

PP14767/09/2012(030761)

Wednesday, June 24, 2015

Gamuda Berhad

“Frontrunner for PTMP”

Results Review

- **Actual vs. expectations.** Gamuda (Gamuda Berhad) 9M15 net profit of RM528 million (+3% y-o-y) came in line with ours and consensus estimates respectively, accounting 71% and 72% of ours and consensus full year net profit forecast. The improvement in 9M15 earnings was driven by healthy contribution from concession segment (+39% y-o-y) due to the fully consolidation of Kesas (70%-subsidiary), pushing Gamuda's PBT to record a creditable growth of 8% y-o-y to RM668 million in 9M15. Note that PBT contribution from construction segment had dipped to RM82 million (-11% y-o-y) as a result of slower billings in 3Q15 in line with its civil works which have entered into more advanced stage.
- **Top line analysis.** Gamuda's revenue surged to RM1.8 billion (+8% y-o-y) in 9M15 driven by the strong contribution from the concession segment whose revenue rose to RM297 million (+207% y-o-y) as a result of the consolidation of additional stake in Kesas Sdn Bhd, the concession holder of Shah Alam Expressway. Nonetheless, construction segment posted a weaker revenue of RM846 million (-9% y-o-y) impacted by the rapidly completing civil work of KVMRT1 and the finishing of Electrified Double Tracking Project in November 2014.
- **Dividend.** Declared second interim dividend of 6.0sen/share, bringing total dividend to 12.0sen/share for 9M15, translating into a dividend payout ratio of 55%, more or less the same against 9M14 payout of 56%.
- **Progress of KVMRT1.** The financial progress of PDP scope and underground works remained on track at 55% and 68% respectively as at 9M15. All the tunnel boring machines (TBM) have completed their tunnelling job while on the PDP progress, the works on

BUY (TP: RM5.87)

Current Price (RM)	RM4.94
New Target Price (RM)	RM5.87
Previous Target Price (RM)	RM5.28
Previous Recommend.	BUY
Upside To Target Price	19%
Dividend Yield (FY16)	2%

Stock Code

Bloomberg	GAM MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	2,406
Market Cap (RM mn)	12,005
YTD Chg In Share Price	-0.4%
Beta (x)	1.22
52-week Hi/Lo (RM)	5.36 4.55
3M Average Volume (shrs)	4.60mn
Estimated Free Float	52%

Major Shareholders

EPF	9%
Skim ASB	8%
KWAP	7%

elevated viaducts stations are at advanced stage of completion. The installation of rail tracks is progressing well with 4 MRT electric trains are undergoing testing at the test track in Sg. Buloh Depot whilst 10 more electric trains will be delivered to Sg. Buloh Depot by mid-July 2015. The entire project is on track to be completed by July 2017. Gamuda's current construction orderbook stood at RM1.3 billion as at the end of 3Q15 (2Q15: RM1.6 billion).

- **Property update.** Gamuda achieved a lower property sales of RM810 million in 9M15 (-46% y-o-y), accounting 68% of FY15 sales projection of RM1.2 billion, no thanks to the lethargic property market particularly in Klang Valley and Johor as a results of tightening measures imposed by Bank Negara Malaysia (BNM) as well as the implementation of goods and services tax (GST). The management guided that the group's unbilled sales stood at RM1.3 billion in 9M15.
- **KVMRT2 ready to roll.** Currently, the propose alignment for KVMRT2 is going on public display starting from May 2015 until August 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 'project delivery partner' (PDP) agreement is expected to be signed within the next two month. Meanwhile, MRT Corp. announced that the cost of KVMRT2 will be slightly higher at RM28 billion compared to the earlier projection of RM23 billion due to the longer underground length. The underground length of KVMRT2 is around 13.5km, longer than KVMRT1's length of only 9.5km and hence, there will be 11 underground stations to be developed compared to 7 underground stations in KVMRT1.
- **Penang Transport Master Plan.** Gamuda has been shortlisted in its bidding for the PDP role of Penang Transport Master Plan (PTMP) which estimated 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 by 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.
- **Property outlook.** The management guided that the weaker property market have bottomed-out and expected to recover from 2016 onwards. On the latest development, Gamuda has acquired 19-acre leasehold parcel of land in Bukit Bentayan, Kota Kinabalu for RM100 million (RM125 per sq. ft.) where its plans to develop 1,500 units of apartments with GDV of RM710 million in FY16. Moreover, the group also plan to launch two more property projects in FY16 consist of HighPark Suites, Kelana Jaya with GDV of RM630 million and Chapel Street, Melbourne with GDV of RM400 million. Furthermore, a consortium consisting Gamuda Bhd, Evia Real Estate (7) Pte Ltd and Maxdim Pte Ltd has submitted a tender worth SGD345.86mil (RM962.5mil) to potentially develop a 99-year leasehold plot of land in Toa Payoh, Singapore. The bid translates into an average land cost of SGD8,130 (RM22,672) per sq. meter of gross floor area or around SGD755 (RM2,105) per sq. ft. The group's total landbank size is now at 4,070 acres (Malaysia: 3,470 acres, Overseas: 600 acres) with remaining GDV of RM49.6 billion.

- **Water concession update.** Gamuda remains hopeful to conclude the disposal of SPLASH by 2015 and currently awaiting the resolution of master agreement between Federal and State Government. 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 RM1.3 billion and iii) higher earnings contribution from concession division.
- **Valuation & recommendation.** We value Gamuda at RM5.87, pegged 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	6.89	41	47	20.6	15.8	1.5	1.4	6	2	8.14	Buy
GAMUDA	Jul	4.94	32	32	16.0	16.0	2.0	1.9	13	2	5.87	Buy
WCT	Dec	1.48	13	14	14.6	12.9	0.9	0.9	5	1	1.76	Hold
BENALEC	Jun	0.60	3	6	15.2	12.8	1.0	0.9	0	0	NR	NR
CREST BUILDER	Dec	1.14	11	8	10.9	14.2	0.4	0.0	6	3	NR	NR
EVERSENDAL	Dec	0.91	8	10	9.7	7.4	0.6	0.6	4	1	NR	NR
KIMLUN	Dec	1.33	15	16	8.5	7.8	0.9	0.8	13	2	NR	NR
MRCB	Dec	1.23	6	9	23.7	15.7	1.4	1.4	8	2	NR	NR
AZRB	Dec	0.69	5	7	14.1	10.1	0.0	0.0	5	NA	NR	NR
YTL CORP	Jun	1.53	14	13	13.3	12.8	1.2	1.1	9	6	NR	NR
Average					14.7	12.5	1.0	0.9	7	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	1,074
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	15.4	13.4
P/BV (x)	1.8	2.0	2.1	1.9	1.8
DPS (sen)	16	12	12	12	12
Dividend Yield	3%	2%	2%	2%	2%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

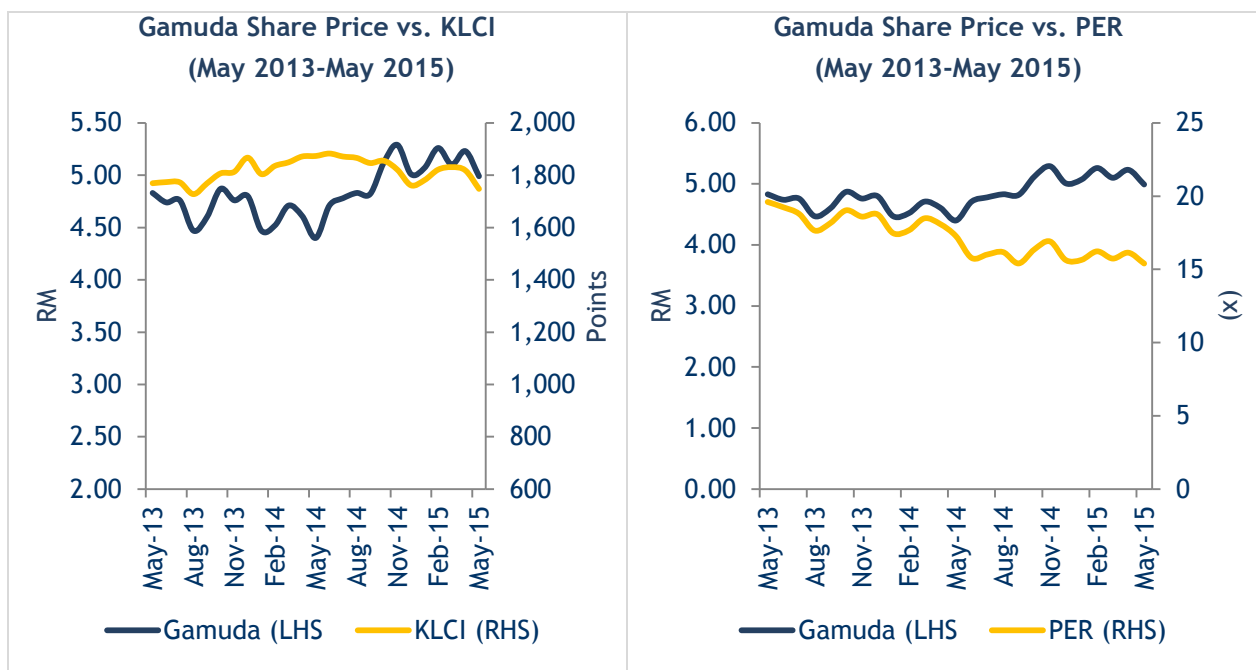
YE: Jul (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	634	653	554	-15%	-13%	1,638	1,777	8%
EBIT	144	170	147	-13%	2%	369	467	27%
Finance Cost	(22)	(29)	(24)	-15%	10%	(56)	(80)	44%
Associates	57	50	44	-11%	-22%	170	150	-12%
JV	45	38	42	8%	-7%	132	131	-1%
PBT	224	230	209	-9%	-7%	616	668	8%
Taxation	(43)	(36)	(32)	-12%	-26%	(93)	(97)	4%
Net profit	178	182	160	-12%	-10%	514	528	3%
EPS (sen)	8	8	7	-12%	-12%	22	23	1%
PBT margin	35%	35%	38%			38%	38%	
Net profit margin	28%	28%	29%			31%	30%	
Effective tax rate	19%	16%	15%			15%	15%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Jul (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue								
Construction	367	344	237	-31%	-36%	931	846	-9%
Properties	233	212	220	3%	-6%	610	634	4%
Concessions	34	97	98	1%	191%	97	297	207%
PBT								
Construction	76	72	58	-19%	-23%	204	182	-11%
Properties	79	58	71	24%	-9%	206	199	-4%
Concessions	69	100	79	-20%	15%	206	287	39%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

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

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