

PP14767/09/2012(030761)

Tuesday, September 29, 2015

Gamuda Berhad

“Better Prospects Ahead”

Results Review

- Actual vs. expectations.** Gamuda (Gamuda Berhad) FY15 net profit of RM682 million (-3% y-o-y) came in below ours but slightly in line with consensus estimates, accounting 92% and 98% of ours and consensus full year net profit forecast. Disappointing FY15 earnings was hammered by lower PBT contribution from construction segment which dipped to RM222 million (-14% y-o-y) in line with civil works for KVMRT1 that has started to taper off. Note that Gamuda's current construction orderbook had declined to RM1.0 billion as at the end of 4Q15 (3Q15: RM1.3 billion).
- Top line analysis.** Gamuda's revenue surged to RM2.4 billion (+8% y-o-y) in FY15 driven by strong contribution from the concession segment whose revenue rose to RM401 million (+160% y-o-y) as a result of the consolidation of additional stake in Kesy Sdn Bhd, the concession holder of Shah Alam Expressway. Nonetheless, construction segment posted a weaker revenue of RM1.2 billion (-2% y-o-y) impacted by the rapidly completing civil work of KVMRT1.
- Dividend.** No dividend was declared during the quarter.
- Progress of KVMRT1.** The financial progress of PDP scope and underground works remained on track at 62% and 75% respectively as at FY15. The tunnelling works was fully completed while on the PDP progress, most of civil works have been largely completed including foundations (100%), pier construction (100%), elevated guideways (100%), segmental box girders (100%), track-lying (69%) and system works (58%). Of note, 12 electric trains have been delivered to Sg. Buloh Depot.

BUY (TP: RM5.80)

Current Price (RM)	RM4.50
New Target Price (RM)	RM5.80
Previous Target Price (RM)	RM5.87
Previous Recommend.	BUY
Upside To Target Price	29%
Dividend Yield (FY17)	3%

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)	11,428
YTD Chg In Share Price	-5%
Beta (x)	0.96
52-week Hi/Lo (RM)	5.36 3.77
3M Average Volume (shrs)	4.58mn
Estimated Free Float	52%

Major Shareholders

EPF	10%
Skim ASB	8%
KWAP	6%

- **Property update.** Gamuda has able to meet its property sales of RM1.2 billion in FY15 (-33% y-o-y) thanks to the strong sales of RM400 million recorded in 4Q15. As expected, the drop in FY15 sales as compared to FY14 figures of RM1.8 billion was impacted by the lethargic property market sentiment as a result 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 FY15.
- **KVMRT2 ready to roll.** The 3 month public inspection for the railway scheme has ended in mid-August 2015 where feedback from 10,000 people were received with 90% of the respondent supporting the KVMRT2 project. The PDP agreement has been signed and civil tenders are expected to be called by October 2015 with major contract anticipated to be awarded by mid-2016. 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.
- **Grab PDP Role of PTMP.** Penang State Government has officially appointed SRS Consortium led by Gamuda (60% stake) and 2 local firms, Ideal Property Development Sdn Bhd (20% stake) and Loh Phoy Yen Holdings Sdn Bhd (20% stake) to undertake the PDP role in PTMP. The consortium will undertake to supervise LRT project worth RM5.3 billion and 20km pan-island linked expressway (Bayan Lepas to Tanjung Bungah) worth RM4.5 billion, in the first PTMP phase. Penang State Government has allocated the site at old Prangin market or widely known as Sia Boey (Town's End) to be the central LRT station. The initial plan of the 17.5km LRT line will run from inner George Town to Bayan Lepas. The expressways will include a 4.2km bypass from Persiaran Gurney to Persiaran Tun Dr Lim Chong Eu, a 4.6km expressway and by-pass from Tun Dr Lim Chong Eu Expressway to Bandar Baru Air Itam and a 4-lane 12km road linking Tanjung Bungah with Teluk Bahang. Other schemes within the first phase include RM100 million trains and catamaran system and RM100 million highway interchange.
- **Property outlook.** The management guided that the weaker property market has 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 RM820 million in FY16. Moreover, the group also plan to launch 3 more property projects in FY16 consisting of; i) HighPark Suites, Kelana Jaya with GDV of RM600 million, ii) Chapel Street, Melbourne with GDV of RM400 million and iii) Toa Payoh, Singapore with GDV of RM2.0 billion. The group's total landbank size is now at 3,913 acres (Malaysia: 3,340 acres, Overseas: 573 acres) with remaining GDV of RM57 billion.
- **Change to forecast.** We made downward adjustment to our FY16 earnings forecast by 21%, weigh by lower construction margin as civil works of KVMRT1 have entered into more advanced stage. We also introduce our FY17 earnings forecast. Nonetheless, FY17 earnings are forecast to

jump by 19% driven by i) acceleration in KVMRT2 development and ii) higher earnings contribution from concession division.

- **Valuation & recommendation.** We re-value Gamuda at RM5.80 as we roll-over our valuation into FY17, pegged to PER of 18x (10% premium 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 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	3.19	40	46	17.0	14.6	1.3	1.2	6	2	3.74	Buy
GAMUDA	Jul	4.50	31	30	15.4	15.7	1.9	1.8	13	3	5.80	Buy
WCT	Dec	1.37	12	14	11.7	10.1	0.7	0.6	5	2	1.28	Hold
SCGB	Dec	1.16	10	10	11.3	12.2	3.7	3.1	NA	NA	1.40	Buy
BENALEC	Jun	0.58	2	5	17.0	12.6	0.8	0.7	-2	0	NR	NR
CREST BUILDER	Dec	1.00	7	8	15.3	12.4	NA	NA	6	4	NR	NR
EVERSENDAL	Dec	0.78	10	11	10.3	8.9	0.8	0.8	5	1	NR	NR
KIMLUN	Dec	1.27	15	16	8.7	8.1	0.9	0.8	10	3	NR	NR
MRCB	Dec	1.18	5	7	21.0	14.9	1.1	1.1	19	2	NR	NR
AZRB	Dec	0.65	5	7	12.7	9.1	NA	NA	4	3	NR	NR
YTL CORP	Jun	1.60	14	13	13.8	12.4	1.1	1.1	8	6	NR	NR
Average					14.0	11.9	1.4	1.3	8	3		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Jul (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	2,235	2,230	2,400	2,163	2,595
EBIT	346	488	602	541	649
Finance costs	(51)	(66)	(124)	(108)	(130)
Share of associates	241	244	199	236	285
Share of JV	121	186	181	180	208
PBT	656	852	858	849	1012
Net profit	541	719	682.1	668	795
EPS (sen)	25	31	29	28	33
EBIT margin	16%	22%	25%	25%	25%
PBT margin	29%	38%	36%	39%	39%
Net profit margin	24%	32%	28%	31%	31%
PER (x)	20.1	16.3	15.5	16.2	13.6
P/BV (x)	2.2	2.0	1.9	1.7	1.6
DPS (sen)	12.0	12.0	12	12	12
Dividend Yield	2%	2%	3%	3%	3%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

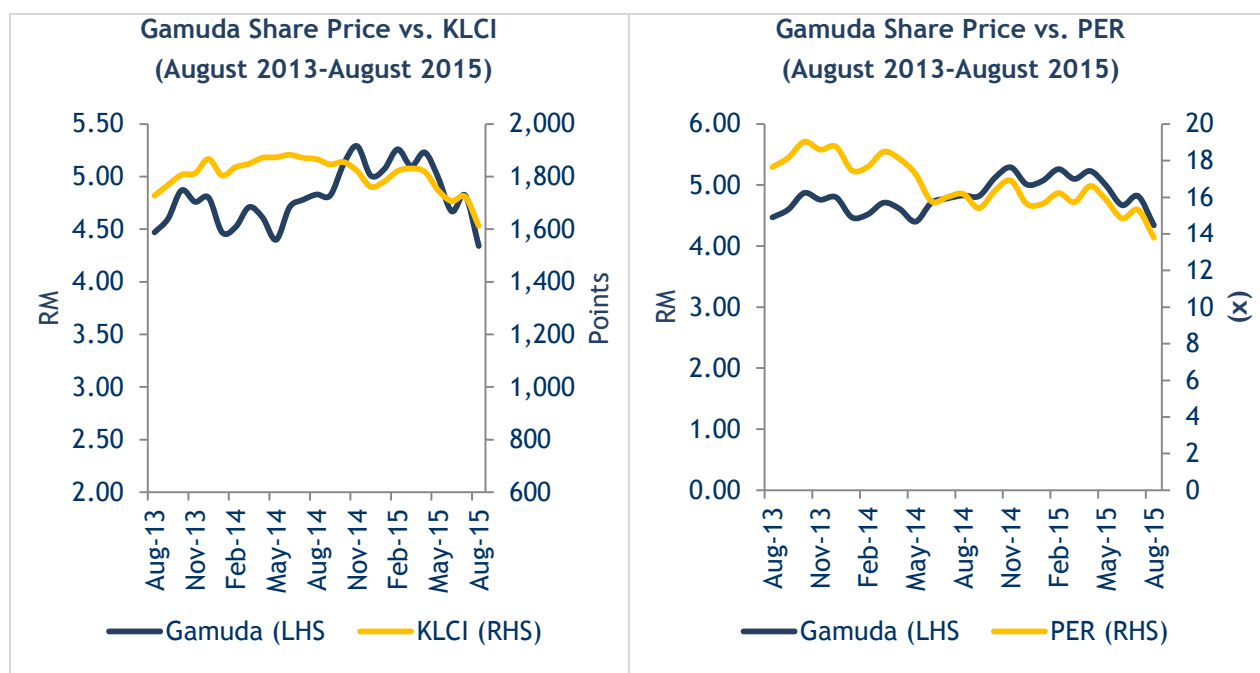
YE: Jul (RM million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	12M14	12M15	y-o-y
Revenue	592	554	623	13%	5%	2,230	2,400	8%
EBIT	119	147	135	-8%	13%	488	602	23%
Finance Cost	(11)	(24)	(44)	78%	305%	(66)	(124)	86%
Associates	73	44	49	10%	-33%	244	199	-18%
JV	54	42	50	21%	-6%	186	181	-3%
PBT	236	209	191	-9%	-19%	852	858	1%
Taxation	(23)	(32)	(36)	12%	53%	(117)	(133)	14%
Net profit	206	160	154	-4%	-25%	719	682	-5%
EPS (sen)	9	7	6	-6%	-28%	31	29	-8%
PBT margin	40%	38%	31%			38%	36%	
Net profit margin	35%	29%	25%			32%	28%	
Effective tax rate	10%	15%	19%			14%	15%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Jul (RM million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	12M14	12M15	y-o-y
Revenue								
Construction	249	237	312	32%	25%	1,180	1,158	-2%
Properties	285	220	207	-6%	-27%	895	842	-6%
Concessions	58	98	104	7%	80%	154	401	160%
PBT								
Construction	56	58	40	-31%	-28%	260	222	-14%
Properties	19	71	59	-18%	209%	225	258	14%
Concessions	161	79	91	15%	-43%	367	378	3%

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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(A wholly-owned subsidiary of INSAS BERHAD)
A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:
Level 1,2,3 No.45 & 47,43-6
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 - 2282 1820 Fax: +603 - 2283 1893
Website: www.mnaonline.com.my