



GAMUDA

(GAM MK EQUITY, GAMU.KL)

28 Sep 2020

Betting big on MRT3, Australia

BUY

(Maintained)

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03-2036 2293

Rationale for report: Company results/update

Price	RM3.25
Fair Value	RM3.81
52-week High/Low	RM4.30/RM2.36

Key Changes

Fair value	↕
EPS	↔

YE to Jul	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,663.0	3,667.4	3,315.4	4,179.8
Core net profit (RM mil)	519.8	564.7	531.9	485.9
FD Core EPS (sen)	20.2	22.0	20.9	19.2
FD Core EPS growth (%)	(26.4)	9.3	(5.1)	(8.0)
Consensus Net Profit (RM mil)	-	619.9	615.0	-
DPS (sen)	6.0	9.0	12.0	12.0
PE (x)	16.1	14.7	15.5	16.9
EV/EBITDA (x)	14.4	13.0	13.6	13.1
Div yield (%)	1.8	2.8	3.7	3.7
ROE (%)	4.5	6.5	5.9	5.3
Net Gearing (%)	38.8	34.1	31.3	28.6

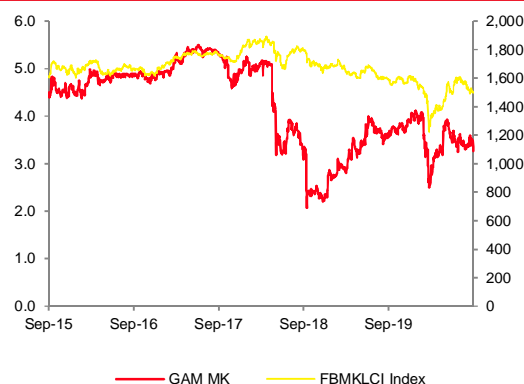
Stock and Financial Data

Shares Outstanding (million)	2,473.0
Market Cap (RM mil)	8,037.3
Book Value (RM/share)	3.46
P/BV (x)	0.9
ROE (%)	4.5
Net Gearing (%)	38.8

Major Shareholders	EPF(12.5%) KWAP(7.1%) Skim Amanah Saham Bumiputera(5.0%)
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Free Float	75.4
Avg Daily Value (RM mil)	10.0

Price performance	3mth	6mth	12mth
Absolute (%)	(5.5)	15.7	(11.0)
Relative (%)	(6.8)	2.9	(6.5)



Investment Highlights

- We keep relatively unchanged our forecasts but fine-tune our fair value higher by 3.5% to RM3.81 (from RM3.68) based on “sum of parts” (SOP) (Exhibit 2), having updated Gamuda’s balance sheet. We value its construction business at 12x forward earnings, in line with our benchmark forward target PE of 12x for large-cap construction stocks. Maintain BUY.
- Gamuda’s FY20 core net profit of RM519.8mil came in within our forecast and the consensus estimates. The core net profit was adjusted for a RM148.1mil impairment on its industrial building system (IBS) plants (which were built at an initial investment cost of about RM700mil).
- The impairment was to account for a weak earnings potential of its IBS manufacturing business, having considered the low utilisation of the plants given the prolonged slowdown in the local property market amidst the pandemic (in fact, the one located in Sepang – the smaller of the two plants – has already been shut down to contain losses).
- Its FY20 core net profit contracted 23% YoY. Weaker earnings from construction (the downsized MRT2 contract and reduced construction activities during the lockdown) and property (strong sales and firm margins in Vietnam, offset by the lockdown in Malaysia), eclipsed better profits at concessions (resilient water business, a V-shaped recovery in toll traffic post the lockdown and lower operational costs at both water and tolled road divisions). Gamuda also incurred retrenchment cost to the tune of “tens of million ringgit” in 4QFY20.
- Gamuda recorded only RM2.2bil property sales in FY20 (vs. RM3.1bil in FY19) with overseas projects (largely in Vietnam) contributing about two thirds of the total, with the balance coming from the local ones. For FY21F, it guided for RM3.5bil property sales, assuming sales in both overseas and domestic markets are to normalise as the pandemic eases.

- Key highlights from the briefing last Friday are:

1. Gamuda guided for the values of the two tunnelling packages of the A\$20bil (RM60bil) Sydney Metro West project currently under bidding, to be comparable to those of Malaysia's MRT1 and MRT2, given the similarity in terms of scope and scale, adjusting for the generally higher cost levels in Australia (vs. Malaysia). The MRT1 was completed in 2017 at a cost of RM21bil, while the MRT2 is currently still under construction at a lump-sum price of RM30.5bil.

Recall, a JV between Gamuda Australia and Laing O'Rourke has been shortlisted for the Sydney Metro West project's first two major tunnelling packages, namely: (1) the 11km Central Tunnelling package from the Bays Precinct to Sydney Olympic Park; and (2) the 9km Western Tunnelling package from Sydney Olympic Park to Westmead (Exhibit 4). The other two finalists are John Holland, CPB Contractors-Ghella Australia JV and Acciona Australia-Ferrovial Australia JV. The Central Tunnelling package will go to one of the three finalists, and the two unsuccessful finalists for Central Tunnelling will then compete for the Western Tunnelling package.

2. Gamuda said that the winning bid for the A\$2.6bil (RM7.8bil) Sydney M6 motorway is likely to be revealed by 2Q2021. Recall again, a JV between Gamuda and a smallish Australian contractor BMD Constructions Pty Ltd has been shortlisted for the underground expressway (which is, according to Gamuda, very similar to the Smart Tunnel project given the large diameter of the tunnel, minus the storm water drainage), alongside with Acciona-Samsung JV and CPB-Ghella JV. Gamuda said that it has completed the technical submission, and is currently working on the commercial (i.e. pricing) submission for the tender. It believes that it is building a "strong pipeline (of projects)" in Australia on expectation of it being shortlisted for another tender in Australia soon.
3. With regards to the RM21bil MRT3 project, Gamuda believes that it has made "good progress behind the scene" underpinned by "fruitful discussions with the government". Recall, Gamuda has been pitching to the government the idea of earmarking the MRT3 as one of the "anchor" shovel-ready infrastructure projects to pump-prime the economy in the aftermath of the pandemic. Recall, Gamuda is confident to hit the ground running in about three months if the project is to be awarded to it directly (vs. 12-18 months if the project is to be awarded via an international tender). Also, to ease the financial strain on the government, Gamuda is receptive of the idea of: (1) stretching out the construction period; and (2) backloading the construction work (i.e. to go slow during the initial stages).
4. For the Penang Transport Master Plan (PTMP) project, Gamuda now guided for the physical work for the 790-acre Smart Industrial Park on the 2,300-acre Island A to start between 1Q and 2Q of 2021 (from 1Q2020 previously). Recall, the plan is to complete the reclamation of the industrial park, sell it and use the cash flow and profit to pay the contractor and fund further reclamation works under the Penang South Reclamation (PSR) component of the PTMP (reclamation of man-made islands A, B and C with a total area of 4,200 acres at the southern tip of Penang Island), as well as the construction of the LRT and Pan Island Link highway under the PTMP project.

Gamuda previously guided for RM2.5bil to RM3.0bil reclamation cost for the Smart Industrial Park. This will be funded with a RM1.3bil "bridging loan" from project delivery partner (PDP) SRS Consortium to the state government (Gamuda's 60% share is RM780mil and it has confirmed that this will be debt-funded and there is no plan to raise fresh equity), with the balance to be raised by the state government on its own. However, we understand that in the absence of a guarantee from the federal government (after the recent change in the federal government to Perikatan Nasional from Pakatan Harapan), the state government has found it difficult to raise the funding requirement at reasonable rates and has reached out to the PDP for advice.

- Given the still elevated national debt and reduced petroleum revenues, we believe the government has very limited room for fiscal manoeuvre which means that it is unlikely to roll out new public infrastructure projects in a major way over the short term, such as the MRT3 and the KL-Singapore high-speed rail.
- Already, S&P Global Ratings downgraded Malaysia's outlook to negative from stable on 26 June 2020 to reflect a heightened risk of fiscal deterioration, weighed down by the economic impact of the Covid-19 pandemic, depressed oil prices and fiscal stimulus.
- We believe Gamuda can weather the sector downturn better given its recent inroads in the construction market in Australia. We believe the earnings potential from the Sydney Metro West project is hard to ignore given that: (1) mathematically, the Gamuda Australia-Laing O'Rourke JV stands a 67% chance of winning either one package; and (2) Gamuda's partner, i.e. UK-based Laing O'Rourke is a reputable name in the international construction scene with completed high-profile jobs such as London 2012 Olympics and Paralympics, Heathrow Terminal 5, One Hyde Park and Aldar HQ (UAE), which is the first spherical building in the Middle East.

EXHIBIT 1: RESULTS SUMMARY

YE Jul (RM mil)	FY20 1Q	FY20 2Q	FY20 3Q	FY20 4Q	QoQ Chg	FY19 12M	FY20 12M	YoY Chg
Turnover	1,095.8	1,090.7	549.9	926.5	68%	4,565.1	3,663.0	(20%)
Construction	1,143.7	1,524.4	694.8	1,426.3	105%	4,137.7	4,789.1	16%
Property	530.1	574.7	197.9	217.9	10%	2,546.9	1,520.5	(40%)
Concessions	127.0	125.7	97.1	145.5	50%	496.6	495.3	(0%)
Elimination	(704.9)	(1,134.1)	(439.9)	(863.1)	96%	(2,616.1)	(3,142.0)	20%
EBIT	170.1	154.7	5.7	85.8	1404%	681.6	416.4	(39%)
Net inc/(exp)	(35.3)	(23.7)	(17.3)	(63.1)	265%	(91.9)	(139.3)	52%
Associates/JVs	83.1	88.7	76.7	60.0	(22%)	311.5	308.4	(1%)
Pretax profit	218.0	219.7	65.1	82.7	27%	901.1	585.5	(35%)
Construction	77.1	89.4	10.7	62.2	484%	282.9	239.3	(15%)
Property	59.2	47.0	20.3	46.3	128%	291.2	172.8	(41%)
Concessions	81.7	83.3	34.1	122.3	258%	303.6	321.5	6%
EI	0.0	0.0	0.0	(148.1)	nm	23.4	(148.1)	nm
Taxation	(32.4)	(33.8)	(17.7)	(77.4)	338%	(148.8)	(161.3)	8%
Minority interest	(12.0)	(10.7)	(7.2)	(22.6)	215%	(52.1)	(52.5)	1%
Net profit	173.6	175.2	40.2	(17.3)	(143%)	700.2	371.7	(47%)
EPS (sen)	7.0	7.1	1.6	(0.7)	(143%)	28.4	14.9	(47%)
Net profit (ex-EI)	173.6	175.2	40.2	130.8	225%	676.8	519.8	(23%)
EBIT margin	16%	14%	1%	9%	8%	15%	11%	(4%)
Pretax margin	20%	20%	12%	9%	(3%)	20%	16%	(4%)
Effective tax rate	24%	26%	(152%)	45%	198%	25%	38%	13%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: SOP VALUATION

RM mil	Valuation	Basis
Construction & others	2,751.6	12x forward earnings
Property development	4,558.8	30% discount to RNAV
Investment properties	459.6	Carrying values
Toll road concessions	2,361.3	NPV @ 6%
PTMP (60%) ^	640.3	NPV
"Australian potential" #	1,680.0	12x forward earnings
Net cash/(debt)	(3,317.9)	
Warrant conversion proceeds	1,624.1	
SOP	10,757.7	
SOP (RM/share)	3.81	Fully diluted

^ Project value of RM32bil, PDP fee @ 5.5% over 16 years, WACC of 6.6%

An annual turnover of RM2bil, a net margin of 7% and 12x PE

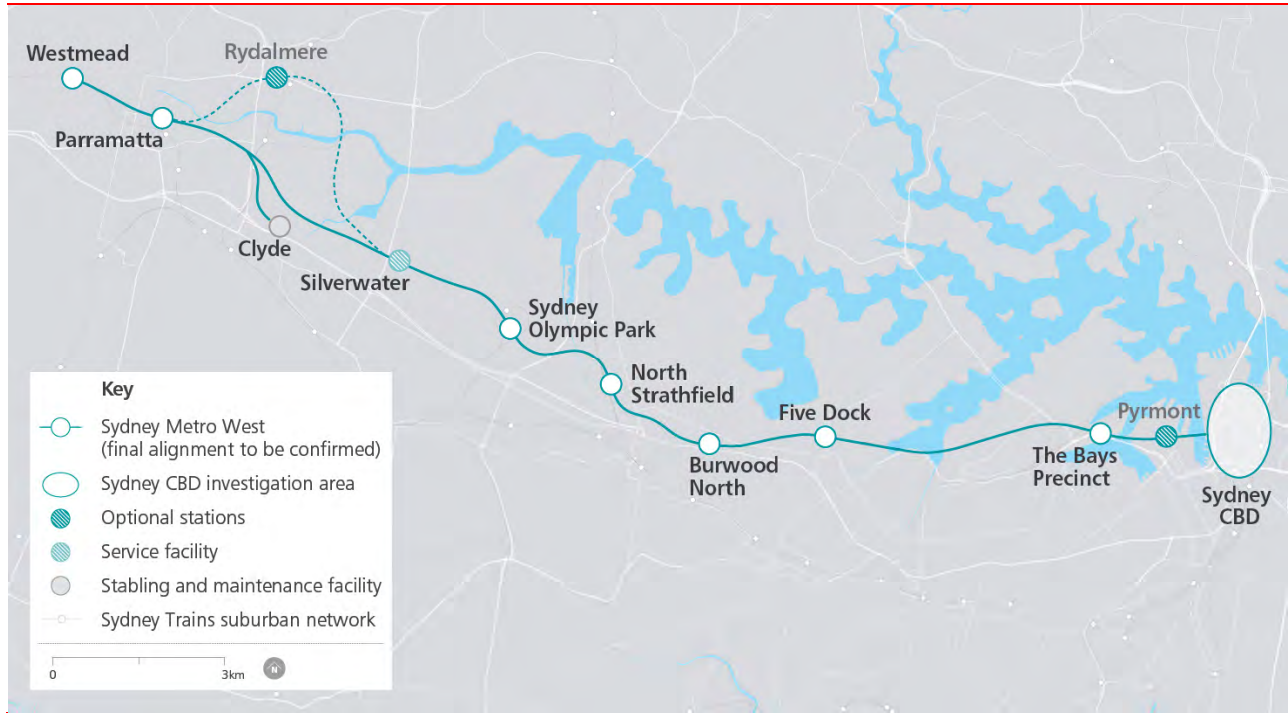
Source: AmlInvestment Bank Bhd

EXHIBIT 3: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RM bil)
MRT2	4.6
Seawall, Taiwan	0.7
Bus depot, Singapore	0.3
Marine bridge, Taiwan	0.3
Pan Borneo Sarawak	0.3
Others	0.7
Total	6.9

Source: Company

EXHIBIT 4: SYDNEY METRO WEST



Source: Sydney Metro

EXHIBIT 5: PB BAND CHART



EXHIBIT 6: PE BAND CHART

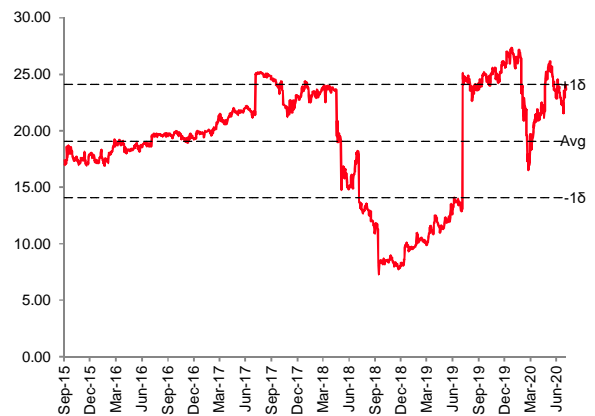


EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	4,565.1	3,663.0	3,667.4	3,315.4	4,179.8
EBITDA	874.0	787.6	854.6	799.6	819.8
Depreciation/Amortisation	(192.1)	(223.1)	(223.1)	(223.1)	(223.1)
Operating income (EBIT)	681.9	564.5	631.5	576.5	596.7
Other income & associates	313.2	308.4	215.8	215.8	145.8
Net interest	(117.3)	(139.3)	(127.0)	(117.8)	(110.4)
Exceptional items	23.4	(148.1)	-	-	-
Pretax profit	901.1	585.5	720.2	674.4	632.1
Taxation	(148.8)	(161.3)	(121.1)	(110.1)	(116.7)
Minorities/pref dividends	(52.1)	(52.5)	(34.5)	(32.4)	(29.4)
Net profit	700.2	371.7	564.7	531.9	485.9
Core net profit	676.8	519.8	564.7	531.9	485.9
Balance Sheet (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	1,157.0	1,074.1	951.0	827.9	704.7
Intangible assets	-	-	-	-	-
Other long-term assets	7,947.5	8,067.2	8,282.9	8,498.7	8,644.5
Total non-current assets	9,104.4	9,141.3	9,233.9	9,326.6	9,349.2
Cash & equivalent	1,452.3	2,147.2	2,431.6	2,607.1	2,803.7
Stock	765.2	917.7	917.7	917.7	917.7
Trade debtors	3,542.3	3,875.2	3,875.2	3,875.2	3,875.2
Other current assets	2,316.2	2,515.1	2,515.1	2,515.1	2,515.1
Total current assets	8,076.0	9,455.2	9,739.5	9,915.1	10,111.6
Trade creditors	2,776.9	3,167.8	3,167.8	3,167.8	3,167.8
Short-term borrowings	2,185.9	2,513.0	2,513.0	2,513.0	2,513.0
Other current liabilities	133.8	260.1	260.1	260.1	260.1
Total current liabilities	5,096.7	5,940.8	5,940.8	5,940.8	5,940.8
Long-term borrowings	2,957.7	2,952.2	2,952.2	2,952.2	2,952.2
Other long-term liabilities	664.1	735.9	735.9	735.9	735.9
Total long-term liabilities	3,621.8	3,688.0	3,688.0	3,688.0	3,688.0
Shareholders' funds	8,062.6	8,541.1	8,883.6	9,119.4	9,309.2
Minority interests	399.3	426.5	461.0	493.3	522.8
BV/share (RM)	3.27	3.46	3.60	3.70	3.77
Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	901.1	585.5	720.2	674.4	632.1
Depreciation/Amortisation	192.1	223.1	223.1	223.1	223.1
Net change in working capital	152.1	396.6	-	-	-
Others	(643.3)	(251.4)	(209.8)	(208.0)	(152.1)
Cash flow from operations	602.0	953.8	733.5	689.5	703.1
Capital expenditure	(253.8)	(183.9)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	64.4	5.6	-	-	-
Others	564.5	(407.9)	-	-	-
Cash flow from investing	375.1	(586.2)	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	(594.4)	320.0	-	-	-
Equity raised/(repaid)	13.3	72.9	-	-	-
Dividends paid	(184.7)	(249.4)	(222.1)	(296.2)	(296.2)
Others	-	-	(127.0)	(117.8)	(110.4)
Cash flow from financing	(765.8)	143.5	(349.1)	(414.0)	(406.5)
Net cash flow	211.3	511.1	284.4	175.5	196.6
Net cash/(debt) b/f	980.3	1,074.4	1,446.2	1,730.5	1,906.1
Net cash/(debt) c/f	1,191.7	1,585.5	1,730.5	1,906.1	2,102.6
Key Ratios (YE31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	8.3	(19.8)	0.1	(9.6)	26.1
EBITDA growth (%)	(0.9)	(9.9)	8.5	(6.4)	2.5
Pretax margin (%)	19.7	16.0	19.6	20.3	15.1
Net profit margin (%)	15.3	10.1	15.4	16.0	11.6
Interest cover (x)	5.8	4.1	5.0	4.9	5.4
Effective tax rate (%)	16.5	27.5	16.8	16.3	18.5
Dividend payout (%)	42.3	39.8	39.3	55.7	60.9
Debtors turnover (days)	266	370	386	427	338
Stock turnover (days)	50	84	91	101	80
Creditors turnover (days)	198	296	315	349	277

Source: Company, AmInvestment Bank Bhd estimates

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