



AmInvestment Bank

Company report

GAMUDA

(GAM MK EQUITY, GAMU.KL)

31 Mar 2021

1HFY21 net profit falls by a third YoY

HOLD

(Maintained)

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Rationale for report: Company results/update

Price	RM3.55
Fair Value	RM3.25
52-week High/Low	RM4.05/RM2.75

Key Changes

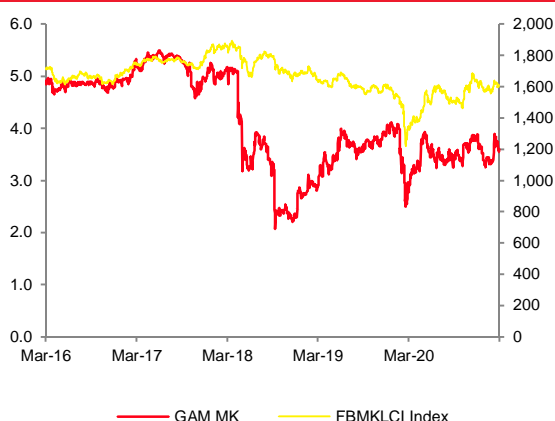
Fair value	↔
EPS	↔

YE to Jul	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,663.0	3,667.4	4,099.4	5,179.8
Core net profit (RM mil)	519.8	567.9	575.2	588.3
FD Core EPS (sen)	21.1	23.0	23.3	23.8
FD Core EPS growth (%)	(23.2)	9.3	1.3	2.3
Consensus Net Profit (RM mil)	-	554.0	642.2	661.4
DPS (sen)	6.0	0.0	6.0	6.0
PE (x)	16.9	15.4	15.2	14.9
EV/EBITDA (x)	15.4	13.6	12.5	11.4
Div yield (%)	1.7	0.0	1.7	1.7
ROE (%)	4.5	6.4	6.2	6.0
Net Gearing (%)	38.8	30.8	25.2	19.5

Stock and Financial Data

Shares Outstanding (million)	2,473.0
Market Cap (RM mil)	8,779.2
Book Value (RM/share)	3.46
P/BV (x)	1.0
ROE (%)	4.5
Net Gearing (%)	38.8
Major Shareholders	EPF(12.5%) KWAP(7.1%) Skim Amanah Saham Bumiputera(5.0%)
Free Float	75.4
Avg Daily Value (RM mil)	10.3

Price performance	3mth	6mth	12mth
Absolute (%)	(7.8)	1.7	28.6
Relative (%)	(5.8)	(4.9)	6.2



Investment Highlights

- We keep our forecasts relatively unchanged and maintain our fair value of RM3.25 based on “sum of parts” (SOP) (Exhibit 2). This values its construction business at 11x forward earnings, at a slight discount to our benchmark forward target PE of 12x for large-cap construction stocks, to reflect the increased risk of its order book (that includes a sizeable self-funded reclamation project). There is no adjustment for ESG based on our 3-star rating (Exhibit 6). Maintain HOLD.
- Gamuda's 1HFY21 net profit came in at only 41% and 42% of our full-year forecast and the full-year consensus estimates respectively. However, we consider the results within expectations as we expect a stronger 2H 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 1HFY21 net profit contracted 33% 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 on new property sales.
- While only recording RM1.5bil property sales in 1HFY21, 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 from the local ones.
- Key highlights from the briefing yesterday are:
 1. Gamuda believes that there could be good news on the MRT3 project (RM22–23bil) front “in weeks or months” as “a lot of discussion and progress have been made behind the scene (with the government)”.

For forecasting purposes, we do not believe it will be appropriate for us to pre-empt the award;

2. For the Australian projects currently under bidding, Gamuda is going through the normal process of submitting the technical bid (i.e. the construction plan), followed by the commercial one (i.e. the price). It guided for the announcement of the winning bids, if any, over the next 12 months, with the first one, Sydney M6 Motorway, as early as mid-2021.
3. Recall, Gamuda has been short-listed for the following projects in Australia:
 - i) the A\$20bil (RM60bil) Sydney Metro West project's first two major tunnelling packages, namely, the Central Tunnelling package from the Bays Precinct to Sydney Olympic Park (11km) and the Western Tunnelling package from Sydney Olympic Park to Westmead (9km), via a JV with prominent UK-based international contractor Laing O'Rourke;
 - ii) the A\$2.6bil (RM7.8bil) Sydney M6 Motorway, via a JV with a smallish Australian contractor BMD Constructions Pty Ltd; and
 - iii) the Greater Western Sydney-Western Sydney International Airport metro line, via a JV with prominent Australian contractor John Holland.
4. For the Penang Transport Master Plan (PTMP) project, Gamuda reiterated its guidance for physical work for Phase 1, Island A, to start next month.

Recall, we are taken aback by Gamuda's decision to put its balance sheet behind Island A. On one hand, this enables the project to finally get off the ground and the immediate realisation of a RM5bil order book. On the other hand, Gamuda is effectively sailing into uncharted waters by placing a RM6–7bil bet on reclaimed land in Penang Island (which is very significant as compared with Gamuda's market value of about RM9bil currently). An investor who bought into Gamuda for its highly cash-generative contracting, water and toll road businesses, could wake up owning a company that is poised for significant cash outflows over a prolonged period of time, i.e. at least four years, before the first land sale could be concluded. Gamuda's risk-return profile has been materially altered.

5. Gamuda guided for no dividend to its shareholders in FY21F. We have accordingly cut our dividend forecast to zero (from 6 sen) for FY21F. We also halve our FY22–23F dividend forecasts to 6 sen annually (from 12 sen), taking into consideration the need for Gamuda to conserve cash to fund the highly capital intensive reclamation project.
- Meanwhile, we maintain our view that 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 tax and 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. Also, given the suspension of parliament following the declaration of a state of emergency until 1 Aug 2021, the tabling of the 12th Malaysia Plan (which, among others, will earmark mega public infrastructure projects to be implemented in 2021–2025) scheduled for March 2021 could now be put on the back burner.
 - We hold the view that the outcome of the PTMP project thus far (i.e. the implementation model for Island A) is not the best investors could have possibly hoped for. However, Gamuda could still spring a surprise or two if it wins sizeable jobs in Australia, or if the Malaysian government decides to pump prime the economy via the implementation of mega public projects despite the high national debt. At about 15x forward earnings and with a significantly riskier earnings profile now, we believe Gamuda's upside is capped.

EXHIBIT 1: RESULTS SUMMARY

YE Jul (RMmil)	FY21 1Q	FY21 2Q	QoQ Chg	FY20 6M	FY21 6M	YoY Chg
Turnover	764.0	895.4	17%	2,186.5	1,659.4	(24%)
Construction	1,069.4	992.5	(7%)	2,668.0	2,062.0	(23%)
Property	318.4	273.8	(14%)	1,104.8	592.2	(46%)
Concessions	126.2	112.7	(11%)	252.7	238.9	(5%)
Elimination	(750.2)	(483.6)	(36%)	(1,839.0)	(1,233.8)	(33%)
EBIT	93.9	96.2	2%	324.9	190.1	(41%)
Net inc/(exp)	(27.1)	(27.5)	2%	(59.0)	(54.6)	(7%)
Associates/JVs	74.0	86.8	17%	171.8	160.8	(6%)
Pretax profit	140.8	155.5	10%	437.7	296.3	(32%)
Construction	65.8	60.9	(7%)	166.5	126.8	(24%)
Property	11.9	7.1	(40%)	106.1	19.1	(82%)
Concessions	63.0	87.4	39%	165.0	150.4	(9%)
EI	0.0	0.0	nm	0.0	0.0	nm
Taxation	(20.2)	(20.3)	0%	(66.2)	(40.5)	(39%)
Minority interest	(11.3)	(12.1)	7%	(22.7)	(23.4)	3%
Net profit	109.3	123.1	13%	348.8	232.4	(33%)
EPS (sen)	4.4	4.9	13%	14.1	9.3	(34%)
Net profit (ex-EI)	109.3	123.1	13%	348.8	232.4	(33%)
EBIT margin	12%	11%	(2%)	15%	11%	(3%)
Pretax margin	18%	17%	(1%)	20%	18%	(2%)
Effective tax rate	30%	30%	(1%)	25%	30%	5%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: SOP VALUATION

RMmil	Valuation	Basis
Construction & others	3,262.0	11x 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%)^	540.3	NPV
Net cash/(debt)	(3,317.9)	
SOP	7,864.0	
SOP (RM/share)	3.25	

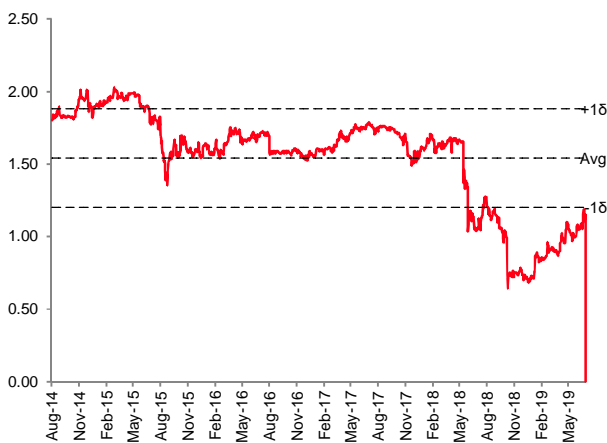
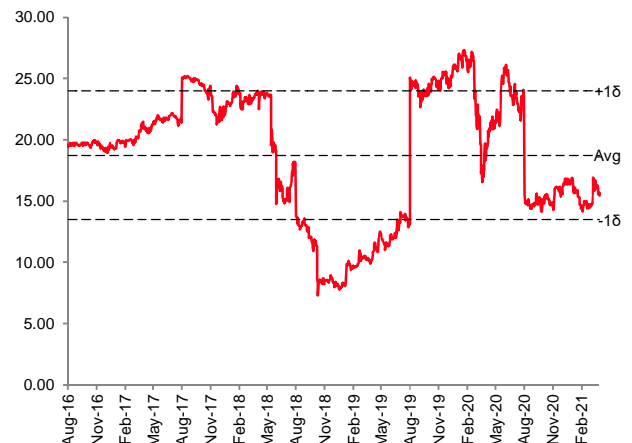
^ Project value of RM27bil, PDP fee @ 5.5% over 16 years, WACC of 6.6%
Source: AmInvestment Bank Bhd

EXHIBIT 3: OUTSTANDING ORDER BOOK*

Project	Outstanding Value (RM bil)
MRT2	3.4
Seawall, Taiwan	0.6
Bus depot, Singapore	0.3
Pan Borneo Sarawak	0.3
Marine bridge, Taiwan	0.2
Others	0.7
Total	5.5

Source: Company

*Excluding RM5bil from Island A

EXHIBIT 4: PB BAND CHART**EXHIBIT 5: PE BAND CHART****EXHIBIT 6: ESG RATING**

Overall	★	★	★		
Zero-carbon initiatives	★				
Work site safety	★	★	★		
Migrant worker welfare	★	★	★	★	★
Corporate social responsibility	★	★	★	★	★
Environment protection	★				
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★	★		
Gender diversity	★	★			
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

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	4,099.4	5,179.8
EBITDA	874.0	787.6	854.6	892.6	939.8
Depreciation/Amortisation	(192.1)	(223.1)	(223.1)	(223.1)	(223.1)
Operating income (EBIT)	681.9	564.5	631.5	669.5	716.7
Other income & associates	313.2	308.4	215.8	180.8	145.8
Net interest	(117.3)	(139.3)	(122.5)	(104.2)	(87.1)
Exceptional items	23.4	(148.1)	-	-	-
Pretax profit	901.1	585.5	724.7	746.0	775.4
Taxation	(148.8)	(161.3)	(122.1)	(135.7)	(151.1)
Minorities/pref dividends	(52.1)	(52.5)	(34.7)	(35.1)	(36.0)
Net profit	700.2	371.7	567.9	575.2	588.3
Core net profit	676.8	519.8	567.9	575.2	588.3
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	8,463.7	8,609.5
Total non-current assets	9,104.4	9,141.3	9,233.9	9,291.6	9,314.2
Cash & equivalent	1,452.3	2,147.2	2,657.1	3,061.7	3,515.3
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	9,965.1	10,369.7	10,823.3
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	9,109.0	9,536.1	9,976.3
Minority interests	399.3	426.5	461.2	496.3	532.3
BV/share (RM)	3.27	3.46	3.69	3.86	4.04
Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	901.1	585.5	724.7	746.0	775.4
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)	(215.4)	(212.2)	(209.8)
Cash flow from operations	602.0	953.8	732.4	756.9	788.7
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)	-	(148.1)	(148.1)
Others	-	-	(122.5)	(104.2)	(87.1)
Cash flow from financing	(765.8)	143.5	(122.5)	(252.3)	(235.1)
Net cash flow	211.3	511.1	509.9	404.6	453.6
Net cash/(debt) b/f	980.3	1,074.4	1,446.2	1,956.1	2,360.7
Net cash/(debt) c/f	1,191.7	1,585.5	1,956.1	2,360.7	2,814.3
Key Ratios (YE31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	8.3	(19.8)	0.1	11.8	26.4
EBITDA growth (%)	(0.9)	(9.9)	8.5	4.4	5.3
Pretax margin (%)	19.7	16.0	19.8	18.2	15.0
Net profit margin (%)	15.3	10.1	15.5	14.0	11.4
Interest cover (x)	5.8	4.1	5.2	6.4	8.2
Effective tax rate (%)	16.5	27.5	16.9	18.2	19.5
Dividend payout (%)	42.3	39.8	-	25.7	25.2
Debtors turnover (days)	266	370	386	345	273
Stock turnover (days)	50	84	91	82	65
Creditors turnover (days)	198	296	315	282	223

Source: Company, AmlInvestment Bank Bhd estimates

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