



## Company report

## GAMUDA

(GAM MK EQUITY, GAMU.KL)

22 Dec 2020

Turning bullish on Malaysia too soon?

**HOLD**

(Downgraded)

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Rationale for report: Company results/update

Price	RM3.86
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	565.7	534.1	488.2
FD Core EPS (sen)	20.2	22.1	21.0	19.3
FD Core EPS growth (%)	(26.4)	9.4	(4.9)	(7.9)
Consensus Net Profit (RM mil)	-	599.9	611.9	608.7
DPS (sen)	6.0	6.0	12.0	12.0
PE (x)	19.1	17.5	18.4	20.0
EV/EBITDA (x)	16.3	14.6	15.4	14.8
Div yield (%)	1.5	1.5	3.1	3.1
ROE (%)	4.5	6.5	5.9	5.3
Net Gearing (%)	38.8	33.0	30.2	27.5

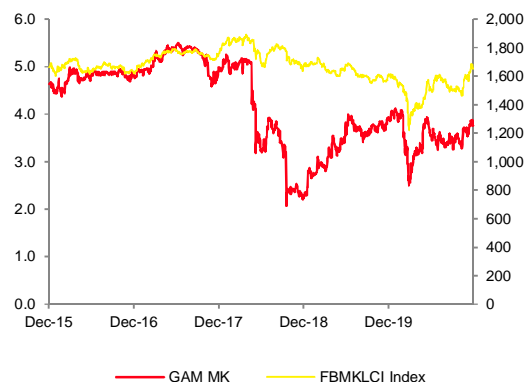
## Stock and Financial Data

Shares Outstanding (million)	2,473.0
Market Cap (RM mil)	9,545.9
Book Value (RM/share)	3.46
P/BV (x)	1.1
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)	8.0

Price performance	3mth	6mth	12mth
Absolute (%)	10.3	8.7	(2.0)
Relative (%)	0.4	(0.5)	(4.3)



## Investment Highlights

- We maintain our forecasts and fair value of RM3.81 based on “sum of parts” (SOP) (Exhibit 2), valuing Gamuda’s construction business at 12x forward earnings, in line with our benchmark forward target PE of 12x for large-cap construction stocks. Downgrade to HOLD from BUY as its upside is capped after the recent run-up in its share price.
- Gamuda’s 1QFY21 core net profit came in at only 19% and 18% of our full-year forecast and the full-year consensus estimates respectively. However, we consider the results within expectations as we expect stronger quarters ahead as construction activities and property sales/progress billings improve assuming that the pandemic is to gradually come under control with the availability of effective vaccines.
- Its 1QFY21 core net profit contracted 37% YoY. Weaker earnings were reported across the board on the partial return of the movement restraint, resulting in reduced activities at construction projects, slower progress at property projects and lower traffic at toll roads. In addition, the construction unit was also hurt by the downsized MRT2 contract, while dented consumer confidence and job security amidst the economic uncertainty weighed down new property sales.
- While only recording RM673mil property sales in 1QFY21, Gamuda remains confident that it can achieve its full-year target of RM3.5bil, assuming the economy will eventually emerge from the pandemic. Generally, its expectations are that overseas projects (largely in Vietnam and Singapore) will continue to contribute about two-thirds of total property sales, with the balance coming from the local ones. It expects the local property market to remain soft over the short term.
- Key highlights from the briefing yesterday are:
  1. Gamuda believes that there is now an “implied government approval” for the MRT3 (with an estimated value of RM22–23bil) and the project could be “fast-tracked for implementation within a year”, assuming that the project is to be awarded on a direct-negotiation basis. However, it said that the government has yet to decide if the project will be awarded on a direct-negotiation basis (or an open tender basis). In addition, a decision is also pending if the project will be carried out via the project delivery partner (PDP) model. We feel that Gamuda could be counting the chickens a little too early.

While we agree that the MRT3 is probably the best shovel-ready mega public infrastructure project to pump-prime the economy in the aftermath of the pandemic, we see tough hurdles, including the high national debt (more so, after the recent downgrade of Malaysia's sovereign rating by Fitch Ratings) and the dynamic political landscape currently (including the potential of an early 15<sup>th</sup> general election in 2021).

2. With regards to the KL–Singapore high-speed rail (HSR), Gamuda is currently working on the basis that the alignment will end in Johor Bahru (and not Singapore) as per various media reports. From Gamuda's standpoint, the exclusion of Singapore from the project could potentially be positive as the project could hit the ground in 12–18 months (vs. 2–3 years if it involves bilateral negotiation). Gamuda took note of the consensus view that the change in the last stop from Singapore to Johor Bahru could greatly reduce the appeal and commercial viability of the project (but that is not quite a concern to Gamuda who aspires to only play the role of a contractor).
3. For the Australian projects currently under bidding, Gamuda is going through the process of submitting the technical bid (i.e. the construction plan), followed by the commercial one (i.e. the price). Recall, Gamuda, via a JV with UK-based prominent international contractor Laing O'Rourke, has been shortlisted for the A\$20bil (RM60bil) 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 and Ghella Australia JV and Acciona Australia and 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.

Also, a JV between Gamuda and a smallish Australian contractor BMD Constructions Pty Ltd has been shortlisted for the underground expressway, alongside Acciona-Samsung JV and CPB-Ghella JV.

4. For the Penang Transport Master Plan (PTMP) project, Gamuda reiterated its guidance for physical work for the 790-acre Smart Industrial Park on the 2,300-acre Island A to start in 1Q 2021. Recall, the plan is to complete the reclamation of the industrial park and sell it. It will then 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 PDP SRS Consortium to the state government (Gamuda's 60% share is RM780mil), with the balance to be raised by the state government.

- We maintain our view that the government will have very limited room for fiscal manoeuvre in 2021 given the elevated national debt, even before the pandemic. The government's fiscal position has been weighed down further by the economic impact of the pandemic (including reduced petroleum revenues), as well as the massive relief spending to cushion the economic impact of the pandemic. All these have culminated in Fitch Ratings' Dec 2020 downgrade of Malaysia's long-term foreign-currency issuer default rating to 'BBB+' from 'A-' (on the heels of S&P Global Ratings' June 2020 downgrade of Malaysia's outlook to negative from stable).
- Under these circumstances, we believe the government is unlikely to roll out new public infrastructure projects in a major way over the short term, particularly the MRT3 (scaled down to RM22–23bil) and the KL–Singapore High-Speed Rail (HSR) (scaled down to RM68bil). Also, the government has yet to set a new date for the tabling of the 12th Malaysia Plan (which, among others, will earmark mega public infrastructure projects to be implemented in 2021–2025). It was originally scheduled to be tabled in Aug 2020.
- 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 be ignored 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) (the first spherical building in the Middle East).

## EXHIBIT 1: RESULTS SUMMARY

YE Jul (RMmil)	FY20 4Q	FY21 1Q	QoQ Chg	FY20 3M	FY21 3M	YoY Chg
<b>Turnover</b>	<b>926.5</b>	<b>764.0</b>	<b>(18%)</b>	<b>1,095.8</b>	<b>764.0</b>	<b>(30%)</b>
Construction	1,426.3	1,069.4	(25%)	1,143.7	1,069.4	(6%)
Property	217.9	318.4	46%	530.1	318.4	(40%)
Concessions	145.5	126.2	(13%)	127.0	126.2	(1%)
Elimination	(863.1)	(750.2)	(13%)	(704.9)	(750.2)	6%
<b>EBIT</b>	<b>85.8</b>	<b>93.9</b>	<b>9%</b>	<b>170.1</b>	<b>93.9</b>	<b>(45%)</b>
Net inc/(exp)	(63.1)	(27.1)	(57%)	(35.3)	(27.1)	(23%)
Associates/JVs	60.0	74.0	23%	83.1	74.0	(11%)
<b>Pretax profit</b>	<b>82.7</b>	<b>140.8</b>	<b>70%</b>	<b>218.0</b>	<b>140.8</b>	<b>(35%)</b>
Construction	62.2	65.8	6%	77.1	65.8	(15%)
Property	46.3	11.9	(74%)	59.2	11.9	(80%)
Concessions	122.3	63.0	(48%)	81.7	63.0	(23%)
EI	(148.1)	0.0	nm	0.0	0.0	nm
Taxation	(77.4)	(20.2)	(74%)	(32.4)	(20.2)	(38%)
Minority interest	(22.6)	(11.3)	(50%)	(12.0)	(11.3)	(6%)
<b>Net profit</b>	<b>(17.3)</b>	<b>109.3</b>	<b>nm</b>	<b>173.6</b>	<b>109.3</b>	<b>(37%)</b>
<b>EPS (sen)</b>	<b>(0.7)</b>	<b>4.4</b>	<b>nm</b>	<b>7.0</b>	<b>4.4</b>	<b>(38%)</b>
<b>Net profit (ex-EI)</b>	<b>130.8</b>	<b>109.3</b>	<b>(16%)</b>	<b>173.6</b>	<b>109.3</b>	<b>(37%)</b>
EBIT margin	9%	12%	3%	16%	12%	(3%)
Pretax margin	9%	18%	10%	20%	18%	(1%)
Effective tax rate	45%	30%	(15%)	24%	30%	6%

Source: Company, AmInvestment Bank Bhd

## EXHIBIT 2: SOP VALUATION

RMmil	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	
<b>SOP</b>	<b>10,757.7</b>	
<b>SOP (RM/share)</b>	<b>3.81</b>	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

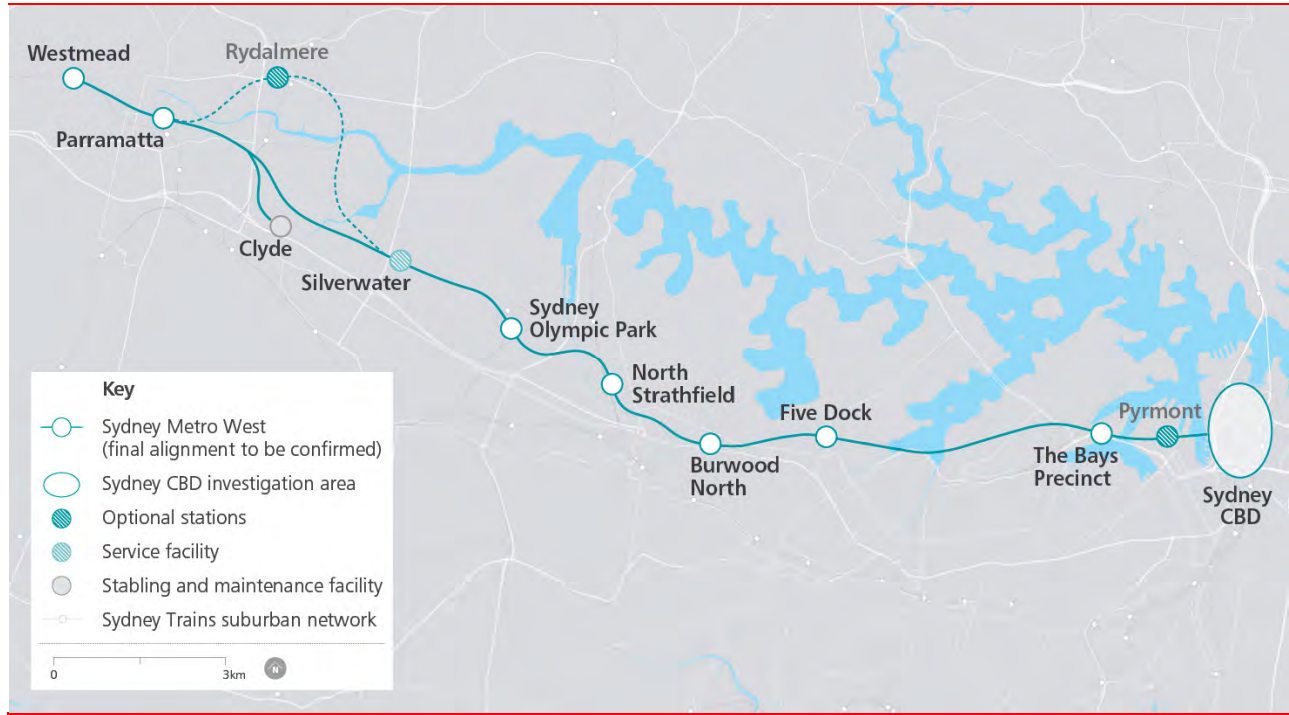
Source: AmInvestment Bank Bhd

## EXHIBIT 3: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RM bil)
MRT2	4.0
Seawall, Taiwan	0.6
Bus depot, Singapore	0.3
Pan Borneo Sarawak	0.3
Marine bridge, Taiwan	0.2
Others	0.7
<b>Total</b>	<b>6.1</b>

Source: Company

**EXHIBIT 4: SYDNEY METRO WEST**

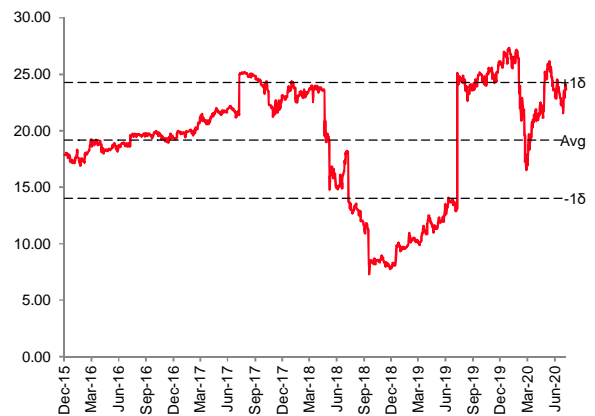


Source: Sydney Metro

**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
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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)	(125.5)	(114.8)	(107.2)
<b>Exceptional items</b>	<b>23.4</b>	<b>(148.1)</b>	-	-	-
Pretax profit	901.1	585.5	721.7	677.4	635.2
Taxation	(148.8)	(161.3)	(121.4)	(110.8)	(117.5)
<b>Minorities/pref dividends</b>	<b>(52.1)</b>	<b>(52.5)</b>	<b>(34.5)</b>	<b>(32.5)</b>	<b>(29.6)</b>
Net profit	700.2	371.7	565.7	534.1	488.2
Core net profit	676.8	519.8	565.7	534.1	488.2
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	-	-	-	-	-
<b>Other long-term assets</b>	<b>7,947.5</b>	<b>8,067.2</b>	<b>8,282.9</b>	<b>8,498.7</b>	<b>8,644.5</b>
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	2,506.8	2,684.6	2,883.5
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
<b>Other current assets</b>	<b>2,316.2</b>	<b>2,515.1</b>	<b>2,515.1</b>	<b>2,515.1</b>	<b>2,515.1</b>
Total current assets	8,076.0	9,455.2	9,814.7	9,992.6	10,191.5
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
<b>Other current liabilities</b>	<b>133.8</b>	<b>260.1</b>	<b>260.1</b>	<b>260.1</b>	<b>260.1</b>
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
<b>Other long-term liabilities</b>	<b>664.1</b>	<b>735.9</b>	<b>735.9</b>	<b>735.9</b>	<b>735.9</b>
<b>Total long-term liabilities</b>	<b>3,621.8</b>	<b>3,688.0</b>	<b>3,688.0</b>	<b>3,688.0</b>	<b>3,688.0</b>
Shareholders' funds	8,062.6	8,541.1	8,958.8	9,196.7	9,388.7
Minority interests	399.3	426.5	461.0	493.6	523.1
BV/share (RM)	3.27	3.46	3.63	3.73	3.80
Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	901.1	585.5	721.7	677.4	635.2
Depreciation/Amortisation	192.1	223.1	223.1	223.1	223.1
Net change in working capital	152.1	396.6	-	-	-
<b>Others</b>	<b>(643.3)</b>	<b>(251.4)</b>	<b>(211.7)</b>	<b>(211.8)</b>	<b>(156.0)</b>
Cash flow from operations	602.0	953.8	733.2	688.8	702.3
Capital expenditure	(253.8)	(183.9)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	64.4	5.6	-	-	-
<b>Others</b>	<b>564.5</b>	<b>(407.9)</b>	-	-	-
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)	(148.1)	(296.2)	(296.2)
<b>Others</b>	-	-	<b>(125.5)</b>	<b>(114.8)</b>	<b>(107.2)</b>
<b>Cash flow from financing</b>	<b>(765.8)</b>	<b>143.5</b>	<b>(273.6)</b>	<b>(410.9)</b>	<b>(403.4)</b>
<b>Net cash flow</b>	<b>211.3</b>	<b>511.1</b>	<b>359.6</b>	<b>177.8</b>	<b>198.9</b>
<b>Net cash/(debt) b/f</b>	<b>980.3</b>	<b>1,074.4</b>	<b>1,446.2</b>	<b>1,805.7</b>	<b>1,983.6</b>
Net cash/(debt) c/f	1,191.7	1,585.5	1,805.7	1,983.6	2,182.5
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	19.7	20.4	15.2
Net profit margin (%)	15.3	10.1	15.4	16.1	11.7
Interest cover (x)	5.8	4.1	5.0	5.0	5.6
Effective tax rate (%)	16.5	27.5	16.8	16.4	18.5
Dividend payout (%)	42.3	39.8	26.2	55.4	60.7
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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