

30 September 2019

Gamuda Bhd

Within Expectations

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FY19 CNP of RM706.1m makes up 104% of our/consensus full-year estimate, within our/consensus expectation. No dividend declared as expected. No changes to FY20E earnings, and we introduce FY21E earnings of RM527m. Maintain MP with unchanged SoP-driven TP of RM3.75.

Within expectations. FY19 CNP of RM706.1m makes up 104% of our/consensus full-year estimate, within our/consensus expectation. No dividend declared as expected, but the 12.0 sen dividend declared in previous quarters is within our expectation.

Results' highlight. Compared against FY18 figures unadjusted for MFRS, FY19 CNP came off by 14%, YoY, due to decline in construction and concession operating profits at group level, down by 29% and 10%, respectively. On joint-ventures, its construction and property divisions both registered decline in pre-tax profit by 15% and 19%, respectively. **QoQ**, 4Q19 pre-tax profit fell 5% albeit 45% growth in revenue due to an impairment in its construction division which caused a loss of RM10.4m. However, a CNP growth of 5% was registered, thanks to lower effective tax rates.

Briefing's highlights. The results' briefing was well attended by more than 40 analysts and bankers. This time around, management shared their aspiration and plans of making Australia their second home base after Malaysia, as they seek to acquire a stake in a local second-tier contractor i.e. Martinus Rail, a subcontractor to the Tier 1 giants that specialises in railway track. This is part of their 3-pronged approach i.e. Partnering, Acquisition, and Organic growth into the Australian market, and the acquiring of a local company would help speed up their learning curve in Australia, coupled with the prospects of AUD20.0b worth of railway jobs in Australia. On the local front, management remains positive with the prospect of PTMP and hopeful of the revival of MRT3 as it is one of the most critical line for the urban rail transportation system in the Klang Valley.

Earnings revision. No changes to our FY20E earnings and we introduce our FY21E earnings of RM527m.

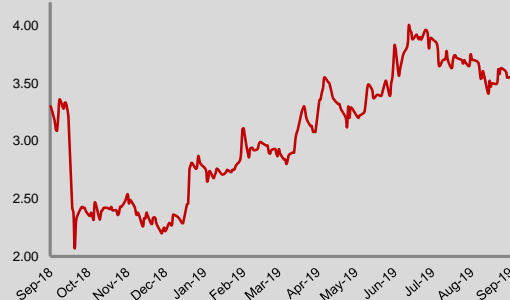
Maintain MARKET PERFORM as we believe that management's decision to target and grow Australia as their second home base is a much-needed move to diversify their earnings risk geographically as its construction arm is too concentrated in Malaysia. No changes to our SoP-driven Target Price of RM3.75. Our TP implies FY20E PER of 15.9x is higher compared with our construction universe's ascribed multiple range of 6-11x as its sum-of-parts valuation comprises contributions from property and concessions assets that skew the PER higher. Nonetheless, the implied target PER of 15.9x is +0.5 SD above its 5-year historic forward mean of 14.9x.

Risks to our call include: (i) ahead of schedule/unexpected delay of MRT2 project, (ii) lower/higher-than-expected input costs, and (iii) higher/lower-than-expected property sales.

MARKET PERFORM ↔

Price : RM3.56
Target Price : RM3.75 ↔

Share Price Performance



KLCI	1,584.14
YTD KLCI chg	-6.3%
YTD stock price chg	52.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GAM MK EQUITY
Market Cap (RM m)	8,804.0
Shares Outstanding	2,473.0
52-week range (H)	4.04
52-week range (L)	2.00
3-mth avg daily vol:	4,269,391
Free Float	50%
Beta	1.6

Major Shareholders

Employees Provident Fund Board	12.5%
Kumpulan Wang Persaraan	7.1%
Skim Amanah Saham Bumiputera	4.7%

Summary Earnings Table

FYE Jul (RM m)	2019A	2020E	2021E
Turnover	4565	3358	3016
EBIT	689	687	652
PBT	909	885	739
Net Profit	706	584	527
Core PATAMI	706	584	527
Consensus (NP)	N.A.	657	626
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	28.6	23.7	21.4
Core EPS growth (%)	-14	-17	-10
NDPS (sen)	12.0	12.0	12.0
NTA per Share (RM)	3.3	3.4	3.5
Price to NTA (x)	1.1	1.1	1.0
PER (x)	12.4	15.0	16.7
Debt-to-Equity ratio (x)	0.6	0.6	0.6
Return on Asset (%)	4	3	3
Return on Equity (%)	9	7	6
Net Div. Yield (%)	3.4	3.4	3.4

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Results Highlight								
FYE Jul (RM'm)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Turnover	1,499.4	1,036.7	45%	1,214.8	23%	4,565.1	4,227.1	8%
EBITDA	195.7	241.9	-19%	503.6	-61%	881.4	1,177.3	-25%
Depreciation	-52.1	-48.6	7%	-41.3	26%	-192.1	-176.2	9%
EBIT	143.6	193.2	-26%	157.9	-9%	689.3	696.6	-1%
Interest inc/(exp)	-18.6	-24.9	-25%	-19.4	-4%	-91.9	-96.1	-4%
Associates/JV	98.7	67.2	47%	-190.8	-152%	311.5	128.7	142%
Exceptional items	0.0	0.0	n.m.	-304.5	n.m.	0.0	-304.5	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	223.7	235.6	-5%	-52.3	-528%	908.8	729.3	25%
Taxation	-31.1	-45.7	-32%	-37.9	-18%	-150.7	-164.9	-9%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	192.6	189.8	1%	-90.2	-314%	758.2	564.4	34%
Minority interest	-7.7	-13.8	-44%	-10.9	-30%	-52.1	-50.5	3%
PATAMI	184.9	176.0	5%	-101.1	-283%	706.1	513.9	37%
Core PATAMI	184.9	176.0	5%	203.4	-9%	706.1	818.4	-14%
DPS (sen)	0.0	6.0		0.0		12.0	12.0	
EBIT margin	10%	19%		13%		15%	16%	
Pretax margin	15%	23%		-4%		20%	17%	
NP margin	15%	23%		-4%		20%	17%	
CNP margin	12%	17%		17%		15%	19%	
EPS (sen)	7.5	7.1		-4.1		28.6	20.8	
Core EPS(sen)	7.5	7.1		8.2		28.6	33.2	
BV/share (RM)	3.3	3.2		3.1		3.3	3.1	
Net gearing (x)	0.41	0.41		0.54		0.41	0.54	
Effective tax	14%	19%		-73%		17%	23%	

Source: Company, Kenanga Research

Segmental Results Highlight								
	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
External Revenue								
Construction	589.6	381.6	54%	459.1	28%	1,939.3	1,924.6	1%
Property	804.5	532.7	51%	627.4	28%	2,146.5	1,806.9	19%
Concession	105.3	122.3	-14%	128.4	-18%	479.3	495.7	-3%
EBIT Segmentation								
Construction	-10.4	51.0	-120%	23.2	-145%	178.3	252.5	-29%
Property	134.6	75.5	78%	98.1	37%	282.9	191.4	48%
Concession	19.3	66.8	-71%	36.5	-47%	228.1	252.7	-10%
EBIT margins								
Construction	-2%	13%		5%		9%	13%	
Property	17%	14%		16%		13%	11%	
Concession	18%	55%		28%		48%	51%	
JV - External Revenue								
Construction	415.8	596.7	-30%	490.6	-15%	2,198.4	2,141.0	3%
Property	57.8	87.0	-34%	177.6	-67%	400.4	784.8	-49%
Concession	4.7	4.2	12%	3.9	18%	17.3	16.2	7%
JV - Pretax								
Construction	26.2	37.5	-30%	32.2	-19%	105.9	124.5	-15%
Property	25.7	11.6	121%	24.8	3%	82.1	102.0	-19%
Concession	-1.4	-0.5	148%	-0.3	343%	-3.2	-2.9	13%
JV - Pretax margins								
Construction	6%	6%		7%		5%	6%	
Property	44%	13%		14%		21%	13%	
Concession	-29%	-13%		-8%		-19%	-18%	

Source: Company, Kenanga Research

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SOP Valuation

Sum-of-Parts	Stake	Methodology	Value (RM'm)
Construction	Various	FY20 PER of 11x	2,559.4
Property	Various	RNAV (60% discount)	3,411.3
Concessions	Various	Various	3,696.0
Others			
Gamuda Water	80%	FY20 PER of 10x	405.0
Sub Total			10,071.7
Cash proceeds from warrant conversion			1,425.3
Total			11,497.0
No of shares			2,468.0
Unexercised Warrant			617.0
Fully diluted of shares			3,085.0
Fair Value/share			3.75
FY20 EPS (sen)			23.7
Implied Fwd-PER (x)			15.9

Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
GAMUDA BHD	3.56	8,804.0	Y	07/2020	-26.4%	-10.2%	-17.3%	-9.8%	12.4	15.0	16.7	1.1	1.1	7.0%	3.4%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.05	565.4	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.5	9.7	7.0	1.2	1.1	11.9%	3.4%	1.15	OP
HOCK SENG LEE BERHAD	1.33	730.9	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.6	11.1	9.4	0.9	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.17	7,875.9	Y	03/2020	22.8%	2.0%	11.0%	2.2%	18.8	17.0	16.6	0.8	0.8	4.7%	2.3%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.34	1,652.1	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.0	10.8	10.6	1.7	1.5	14.9%	2.2%	1.20	UP
KIMLUN CORP BHD	1.22	414.6	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.5	6.6	6.4	0.6	0.6	9.0%	3.5%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.280	249.1	Y	12/2019	-14.7%	-9.7%	-94.7%	210.5%	5.6	106.6	34.3	0.3	0.3	0.3%	0.0%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.50	1,208.4	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.4	7.6	7.3	1.1	1.0	13.4%	2.8%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.05	2,643.2	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	19.0	21.6	17.0	4.4	4.0	19.4%	2.7%	1.45	UP
WCT HOLDINGS BHD	0.880	1,240.7	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	9.7	11.2	9.4	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average					4.4%	3.3%	-11.9%	31.5%	11.3	21.7	13.5	1.3	1.2	9.3%	2.2%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.355	212.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	14.5	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.130	49.6	Y	06/2019	N.A.	N.A.	N.A.	N.A.	95.3	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.26	621.7	Y	12/2019	10.2%	44.5%	9.6%	37.1%	10.2	9.3	0.0	1.2	1.3	13.5%	3.8%	1.76	BUY
GADANG HOLDINGS BHD	0.660	480.5	Y	05/2020	7.4%	11.6%	45.5%	12.3%	11.1	7.6	0.0	0.6	N.A.	9.5%	2.3%	0.783	SELL
JAKS RESOURCES BHD	0.745	479.1	Y	12/2019	90.0%	-47.0%	644.8%	-21.2%	31.2	4.2	0.0	0.5	0.5	13.5%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.195	115.0	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	3.31	549.0	Y	06/2020	11.9%	2.8%	60.3%	2.9%	21.0	13.1	0.1	1.7	1.6	12.7%	5.7%	3.82	NEUTRAL
PESONA METRO HOLDINGS	0.210	145.9	Y	12/2019	12.1%	9.5%	166.6%	13.6%	17.7	6.6	0.0	0.8	N.A.	11.7%	4.8%	0.310	BUY
PROTASCO BHD	0.240	116.7	Y	12/2019	-4.5%	3.4%	381.8%	6.0%	N.A.	9.3	0.0	0.4	0.4	3.8%	5.0%	0.225	SELL
TRC SYNERGY BHD	0.480	230.6	Y	12/2019	15.8%	23.6%	70.8%	29.9%	11.1	6.5	0.0	0.5	0.5	8.5%	6.7%	0.750	BUY

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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