

MALAYSIA CORPORATE DAY E-CONFERENCE TAKEAWAYS

Gamuda (GAM MK)

On Track For Recovery Riding On Post-Pandemic Era

Gamuda is well poised to benefit from the upcoming mega projects rollout such as MRT3, given its strong track record. We came away from Gamuda's session in our Malaysia Corporate Day E-Conference feeling optimistic of its prospects. Its recent job wins in Taiwan, Australia and Singapore bode well for its regional prospects as it triples its orderbook to RM10.6b. In addition, the disposal of its highway concessions will strengthen its war chest for future growth. Maintain BUY. Target price: RM3.81.

WHAT'S NEW

- **New job win.** Gamuda bagged a new contract win last week worth around RM300m (Gamuda's portion: about RM200m) to construct a marine bridge and related works in Taiwan. Similar to its existing work in the country, the job will be undertaken by the JV, comprising Gamuda (70%) and Dong-Pi Construction Co Ltd (30%). It is expected to take around two years to complete. Assuming a net profit margin of 7%, the contract is expected to contribute about RM14m to bottom line spanning across the contract period. We are positive on this new win as it shows that Gamuda is capable of further penetrating the Taiwan market. This bodes well for its track record, which strengthens its prospects for bigger tenders, especially the MRT projects in Taiwan that match Gamuda's tunneling expertise.
- **Robust orderbook will ensure...** The new win falls under orderbook replenishment assumption for FY22, which Gamuda aims for RM10b (ytd RM7.6b). In 1H22 alone, with this new win, Gamuda managed to triple its orderbook to RM10.6b (3.2x revenue cover) including the two major tunnelling projects in Australia (RM6.5b) and Singapore (RM0.9b). Local projects such as MRT3 (RM11b), Penang South Islands (RM5b), SMART2 tunnel (RM2b) and Sg. Rasau water plant (RM2b) coupled with more potential wins in Australia (RM3b), Singapore and Taiwan (RM0.5b) may further contribute to earnings ahead.
- **...better earnings visibility.** To replace the RM170m earnings/year from the highway concession business (25% of the total earnings), Gamuda is looking to double its orderbook to RM20-25b from FY24 onwards with a 50:50 split between local and overseas contribution. Gamuda also aims to double property sales to RM6b/year. This will improve sustainable earnings by >RM500m/year by FY24. Gamuda is also looking to reinvest in environmentally-friendly recurring income businesses in the infrastructure space ie flood mitigation projects (SMART2) and hydroelectric power plants. While it is expected to announce some updates in 2H22, the earnings can only be seen from FY24 onwards. This venture will focus on Malaysia first, before looking at opportunities abroad.

KEY FINANCIALS

Year to 31 Jul (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	3,663	3,517	5,131	6,685	6,946
EBITDA	644	766	861	1,025	1,006
Operating profit	421	586	687	850	830
Net profit (rep./act.)	377	588	611	685	635
Net profit (adj.)	525	588	611	685	635
EPS (sen)	21.1	23.6	24.3	27.3	25.5
PE (x)	13.7	12.2	13.1	11.5	12.1
P/B (x)	0.8	0.8	0.7	0.7	0.7
EV/EBITDA (x)	16.0	13.5	12.8	10.6	11.6
Dividend yield (%)	2.1	0.0	2.1	2.1	2.1
Net margin (%)	10.3	16.7	11.9	10.4	10.6
Net debt/(cash) to equity (%)	38.8	28.1	27.5	26.4	20.9
Interest cover (x)	4.6	6.7	5.9	6.9	6.6
ROE (%)	4.5	6.6	6.3%	6.8%	6.1%
Consensus net profit	-	-	623	713	654
UOBKH/Consensus (x)	-	-	0.98	0.96	0.97

Source: Gamuda Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.59
Target Price	RM3.81
Upside	+10.1%

COMPANY DESCRIPTION

Civil engineering construction with exposure in property development and toll concessions.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	GAM MK
Shares issued (m):	2,513.5
Market cap (RMm):	7,239.0
Market cap (US\$m):	1,723.8
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

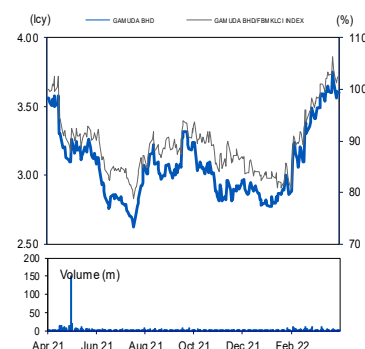
52-week high/low RM3.90/RM2.62

1mth	3mth	6mth	1yr	YTD
4.0	(1.7)	(4.3)	(13.5)	(0.7)

Major Shareholders	%
Employees Provident Fund	9.9
Skim Amanah Saham Bumiputera	8.3
Kumpulan Wang Persaraan	5.5

FY22 NAV/Share (RM)	3.85
FY22 Net Debt/Share (RM)	1.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Strengthening war chest.** As of 18 April 22, Kesas, Sprint, Litrak and SMART have accepted the takeover offer by Amanat Lebuhraya Rakyat. The deal is expected to complete in Jun 22. The RM2.33b or RM0.91/share that it may receive from this disposal can be used for reinvestment, special dividends, and reducing borrowings. If 20-40% of the proceeds will be used as special dividends, this can translate to about 18-36 sen/share (dividend yield: 5-10%). Gamuda will realise a one-off gain of RM1b, lifting NAV to RM4.16 (+RM0.45/share). The disposal will help to deleverage its balance sheet (change to net cash position of RM0.6b from RM1.7b net debt) and use it to fund for future projects.
- 3QFY22 results preview (end-June).** We expect Gamuda to continue its recovery growth momentum with stronger results yoy, benefitting from better progress billings and improved property sales on the back of the economic reopening. Strong margins from the tail-end MRT2 project (92% done, completion date: 4Q22) will help to support earnings and partly offset the impact of rising inflationary pressure this year. Note that construction profit before tax (PBT) margins in 2QFY22 almost doubled from 7.5% to 14.1% yoy. We expect the margins to remain strong as more provisions will be released back to the bottom line.
- Property to further complement earnings.** The division is expected to continue its yoy recovery supported by its record-high unbilled sales of RM5.2b. Gamuda's strong presales of RM1.9b (+27% yoy) in 6MFY22 represents 47% of its new higher target of RM4b (from RM3.5b) for FY22. Overseas earnings are expected to continue improving yoy, especially in Vietnam where the pandemic situation has eased. Domestic presales will still be largely anchored by Gamuda Cove and Gamuda Gardens. The expiry of the Home Ownership Campaign (HOC) may pose minimal impact as HOC typically covers the unsold cheaper properties, which is a different segment than Gamuda's. Its strategy ahead is to also expand its Quick Turnaround Projects overseas (3-5 years), especially in Australia and the UK.
- Prolonged rising inflation may dampen the recovery.** Currently, steel and cement prices remain elevated at >RM3,500/mt (+8% mom) and RM300/mt (+15% mom). We believe this will impact Gamuda's margin in the near term especially for its property division. However, we expect prices will gradually ease, given supply recovery and China's carbon neutrality agenda as reflected by the steel prices in China that are trending downwards (-3% mom) and coal prices too (-26% mom). High margins from the reversal of contingency provision for Gamuda's tail-end projects will help to cushion the impact. Gamuda's outstanding projects also mostly have completed the civil works. Gamuda has also priced in the rise in prices into its new tenders to avoid margin erosion.
- Positioning to be a regional champion.** Having secured the largest project it has ever won abroad (RM6.5b), Gamuda is paving its way into Australia's construction scene. Gamuda continues to actively tender for projects in Australia, including New South Wales' Coffs Harbour bypass (contract value estimate: RM3b, result: 2Q22, partner: Ferrovial). Gamuda is looking to tender for around RM45b (A\$15b) worth of projects in Australia for the next 2-3 years, and expects to win about RM15b (A\$5b). This includes Melbourne's North East Link project, Adelaide's North-South Corridor and Great Western Highway.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged SOTP-derived target price of RM3.81**, implying 15.7x FY22F PE (+1SD of five-year historical average). Gamuda stands to be the prime beneficiary of the upcoming mega infrastructure projects both locally and regionally.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Commits to reduce greenhouse gas emission intensity by 30%/45% in 2025/30 Social <ul style="list-style-type: none"> Well-diversified workforce in terms of gender: female (43%) and male (57%). Governance <ul style="list-style-type: none"> Independent directors make up 57% of its board composition.

SOTP VALUATION

	RMm	Remarks
Construction	5,566	11x FY22 PE
Property (Malaysia)	3,899	50% discount to RNAV
Concessions	2,710	
Vietnam landbank	1,552	40% discount to RNAV
Proceeds from SPLASH	933	
Less Net Debt	(2,673)	
Total SOTP value	11,986	
Outstanding shares (m)	2,514	
SOTP/share	4.77	
Discount to SOTP	20%	
TP/share (RM)	3.81	

Source: Gamuda, UOB Kay Hian

OUTSTANDING ORDERBOOK

	RMb	Work done
KVMRT Line 2	1.3	92%
Pan Borneo Sarawak	0.2	83%
Marine bridge, Taiwan	0.1	62%
Bus depot, Singapore	0.3	16%
Seawall project, Taiwan	0.5	29%
Other local projects	0.4	Various
Transmission line, Taiwan	0.2	0%
Defu Station, Singapore	0.9	0%
SMW-WTP, Australia	6.5	0%
Taiwan Marine 2	0.2	0%
TOTAL	10.6	

Source: Gamuda

SEGMENT FORECAST

Revenue	FY22F	FY23F	FY24F
Construction	2,923	3,918	4,346
Property Dev	1,808	2,347	2,160
Concession	400	420	440
Operating Profit	FY22F	FY23F	FY24F
Construction	238	314	324
Property Dev	249	326	286
Concession	200	210	220

Source: Gamuda, UOB Kay Hian

MRT3 PROJECT DETAILS

Asset Owner	MRT Corporation
Project Period	2023-2030 (8 years)
Project Structure	4 turnkey contractors & 1 consultant a) 2 contractors for elevated works b) 1 contractor - underground works c) 1 contractor - rail systems d) 1 project management consultant
Estimated Cost	RM30-50b
Length of Alignment	51km: 40km of elevated tracks & 11km of underground tunnels

Source: MRT Corp

PROFIT & LOSS

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Net turnover	3,517	5,131	6,685	6,946
EBITDA	766	826	1,001	1,006
Deprec. & amort.	180	174	175	176
EBIT	586	652	826	830
Total other non-operating income	217	166	141	92
Associate contributions	98	105	120	130
Net interest income/(expense)	(114)	(136)	(141)	(136)
Pre-tax profit	786	767	920	802
Tax	(154)	(137)	(185)	(159)
Minorities	(44)	(77)	(94)	(82)
Net profit	588	589	670	635
Net profit (adj.)	588	589	670	635

BALANCE SHEET

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Fixed assets	961	967	972	976
Other LT assets	7,582	7,853	8,115	8,337
Cash/ST investment	2,657	2,592	2,571	3,042
Other current assets	7,240	8,089	9,163	8,519
Total assets	18,440	19,501	20,821	20,874
ST debt	1,452	1,452	1,452	1,452
Other current liabilities	3,057	3,636	4,369	3,930
LT debt	3,776	3,776	3,776	3,776
Other LT liabilities	640	640	640	640
Shareholders' equity	9,164	9,568	10,061	10,472
Minority interest	352	429	523	606
Total liabilities & equity	18,440	19,501	20,821	20,874

CASH FLOW

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Operating	1,057	401	450	936
Pre-tax profit	786	767	920	802
Tax	(154)	(137)	(185)	(159)
Deprec. & amort.	180	174	175	176
Associates	(98)	(105)	(120)	(130)
Working capital changes	354	(269)	(341)	204
Non-cash items	(223)	(271)	(261)	(222)
Other operating cashflows	212	241	261	266
Investing	(924)	(180)	(180)	(180)
Capex (growth)	(98)	(180)	(180)	(180)
Investments	(135)	(271)	(261)	(222)
Proceeds from sale of assets	0	0	0	0
Others	(691)	271	261	222
Financing	(428)	(285)	(290)	(285)
Dividend payments	0	(149)	(149)	(149)
Issue of shares	0	0	0	0
Proceeds from borrowings	(304)	0	0	0
Others/interest paid	(124)	(136)	(141)	(136)
Net cash inflow (outflow)	(295)	(65)	(21)	471
Beginning cash & cash equivalent	1,519	1,233	1,169	1,148
Changes due to forex impact	1,433	1,424	1,424	1,424
Ending cash & cash equivalent	2,657	2,592	2,571	3,042

KEY METRICS

Year to 31 Jul (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	21.8	17.2	15.8	16.9
Pre-tax margin	22.4	16.4	14.9	15.2
Net margin	16.7	11.8	10.4	10.6
ROA	3.2	2.9	3.2	2.7
ROE	6.6	5.9	6.5	5.5
Growth				
Turnover	(4.0)	33.2	31.5	(14.4)
EBITDA	18.9	5.3	20.9	(8.6)
Pre-tax profit	33.2	(2.4)	19.9	(12.9)
Net profit	56.3	(5.8)	15.8	(12.7)
Net profit (adj.)	12.1	(5.8)	15.8	(12.7)
EPS	12.1	(5.8)	15.8	(12.7)
Leverage				
Debt to total capital	35.5	34.3	33.1	32.1
Debt to equity	57.0	54.6	52.0	49.9
Net debt/(cash) to equity	28.1	27.5	26.4	20.9
Interest cover (x)	6.7	5.9	6.9	6.6

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