

ASIAN GEMS CORPORATE HIGHLIGHTS

Gamuda (GAM MK)

Transforming Into A "New" Gamuda

Gamuda is a prime beneficiary of the upcoming rollout of regional mega projects, such as MRT3 (Malaysia) and Suburban Rail Loop (Australia) given its strong track record. We came away from Gamuda's session in our Asian Gems Virtual Conference feeling optimistic on its prospects. The completion of its highway disposal will strengthen its war chest for future growth. Its all-time high orderbook and property unbilled sales bode well for its outlook. Maintain BUY. Target price: RM4.35.

WHAT'S NEW

- **Strengthening its foothold in Australia.** Recently, Gamuda was shortlisted for two projects in Melbourne - North-East Link and Suburban Rail Loop (SRL) - with the outcomes to be announced in 2023. Gamuda is eyeing more on SRL as it offers higher contract value. Gamuda is partnering with John Holland for this project. There will be two packages, with the first being the longest tunnelling package that has been put up for tender in Victoria. The first package will be awarded in 1H23 while the second one will be in 2H23. There are three companies that have been shortlisted, of which two will be awarded with the contracts. Hence, Gamuda stands a high chance of winning the job. The Australian government has committed A\$2.7b (RM8b) for the project. Although the contract value is higher than Sydney Metro West (SMW) (RM6b), the orderbook impact is smaller due to the JV nature of SRL (vs SMW, where Gamuda recognises 100% share).
- **MRT3: Potentially delayed to 1Q23.** Due to the sudden announcement of the general election that is expected to be held in 4Q22, the rollout of mega projects such as MRT3 and Penang South Islands (PSI) may be delayed to 1Q23 after a new government has been formed. Gamuda is still confident that these projects will go through despite the delay as they have progressed to advanced levels. There are at least eight companies that have submitted bids for the three civil main contractor packages. Budget 2023 highlighted that the 50.8km-project will cost RM50.2b with projected expenditure of RM3.3b for 2023.
- **Monetisation of four highways is complete.** RM5.5b sukuk was successfully raised by Amanat Lebuhraya Rakyat (ALR) and the drawdown of the cash proceeds had been completed earlier this month. The RM2.3b (RM0.91/share) received by Gamuda from this disposal will be used for reinvestment (19%), special dividends (43%), and reduction of borrowings (38%). This will help to deleverage its balance sheet (change to net cash position of >RM1b) and to fund future projects. The special dividends will translate to about RM1b or 38 sen/share (dividend yield: 10%) and will be disbursed within the coming three months. Gamuda will realise a one-off gain of RM1b, lifting NAV to RM4.27 (+RM0.39/share).

KEY FINANCIALS

Year to 31 Jul (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	3,517	5,162	6,797	8,198	9,308
EBITDA	766	823	980	1,089	1,252
Operating profit	586	711	805	913	1,051
Net profit (rep./act.)	588	806	621	709	816
Net profit (adj.)	588	809	621	709	816
EPS (sen)	23.6	31.7	24.4	27.8	32.1
PE (x)	14.5	12.2	15.7	13.8	11.9
P/B (x)	0.9	1.0	0.9	0.9	0.8
EV/EBITDA (x)	11.0	10.1	10.9	10.5	9.8
Dividend yield (%)	0.0	3.1	3.3	3.4	3.6
Net margin (%)	16.7	15.8	10.8	9.7	9.2
Net debt/(cash) to equity (%)	18.1	12.3	10.4	8.9	7.3
Interest cover (x)	5.1	5.3	7.5	8.7	9.1
ROE (%)	6.6	8.6	8.8	9.2	9.5
Consensus net profit	-	-	640	746	832
UOBKH/Consensus (x)	-	-	0.97	0.95	0.98

Source: Gamuda, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.68
Target Price	RM4.35
Upside	+18.2%

COMPANY DESCRIPTION

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

STOCK DATA

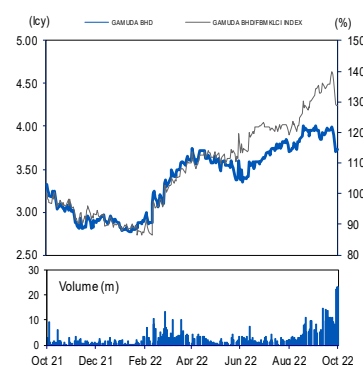
GICS sector	Industrials
Bloomberg ticker:	GAM MK
Shares issued (m):	2,591.1
Market cap (RMm):	9,587.0
Market cap (US\$m):	2,032.5
3-mth avg daily t'over (US\$m):	3.9
Price Performance (%)	

52-week high/low RM4.01/RM2.77

1mth	3mth	6mth	1yr	YTD
(6.3)	3.4	2.5	11.4	27.6

Major Shareholders	%
Employees Provident Fund	9.9
Skim Amanah Saham Bumiputera	8.3
Kumpulan Wang Persaraan	5.5
FY23 NAV/Share (RM)	4.27
FY23 Net Cash/Share (RM)	1.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Overseas contribution dominates construction orderbook.** Gamuda's record-high orderbook of RM14b (+268% yoy) will provide earnings visibility until 2026 (4x revenue cover vs historical average of 2x). Overseas projects contribute around 76% of the orderbook as Gamuda managed to win around RM10b worth of jobs abroad in FY22 - Australia (RM8.0b), Singapore (RM1.5b) and Taiwan (RM0.2b). Gamuda plans to win around RM13b of new jobs in FY23 to reach its target of RM25b over FY22/23. It is looking to tender for around RM45b (A\$15b) worth of projects in Australia for the next 2-3 years, and expects to win RM15b (A\$5b) or A\$2b-3b/year. This includes Adelaide's North-South Corridor and Great Western Highway.
- Prime beneficiary of MRT3.** Gamuda is one of the frontrunners for the underground package given its strong track record. The contract value of the 11km underground portion is estimated at RM10.7b (based on MRT2). Assuming a 6% net margin, our back-of-the-envelope calculations estimate net contribution to Gamuda's bottom line at RM0.129/share (period: 5-7 years). Every package will have its own private funding initiative (PFI) structure contributing to the upfront construction cost of about 10% of the contract value to make up for the first 1-2 years. Gamuda will have a stronger chance to clinch the project, given its strong balance sheet, especially after the highway disposal.
- Pivoting into green infrastructure.** Gamuda is looking to reinvest in eco-friendly recurring income businesses in the infrastructure space ie solar, flood mitigation projects and hydroelectric power plants. While it is expected to announce some updates in 4Q22, we believe the earnings can only be seen materially from FY24 onwards. Gamuda will focus on Malaysia first, before looking at opportunities abroad. Gamuda will also be relying on its record-high orderbook and property sales to replace the RM170m earnings/year from the highway business (25% of the total earnings). Gamuda is looking to double its orderbook to RM20b-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.
- Ramping up property business abroad.** The division is expected to continue its yoy growth supported by its record-high unbilled sales of RM6.2b. Its property presales hit a record high of RM4b (+40% yoy) in FY22 with a 50:50 split between local and overseas contributions. Its sales target in FY23 is RM4.5b. Its strategy ahead is to expand its Quick Turnaround Projects (QTP) overseas. Currently, it has five QTP projects (two in UK, two in Vietnam, one in Australia) with five more to be acquired in the next two years. While it is still in its infancy stage, Gamuda aims for its QTP portfolio to be the main driver, targeting 50% presales growth in the next two years, delivering RM2b presales by FY24. Gamuda also is looking to launch five new projects overseas per year from FY23 onwards, including Australia, the UK, Vietnam and Singapore. This is part of its strategy to achieve RM8b sales in the next five years. Gamuda is also planning to further grow its property business in Vietnam by kicking off a new development soon.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged SOTP-derived target price of RM4.35**, implying 17x FY23F PE (+1SD of five-year historical average). We believe this is justified given its lower reliance on local government projects, its ability to clinch regional jobs and high orderbook cover.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

Environmental
- Commits to reduce greenhouse gas emission intensity by 30%/45% in 2025/2030.
Social
- Well-diversified workforce in terms of gender: female (43%) and male (57%).
Governance
- Independent directors make up 57% of its board composition.

SOTP VALUATION

	RMm	Remarks
Construction	7,843	11x FY22 PE
Property (Malaysia)	3,899	50% discount to RNAV
Vietnam landbank	1,552	40% discount to RNAV
Proceeds from SPLASH	933	
Net Cash	1,200	
Total SOTP value	15,777	
Outstanding shares (m)	2,554	
SOTP/share	6.18	
Discount to SOTP	30%	
TP/share (RM)	4.35	

Source: Gamuda, UOB Kay Hian

OUTSTANDING ORDERBOOK

	RMB	Work done
KVMRT Line 2	0.9	94%
Pan Borneo Sarawak	0.0	96%
Second Trunk Road, Sarawak	0.1	31%
Residential Building Works, Malaysia	0.1	69%
Other Civil Works, Malaysia	0.2	54%
Rasau WTP, Malaysia	2.0	0%
Marine bridge, Taiwan	0.1	68%
Bus depot, Singapore	0.6	23%
Seawall project, Taiwan	0.4	39%
Transmission line, Taiwan	0.2	0%
Marine bridge ext, Taiwan	0.2	0%
Defu Station, Singapore	0.9	0%
SMW-WTP, Australia	6.2	5%
Coffs, Australia	2.1	0%
TOTAL	14.0	

Source: Gamuda

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)	2022	2023F	2024F	2025F
Net turnover	5,162	6,797	8,198	9,308
EBITDA	823	980	1,089	1,252
Deprec. & amort.	174	175	176	176
EBIT	711	805	913	1,051
Total other non-operating income	166	141	92	90
Associate contributions	105	120	130	130
Net interest income/(expense)	(136)	(141)	(136)	(121)
Pre-tax profit	1,036	920	1,060	1,202
Tax	(203)	(242)	(269)	(291)
Minorities	(77)	(94)	(82)	(94)
Net profit	806	621	709	816
Net profit (adj.)	809	621	709	816

BALANCE SHEET

Year to 31 Jul (RMm)	2022	2023F	2024F	2025F
Fixed assets	967	972	976	1,074
Other LT assets	7,853	8,115	8,337	9,171
Cash/ST investment	2,592	2,571	3,042	3,346
Other current assets	8,089	9,163	8,519	9,371
Total assets	19,501	20,821	20,874	22,961
ST debt	1,452	1,452	1,452	1,597
Other current liabilities	3,636	4,369	3,930	4,323
LT debt	3,776	3,776	3,776	4,154
Other LT liabilities	640	640	640	704
Shareholders' equity	9,568	10,061	10,472	11,519
Minority interest	429	523	606	667
Total liabilities & equity	19,501	20,821	20,874	22,961

CASH FLOW

Year to 31 Jul (RMm)	2022	2023F	2024F	2025F
Operating	401	450	936	1,030
Pre-tax profit	1,036	920	1,060	1,166
Tax	(203)	(242)	(269)	(296)
Deprec. & amort.	174	175	176	194
Associates	(105)	(120)	(130)	(143)
Working capital changes	(269)	(341)	204	224
Non-cash items	(271)	(261)	(222)	(244)
Other operating cashflows	241	261	266	293
Investing	(180)	(180)	(180)	(198)
Capex (growth)	(180)	(180)	(180)	(198)
Investments	(271)	(261)	(222)	(244)
Proceeds from sale of assets	0	0	0	0
Others	271	261	222	244
Financing	(285)	(290)	(285)	(314)
Dividend payments	(149)	(149)	(149)	(164)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Others/interest paid	(136)	(141)	(136)	(150)
Net cash inflow (outflow)	(65)	(21)	471	518
Beginning cash & cash equivalent	1,233	1,169	1,148	1,263
Changes due to forex impact	1,424	1,424	1,424	1,566
Ending cash & cash equivalent	2,592	2,571	3,042	3,346

KEY METRICS

Year to 31 Jul (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	17.2	15.8	16.9	18.6
Pre-tax margin	16.4	14.9	15.2	16.7
Net margin	11.8	10.4	10.6	11.7
ROA	2.9	3.2	2.7	3.0
ROE	5.9	6.5	5.5	6.1
Growth				
Turnover	33.2	31.5	(14.4)	(15.8)
EBITDA	5.3	20.9	(8.6)	(9.5)
Pre-tax profit	(2.4)	19.9	(12.9)	(14.2)
Net profit	(5.8)	15.8	(12.7)	(14.0)
Net profit (adj.)	(5.8)	15.8	(12.7)	(14.0)
EPS	(5.8)	15.8	(12.7)	(14.0)
Leverage				
Debt to total capital	34.3	33.1	32.1	35.3
Debt to equity	54.6	52.0	49.9	54.9
Net debt/(cash) to equity	27.5	26.4	20.9	23.0
Interest cover (x)	5.9	6.9	6.6	7.3

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