
Expected total return (%)	**+15.1**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.1	7.2
3 months	17.0	31.0
12 months	111.9	90.5

INVESTMENT STATISTICS

FYE July	2024A	2025F	2026F
Revenue	13,346.7	16,872.6	19,403.5
Operating Profit	945.2	1,552.3	1,804.5
Profit Before Tax	1,097.4	1,647.6	1,917.3
Core Net Profit	907.3	1,298.6	1,468.0
Core EPS	32.8	46.1	52.1
DPS (sen)	16	20	20
Dividend Yield	1.9%	2.1%	2.1%

KEY STATISTICS	
FBM KLCI	1,608.97
Issue shares (m)	2775.30
Estimated free float (%)	71.13
Market Capitalisation (RM'm)	26,810.32
52-wk price range	RM4.36 - RM9.46
3-mth average daily volume (m)	9.59
3-mth average daily value (RM'm)	80.25
Top Shareholders (%)	
Amanah Saham Nasional Bhd	13.36
Employees Provident Fund Board	7.22
Generasi Setia M Sdn Bhd	4.05

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house its data centre in Malaysia as part of the Google Cloud region.

Earnings estimates and TP. While we make no changes to our earnings estimates for now, we are upgrading our **TP** to **RM10.68** from RM9.64 previously, derived by pegging Gamuda's FY26F EPS of 52.1 sen to a PER of 20.5x, based on +2SD above its long-term mean, which we believe is justifiable given its growing prospects in the construction space with an all-time high outstanding orderbook of RM31.4b and its upcoming inclusion into the FBM KLCI started 23rd December.

Maintain BUY. We are sanguine on Gamuda's venture into the digital infrastructure space, leveraging on the strengths from its AI Academy. Gamuda remains our favourite for the construction sector, backed by its successful overseas expansion plan; its consistency in clinching sizeable jobs and it being a front runner for most mega projects in Malaysia. As Gamuda continues to tender for traditional infrastructure projects in Australia, it is also pursuing opportunities in RE projects, which are now gaining traction in Australia. All in, we are maintaining our **BUY** recommendation on **Gamuda**.

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024A	2025F	2026F
Revenue	5,089.5	8,233.6	13,346.7	16,872.6	19,403.5
Operating profit	685.3	922.8	945.2	1,552.3	1,804.5
Finance costs	(93.8)	(88.4)	(173.4)	(124.7)	(137.2)
Profit before tax	1,008.2	1,067.6	1,097.4	1,647.6	1,917.3
Tax	(168.9)	(230.9)	(155.1)	(378.9)	(479.3)

Balance Sheet (RM'm)	2022A	2023A	2024A	2025F	2026F
Property, plant and equipment	1,095.5	1,701.7	1,613.9	1,662.3	1,712.1
Land held for property development	3,507.9	3,769.1	3,830.2	3,833.2	3,834.2
Non-current assets	**7,119.3**	**8,674.3**	**9,743.4**	**9,794.8**	**9,794.8**
Cash	2,794.3	3,169.5	2,698.9	3,019.1	3,020.1
Trade debtors	2,478.1	2,904.5	3,281.2	6,236.1	5,132.8
Current assets	**11,068.2**	**15,227.5**	**16,777.8**	**19,784.1**	**18,681.7**
Trade creditors	2,677.1	3,810.6	4,806.3	6,377.9	5,383.3
Short-term debt	1,535.3	1,409.7	1,003.3	1,381.1	1,381.1
Current liabilities	**5,887.2**	**6,958.6**	**7,532.1**	**9,481.4**	**8,486.8**
Long-term debt	3,244.7	5,514.0	6,803.3	4,015.9	3,815.1
Non-current liabilities	**3,677.0**	**5,985.4**	**7,467.6**	**4,680.2**	**4,479.4**
Share capital	3,723.2	4,078.1	4,529.9	4,223.0	4,223.0
Retained earnings	6,177.6	6,744.3	6,835.4	7,570.0	8,264.2
Equity	**10,249.9**	**10,957.8**	**11,521.5**	**15,417.3**	**15,510.3**

Cash Flow (RM'm)	2022A	2023A	2024A	2025F	2026F
PBT	1,008.2	1,067.6	1,349.8	1,471.9	1,568.3
Depreciation & amortisation	240.9	386.3	295.0	312.5	405.1
Changes in working capital	519.2	646.9	1,052.8	1,033.1	1,126.7
Operating cash flow	**444.2**	**(588.9)**	**(274.3)**	**(276.5)**	**(90.3)**
Capital expenditure	(523.0)	(2,296.8)	(200.0)	(200.0)	(200.0)
Investing cash flow	**498.7**	**837.3**	**250.0**	**250.0**	**250.0**
Debt raised/(repaid)	(239.6)	2,053.6	(259.1)	(272.1)	(272.1)
Dividends paid	**(319.6)**	**694.4**	**(565.1)**	**(578.1)**	(306.0)
Financing cash flow	**623.3**	**942.8**	**(589.4)**	**(604.6)**	**(578.1)**
Net cash flow	**1,301.3**	**1,908.4**	**2,830.6**	**4,479.8**	**(418.4)**
Beginning cash flow	**1,984.7**	**2,830.6**	**2,241.2**	**3,875.2**	**4,480.8**
Ending cash flow	**1,008.2**	**1,067.6**	**1,563.4**	**1,589.2**	**4,062.4**

Profitability Margins	2022A	2023A	2024A	2025F	2026F
Operating profit margin	13.5%	11.2%	7.1%	9.2%	9.3%
PBT margin	19.8%	13.0%	8.2%	9.8%	9.9%
PAT margin	15.8%	10.4%	6.8%	7.7%	7.6%
Core PAT margin	15.8%	10.5%	6.8%	7.7%	7.6%

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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