

Gamuda Berhad

“Clear Growth Trajectory”

The long-term outlook on Gamuda remains intact, anchored by several key catalysts including the PDP role of KVMRT2 and potentially Penang Transport Master Plan as well as the aggressive land banking acquisition within the next two years. We call Gamuda a BUY with target price at RM5.87. Its solid fundamentals will cement the stock as one of the jewels among local construction players.

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.

Eye on PTMP. 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.

BUY (TP: RM5.87)

Current Price (RM)	RM4.67
New Target Price (RM)	RM5.87
Previous Target Price (RM)	RM5.28
Previous Recommend.	BUY
Upside To Target Price	26%
Dividend Yield (FY16)	3%

Stock Code	
Bloomberg	GAM MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	2,406
Market Cap (RM mn)	11,621
YTD Chg In Share Price	-5%
Beta (x)	0.93
52-week Hi/Lo (RM)	5.36 4.60
3M Average Volume (shrs)	4.87mn
Estimated Free Float	52%

Major Shareholders	
EPF	10%
Skim ASB	8%
KWAP	7%

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. On the PDP progress, the works on 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 outlook. The management guided that the weaker property markets 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.

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.

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.

9M15 results meet our target. Gamuda 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 full consolidation of Kesas (70%-subsidiary), however earnings contribution from construction segment had dipped to RM82 million (-11% y-o-y) as a result of slower billings in 3Q15. Top line wise, Gamuda's revenue surged to RM1.8 billion (+8% y-o-y) in 9M15 driven by strong contribution from the concession segment whose revenue rose to RM297 million (+207% y-o-y) while construction segment posted a weaker revenue of RM846 million (-9% y-o-

y) impacted by the rapidly completed civil work of KVMRT1 and the finishing of Electrified Double Tracking Project in November 2014.

Valuation & recommendation. We value Gamuda at RM5.87, pegging to the group’s average 3-year 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	6.52	41	47	20.6	15.8	1.5	1.4	6	2	8.14	Buy
GAMUDA	Jul	4.67	32	32	16.0	16.0	2.0	1.9	13	2	5.87	Buy
WCT	Dec	1.42	13	14	14.6	12.9	0.9	0.9	5	1	1.76	Hold
BENALEC	Jun	0.58	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	0.90	8	10	9.7	7.4	0.6	0.6	4	1	NR	NR
KIMLUN	Dec	1.30	15	16	8.5	7.8	0.9	0.8	13	2	NR	NR
MRCB	Dec	1.18	6	9	23.7	15.7	1.4	1.4	8	2	NR	NR
AZRB	Dec	0.66	5	7	14.1	10.1	0.0	0.0	5	NA	NR	NR
YTL CORP	Jun	1.55	14	13	13.3	12.8	1.2	1.1	9	6	NR	NR
Average					14.7	12.5	1.0	0.9				

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: Landbanks and GDV (3Q15)

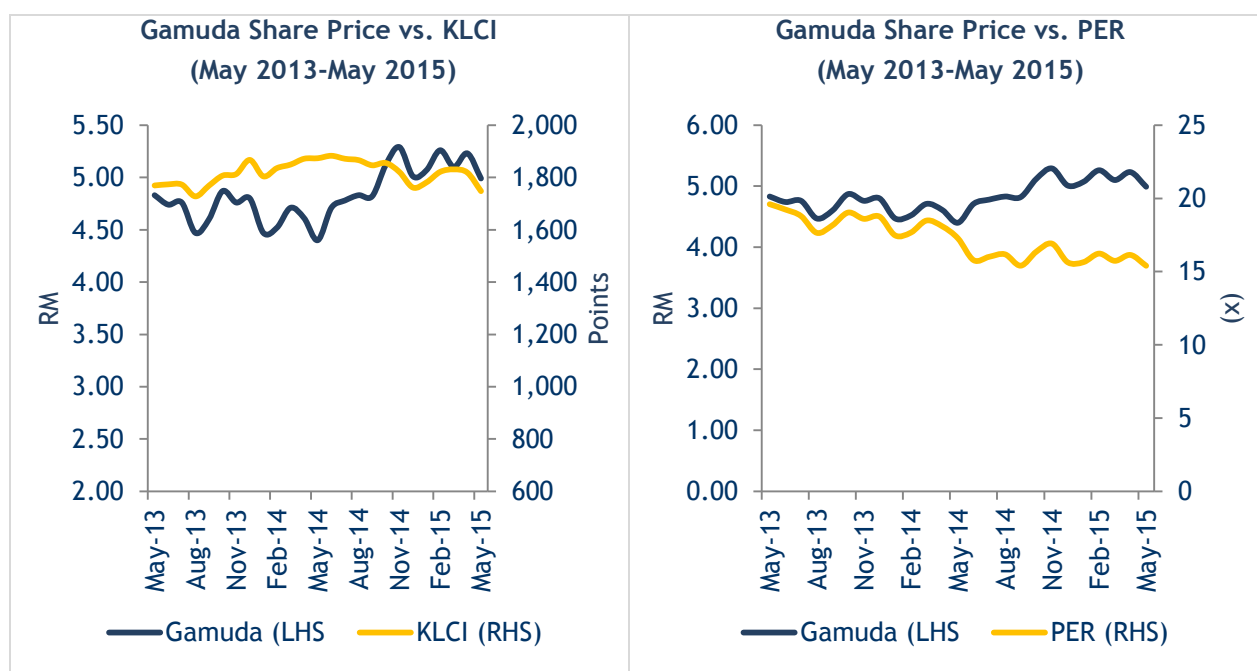
Projects	Area Unsold (acres)	Remaining GDV (RM mil)
MALAYSIA		
1. Kota Kemuning (50%)	10	230
2. Valencia	-	20
3. Bandar Botanic	60	2,150
4. Jade Hills	190	1,100
5. Horizon Hills (50%)	490	4,100
6. Madge Mansions	-	120
7. The Robertson	-	530
8. HighPark Suites	5	630
9. Seri Serai	820	6,600
10. Kundang	90	520
11. Tanjong 12	1,530	19,000
12. KK257	257	3,000
13. Bukit Bentayan, Sabah	18	710
TOTAL (MALAYSIA)	3,470	38,710
OVERSEAS		
11. Gamuda City (Hanoi)	420	8,500
12. Celadon City (HCMC)	180	2,000
13. Chapel Street (Melbourne)	0.4	400
TOTAL (OVERSEAS)	600	10,900
TOTAL GROUP	4,070	49,610

Source: Gamuda, M&A Securities

Table 4: Construction Order Book (3Q15)

Projects	Value (RM bil)	Progress	Completion Date
MRT Line 1, Tunneling (50% share)	1.3	68%	2017
Northern Double Tracking Railway (50% share)	-	100%	2014
Total	1.3		

Source: Gamuda, 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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