

PP14767/09/2012(030761)

Thursday, December 17, 2015

Gamuda Berhad

“Strong Job Flow in the Pipeline”

Results Review

- **Actual vs. expectations.** Gamuda (Gamuda Berhad) 1Q16 net profit of RM161 million (-3% y-o-y, +5% q-o-q) came in line with ours and consensus estimates respectively, accounting 25% of both sides full year net profit forecast. The management already hinted that FY16 earnings will be slightly weaker compared to FY15 as civil works for KVMR1 has started to taper off with current construction orderbook had declined to RM0.8 billion as at the end of 1Q16 (4Q15: RM1.0 billion). Nonetheless, Gamuda’s construction orderbook is expected to be refilled by the goodies from several large scale infrastructure project to be implemented over the next 2 years including KVMR2, LR3, Gemas-JB double track and Pan-Borneo highway.
- **Top line analysis.** Gamuda’s revenue dropped to RM513 million (-10% y-o-y) in 1Q16 due to lower contribution from construction segment whose revenue declined to RM233 million (-13% y-o-y), impacted by the rapidly completing civil work of KVMRT1. Meanwhile, revenue by property segment also slipped to RM176 million (-13% y-o-y) resulting from the softening of property market in Malaysia.
- **Dividend.** Declared an interim dividend of 6.0sen/share for 1Q16, translating into a dividend payout ratio of 90%, higher than 1Q15 payout of 78%.
- **Progress of KVMRT1.** The financial progress of PDP scope and underground works remained on track at 70% and 80% respectively as at 1Q16. The tunnelling works has been fully completed while on the PDP progress, most of civil works have been largely finished including foundations (100%), pier construction (100%), elevated guideways (100%), segmental box girders (100%), track-lying (80%) and system works (75%). Of note, 21 electric trains have been delivered to Sg. Buloh Depot.

BUY (TP: RM5.80)

Current Price (RM)	RM4.40
New Target Price (RM)	RM5.80
Previous Target Price (RM)	RM5.87
Previous Recommend.	BUY
Upside To Target Price	32%
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)	11,043
YTD Chg In Share Price	-8%
Beta (x)	1.02
52-week Hi/Lo (RM)	5.36 3.77
3M Average Volume (shrs)	3.71mn
Estimated Free Float	48%

Major Shareholders

EPF	11%
Skim ASB	7%
LTH	5%

- **Property update.** Gamuda achieved a property sales of RM270 million in 1Q16 (+12% y-o-y), accounting 20% of FY16 sales projection of RM1.33 billion, thanks to the strong sales contribution from its overseas project, particularly in Vietnam which contributed 60% of Gamuda's property sales in 1Q16. Nonetheless, domestic property market is expected to remain soft in the next few quarters as a result of tightening measures imposed by Bank Negara Malaysia (BNM). The group's unbilled sales stood at RM1.2 billion in 1Q16.
- **KVMRT2 ready to roll.** Several civil works tenders are now open including underground works tender. The PDP agreement has been signed and major civil contract anticipated to be awarded by April/May onwards. Furthermore, the cost of KVMRT2 will be slightly higher at RM28 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 (PTMP).** Penang State Government has 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 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 1Q2016 for the Federal Government's approval regarding to the land reclamation and public transport license. The two major component of PTMP are the Light Rail Transit (LRT) from George Town to Bayan Lepas and the Pan Island Link (PIL) highway.
- **Property outlook.** The management guided that the weaker property market has bottomed-out and expected to recover from FY16 onwards. Gamuda has set a property sales target of RM1.33 billion for FY16 (FY15: RM1.2 billion) and 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.
- **Change to forecast.** We keep unchanged our earnings forecast for now as 1Q16 results were in line with our expectation. Given that, We estimate FY16 earnings to drop by 2% y-o-y impacted by lower construction margin while FY17 earnings are forecast to jump by 19% y-o-y 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	3.35	19	22	16.7	15.3	1.4	1.3	9	2	3.74	Buy
GAMUDA	Jul	4.40	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	1.42	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	1.03	7	8	14.6	11.8	NA	NA	6	4	NR	NR
EVERSENDAL	Dec	0.78	8	10	9.3	7.9	0.6	0.6	6	2	NR	NR
KIMLUN	Dec	1.41	16	17	8.0	7.8	0.9	0.8	12	3	NR	NR
MRCB	Dec	1.24	4	7	34.1	20.5	1.2	1.2	15	2	NR	NR
AZRB	Dec	0.64	NA	NA	NA	NA	NA	NA	5	3	NR	NR
YTL CORP	Jun	1.50	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	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	15.8	13.3
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

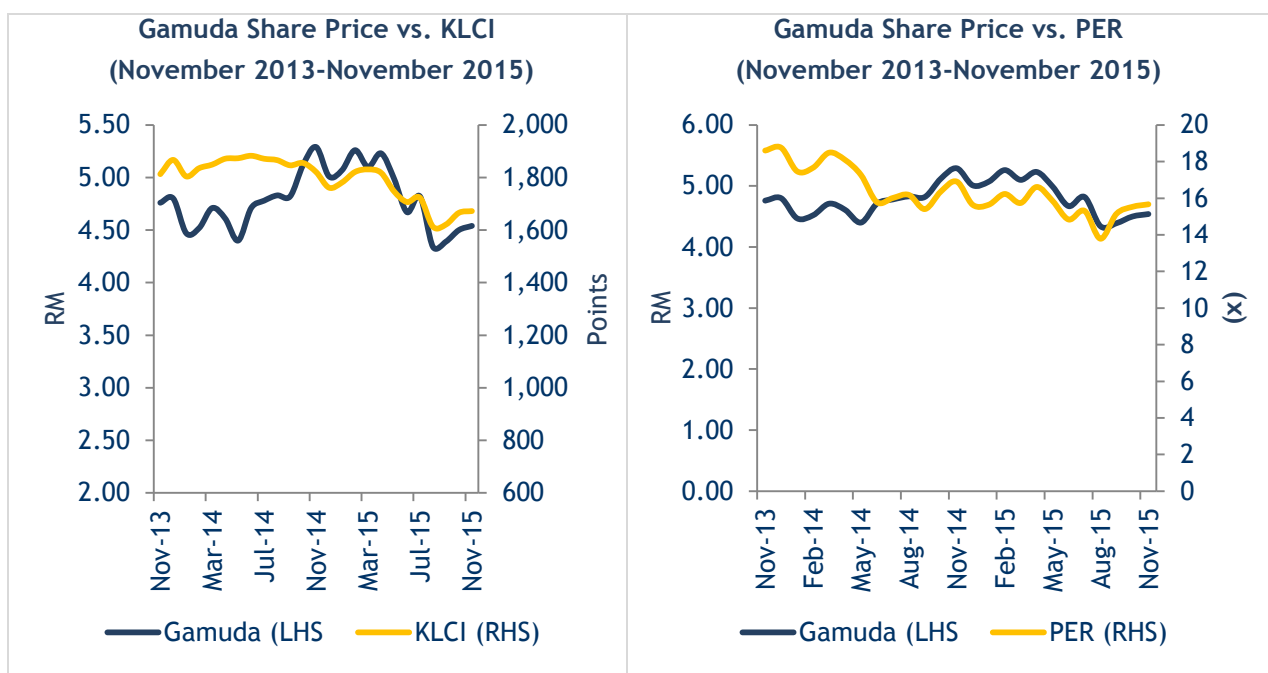
YE: Jul (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	570	623	513	-18%	-10%	570	513	-10%
EBIT	150	135	109	-19%	-27%	150	109	-27%
Finance Cost	(27)	(44)	(30)	-31%	12%	(27)	(30)	12%
Associates	56	49	50	2%	-10%	56	50	-10%
JV	50	50	64	26%	26%	50	64	26%
PBT	229	191	193	1%	-16%	229	193	-16%
Taxation	(29)	(36)	(20)	-45%	-33%	(29)	(20)	-33%
Net profit	186	154	161	5%	-13%	186	161	-13%
EPS (sen)	8	6	7	5%	-16%	8	7	-16%
PBT margin	40%	31%	38%			40%	38%	
Net profit margin	33%	25%	31%			33%	31%	
Effective tax rate	13%	19%	10%			13%	10%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Jul (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue								
Construction	265	312	233	-25%	-12%	265	233	-12%
Properties	203	207	176	-15%	-13%	203	176	-13%
Concessions	102	104	105	0%	3%	102	105	3%
PBT								
Construction	41	40	26	-37%	-38%	41	26	-38%
Properties	42	59	21	-65%	-50%	42	21	-50%
Concessions	67	91	63	-31%	-6%	67	63	-6%

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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