

PP14767/09/2012(030761)

Friday, March 27, 2015

## Gamuda Berhad

## “PTMP is The Next Catalyst”

## Results Review

- Actual vs. expectations.** Gamuda 6M15 net profit of RM368 million (+10% y-o-y) came in line with ours and consensus estimates respectively, accounting 50% and 49% of ours and consensus full year net profit forecast. The improvement in 6M15 earnings was energised by healthy contribution from concession segment (+51% y-o-y) due to the fully consolidation of KESAS (70%-subsidiary), pushing Gamuda's PBT to record a solid growth of 17% y-o-y to RM459 million in 6M15. Note that PBT contribution from construction segment was slightly lower at RM124 million (-3% y-o-y) as a result of slower billings in 2Q15 as the pace of civil works has started to taper off at more advanced stages.
- Dividend.** No dividend was declared during the quarter.
- Progress of KVMRT1.** The financial progress of PDP scope and underground works remained on track at 50% and 61% respectively as at 6M15. On the underground works, only one tunnel boring machines (TBM) is still grinding steadily and expected to be completed by mid-April 2015. Nine other TBMs have been decommissioned and currently undergoing refurbishment in Ipoh for the upcoming KVMRT2 project. The entire project is on track to be completed by July 2017. Gamuda's current construction orderbook stood at RM1.6 billion as at the end of 2Q15 (1Q15: RM1.8 billion).
- Property update.** Gamuda achieved a lower property sales of RM535 million in 6M15 (-45% y-o-y) due to the lethargic property market in Klang Valley and Johor as a results of tightening measures imposed by Bank Negara Malaysia (BNM). The management guided that FY15 sales project of RM1.8 billion has been revised

## BUY (TP: RM5.87)

Current Price (RM)	RM5.20
New Target Price (RM)	RM5.87
Previous Target Price (RM)	RM5.28
Previous Recommend.	BUY
Upside To Target Price	13%
Dividend Yield (FY16)	2%

## Stock Code

Bloomberg	GAM MK
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## Stock &amp; Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	2,349
Market Cap (RM mn)	12,192
YTD Chg In Share Price	4%
Beta (x)	1.22
52-week Hi/Lo (RM)	5.36   4.40
3M Average Volume (shrs)	5.38mn
Estimated Free Float	50%

## Major Shareholders

EPF	9%
Skim ASB	9%
KWAP	8%

downwards to RM1.2 billion (-34%) due to the subdued local property market predicted in 2015. The group's unbilled sales stood at RM1.5 billion in 6M15.

- **Slight delay for KVMRT2.** KVMRT2 project roll-out will be delayed between three to six month due to changes in the alignment to incorporate a new station, Bandar Malaysia (nearby Sg. Besi). The public display for the railway scheme will commence in mid-2015 and tendering is only expected to be called by 4Q2015 instead of the previous target in 3Q2015 with initial contract awards could be expected by mid-2016. Furthermore, the negotiation of 'project delivery partner' (PDP) agreement is progressing smoothly and expected to be signed by mid-2015.
- **Penang Transport Master Plan.** Gamuda has submitted the bids for the PDP role of Penang Transport Master Plan (PTMP) which estimates to cost approximately RM27 billion comprising the development of integrated public transportation system and highway network. Penang's state government has closed the Request for Proposal (RFP) exercise to assign the PDP role of PTMP in February 2015 and the result could be announced between May and July 2015. We expect Gamuda to emerge as the front runner for the project based on their expertise as the current PDP role for KVMRT1 and KVMRT2 projects.
- **Property outlook.** Despite a weaker outlook on property market throughout FY15, Gamuda is now turning its focus to replenish its landbank. Recently, Gamuda has acquired a small parcel of freehold land in South Yarra, Melbourne measuring 0.35 acres for AUD40 million (AUD27,875 per sq. metres). Gamuda is planning to develop 150 units of apartments with estimates GDV of RM390 million and targeted to be launched by the end of 2015. Domestically, Gamuda has acquired a piece of leasehold land measuring approximately 104.1 hectares (257.2 acres) in Mukim Tanjong 12, Kuala Langat, Selangor, back in December 2014 for a total cash consideration of RM392 million (RM35 per sq. ft.). The group's total landbank size is now at 4,052 acres (Malaysia: 3,452 acres, Overseas: 600 acres) with remaining GDV of RM49 billion.
- **Water concession update.** Gamuda remains hopeful to conclude the disposal of SPLASH by 2015 and currently still in negotiation with Selangor's state government and Federal government in order to reach a fair solution for both parties. To recap, Gamuda announced in March 2014 that SPLASH was unable to accept the offer by Kumpulan Darul Ehsan Bhd (KDEB) to buyout SPLASH for RM251 million. The net offer of RM251 million for SPLASH is compared to the net asset value (NAV) of SPLASH amounting to RM2.54 billion as at 31 December 2013. This may result in a huge divestment loss of RM920 million for Gamuda.
- **Change to forecast.** No change to our earnings forecast as future visibility remains intact. FY15 and FY16 earnings are forecast to jump by 4% y-o-y and 15% y-o-y driven by i) acceleration in KVMRT1 development, ii) steady unbilled property sales of RM1.5 billion and iii) higher earnings contribution from concession division.
- **Valuation & recommendation.** We value Gamuda at RM5.87, pegging to the group's average 3-years PER of 16x and the stock is a **BUY**. Re-rating catalyst may come from i) government's mega

spending railway project expansion and ii) front runner of PTMP and KVMRT 3 project and iii) aggressive landbanking expansion.

Table 1: Peers comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
IJM CORP	Mar	7.17	48	54	14.6	12.9	1.3	1.3	12	2	7.50	Hold
GAMUDA	Jul	5.20	33	36	15.3	14.4	1.9	1.8	14	2	5.87	Buy
WCT	Dec	1.50	15	18	10.6	9.1	0.8	0.7	7	3	1.76	Buy
BENALEC	Jun	0.80	7	9	12.3	10.4	1.0	0.9	4	0	NR	NR
CREST BUILDER	Dec	1.18	11	NA	10.4	NA	0.4	NA	6	3	NR	NR
EVERSENDAL	Dec	0.78	7	10	9.0	6.4	0.5	0.5	1	2	NR	NR
KIHLUN	Dec	1.28	16	16	8.5	8.1	0.9	0.8	15	2	NR	NR
MRCB	Dec	1.20	7	10	19.7	13.8	1.2	1.1	9	1	NR	NR
AZRB	Dec	0.70	6	7	11.8	10.1	NA	NA	4	NA	NR	NR
YTL CORP	Jun	1.65	14	14	13.0	12.3	1.2	1.1	9	5	NR	NR
Average					12.5	10.8	1.0	1.0	8	2		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Jul (RM million)	FY12	FY13	FY14*	FY15F	FY16F
Revenue	3,087	3,883	2,230	4,445	5,112
EBIT	585	512	488	756	869
Finance costs	(62)	(61)	(66)	(111)	(153)
Associates	206	241	430	293	358
PBT	728	693	852	938.0	1073.5
Net profit	547	541	719	740	849
EPS (sen)	26	25	32	32	37
EBIT margin	19%	13%	22%	17%	17%
PBT margin	24%	18%	38%	21%	21%
Net profit margin	18%	14%	32%	17%	17%
PER (x)	13.3	18.9	15.4	16.2	14.2
P/BV (x)	1.8	2.0	2.1	1.9	1.7
DPS (sen)	16	12	12	12	12
Dividend Yield	3%	2%	2%	2%	2%

\*Based on FRS 11 accounting standard

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Jul (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	518	570	653	15%	26%	1,004	1,223	22%
EBIT	122	150	170	13%	39%	225	320	42%
Finance Cost	(19)	(27)	(29)	6%	48%	(33)	(56)	67%
JV/Associates	98	106	88	-17%	-10%	201	194	-3%
PBT	201	229	230	0%	14%	392	459	17%
Taxation	(26)	(29)	(36)	24%	41%	(51)	(65)	29%
Net profit	170	186	182	-2%	7%	336	368	10%
EPS (sen)	7	8	8	-3%	5%	15	16	8%
PBT margin	39%	40%	35%			39%	38%	
Net profit margin	33%	33%	28%			33%	30%	
Effective tax rate	13%	13%	16%			13%	14%	

Based on FRS 11 accounting standard

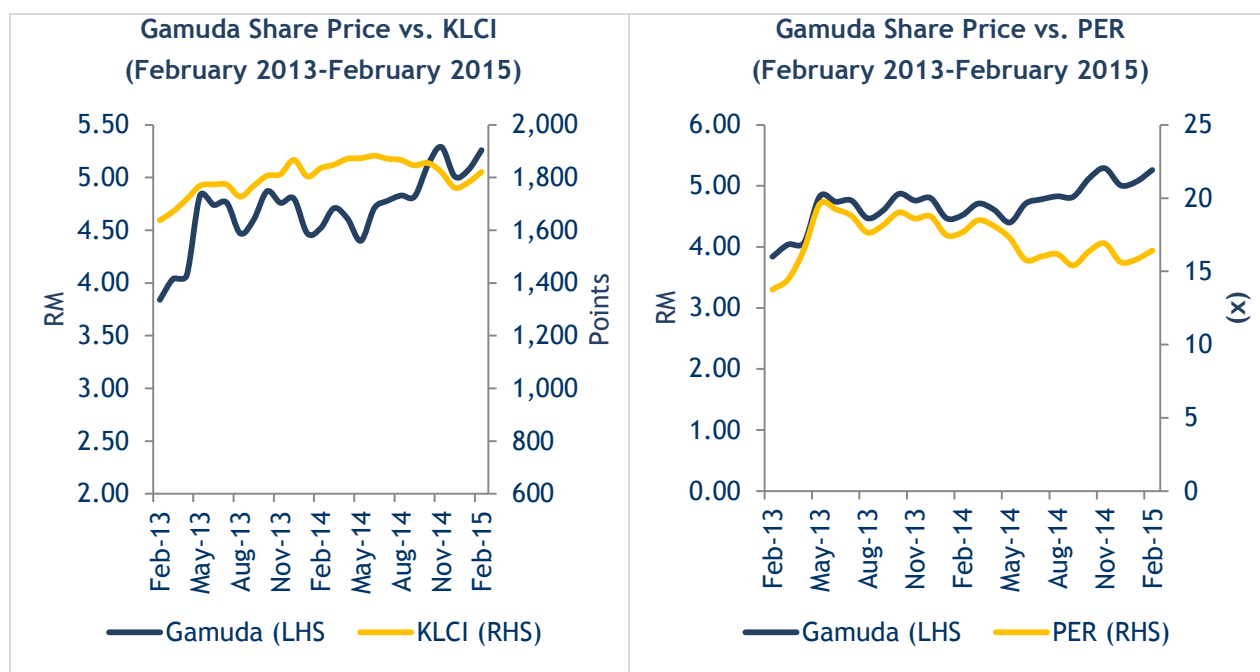
Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Jul (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
<b>Revenue</b>								
Construction	287	265	344	30%	20%	564	609	8%
Properties	198	203	212	5%	7%	377	415	10%
Concessions	33	102	97	-5%	198%	63	199	216%
<b>PBT</b>								
Construction	69	51	72	41%	5%	128	124	-3%
Properties	60	70	58	-17%	-3%	128	128	0%
Concessions	73	108	100	-7%	37%	137	207	51%

Based on FRS 11 accounting standard

Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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