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Gamuda Berhad

“Injects RM7.5 billion for FY16 Development”

Gamuda Berhad (Gamuda) growth trajectory is on the right track for now as the group is planning to invest RM7.5 billion in FY16. While Gamuda has set aside RM4.5 billion for some of its project development abroad, we reckon the remaining balance of RM3.0-RM3.5 billion will be utilized for the upcoming KVMRT2 project which construction work is scheduled to begin by mid-2016. This will only cement our BUY call recommendation on Gamuda with an unchanged target price of RM5.80.

- **FY16 capital investment.** According to the *STARBIZ*, Gamuda is planning to invest approximately RM7.5 billion for the group's construction division in FY16 where RM4.5 billion have already been allocated for its property development project including in Vietnam, Singapore and Melbourne. We expect bulk of the investment to be channelled to Singapore where Gamuda is currently developing 590 units of Housing and Development Board (HDB) flats worth RM2.0 billion on 3-acre site in Toa Payoh.
- **KVMRT 2 development.** We assume some portion of the remaining FY16 investment of RM3.0-RM3.5 billion will be allocated for the rolling-out of KVMRT 2 project which major contracts relating to this are expected to be awarded by mid-2016. Notwithstanding that, MMC-Gamuda remain a strong contender to win the tunnelling package worth RM12 billion backed by their solid track record in developing KVMRT1 and their investment in related machinery such as Tunnel Boring Machine (TBM).
- **Outlook.** 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%

Research Team
research@mna.com.my
03-22821820 ext. 257, 229, 221, 249, 258

BUY (TP: RM5.80)

Current Price (RM)	RM4.67
New Target Price (RM)	RM5.80
Previous Target Price (RM)	RM5.87
Previous Recommend.	BUY
Upside To Target Price	24%
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)	11,236
YTD Chg In Share Price	-7%
Beta (x)	1.02
52-week Hi/Lo (RM)	5.36 3.77
3M Average Volume (shrs)	3.55mn
Estimated Free Float	48%

Major Shareholders

EPF	11%
Skim ASB	7%
LTH	5%

stake) to undertake the PDP role in PTMP based on alternative proposal submitted by the consortium. The alternative proposal is expected to be capable of meeting the demand for public transport in Penang up until 2050. The consortium plans to make the necessary submissions by end of 2015 for the Federal Government's approval on land reclamation and public transport license which may take a year to complete. Hence, the construction works are only expected to start in 2H17.

Gamuda has set a property sales target of RM1.32 billion for FY16 (FY15: RM1.2 billion). This will be supported by 4 new property projects including; 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 and iv) Bukit Bentayan, Sabah with GDV of RM820 million. 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.

- **Earnings outlook.** We keep unchanged our earnings forecast for now. 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 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)

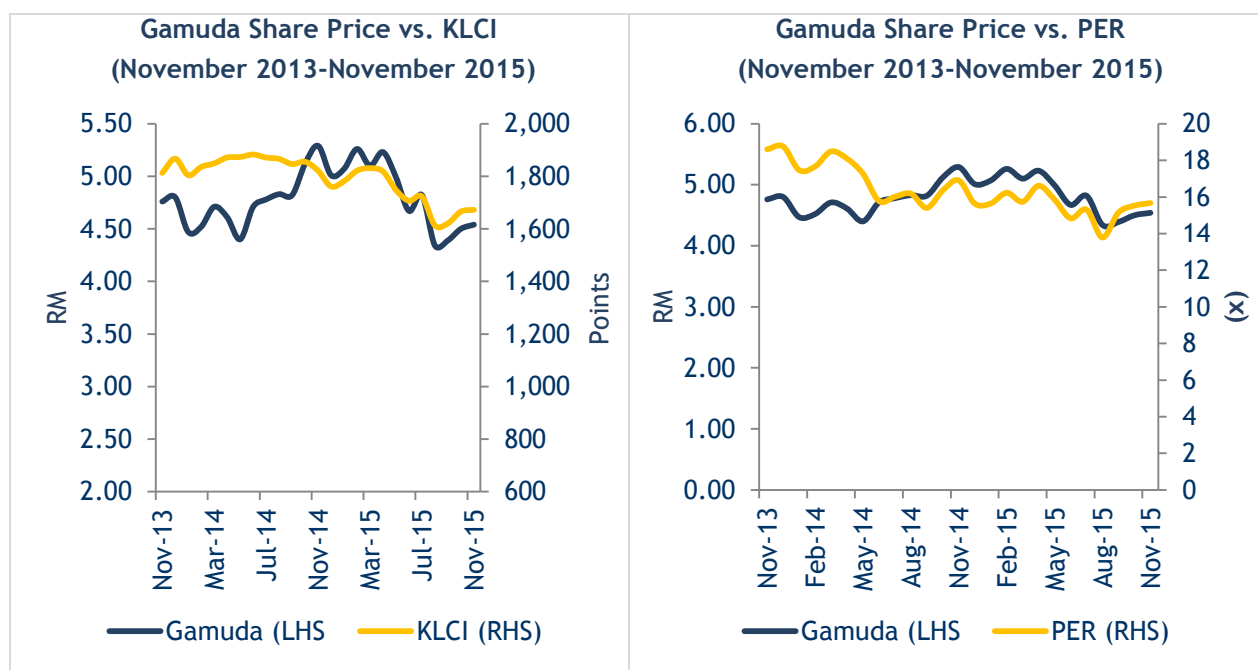
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
IJM CORP	Mar	3.42	19	22	16.7	15.3	1.4	1.3	9	2	3.74	Buy
GAMUDA	Jul	4.67	28	29	16.0	15.6	1.7	1.6	12	3	5.80	Buy
WCT	Dec	1.51	10	13	13.3	10.9	0.7	0.7	5	1	1.63	HOLD
SCGB	Dec	1.38	10	10	12.9	12.7	3.9	3.3	NA	NA	1.63	Buy
BENALEC	Jun	0.56	0.04	0.1	9.1	7.7	1.0	1.1	1	1	NR	NR
CREST BUILDER	Dec	1.00	7	8	14.6	11.8	NA	NA	6	4	NR	NR
EVERSENDI	Dec	0.81	8	10	9.3	7.9	0.6	0.6	6	2	NR	NR
KIMLUN	Dec	1.38	16	17	8.0	7.8	0.9	0.8	12	3	NR	NR
MRCB	Dec	1.26	4	7	34.1	20.5	1.2	1.2	15	2	NR	NR
AZRB	Dec	0.65	NA	NA	NA	NA	NA	NA	5	3	NR	NR
YTL CORP	Jun	1.54	11	13	13.5	11.8	1.1	1.0	7	6	NR	NR
Average					14.8	12.2	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



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 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