

Gamuda (GAM MK) : BUY

Mkt. Cap: US\$1,976m | **3m Avg. Daily Val:** US\$9.8m

Last Traded Price (27 Jun 2018): RM3.22

Price Target 12-mth: RM4.73 (47% upside) (Prev RM4.73)

Analyst

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Another record year in the making

- 3QFY18 results beats expectations and is on track for another record year
- Banking on PTMP commencement while awaiting revival of HSR and MRT 3
- Raise earnings by 9-11%
- Maintain BUY, SOP-derived TP of RM4.73

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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Forecasts and Valuation

FY Jul (RMm)	2017A	2018F	2019F	2020F
Revenue	3,211	5,787	6,263	6,518
EBITDA	613	827	863	875
Pre-tax Profit	826	1,026	1,067	1,083
Net Profit	602	767	799	812
Net Pft (Pre Ex.)	701	767	799	812
Net Pft Gth (Pre-ex) (%)	11.9	9.4	4.3	1.6
EPS (sen)	21.5	27.3	28.5	28.9
EPS Pre Ex. (sen)	25.0	27.3	28.5	28.9
EPS Gth Pre Ex (%)	12	9	4	2
Diluted EPS (sen)	21.5	27.3	28.5	28.9
Net DPS (sen)	8.88	8.88	8.88	8.88
BV Per Share (sen)	266	283	301	320
PE (X)	15.0	11.8	11.3	11.1
PE Pre Ex. (X)	12.9	11.8	11.3	11.1
P/Cash Flow (X)	nm	36.3	38.5	46.0
EV/EBITDA (X)	22.2	16.6	16.1	16.1
Net Div Yield (%)	2.8	2.8	2.8	2.8
P/Book Value (X)	1.2	1.1	1.1	1.0
Net Debt/Equity (X)	0.5	0.5	0.5	0.5
ROAE (%)	8.4	9.9	9.7	9.3

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

3QFY18 beats expectations. Gamuda posted a 3QFY18 headline net profit of RM201m (+17% y-o-y, -5% q-o-q), bringing 9MFY18 net profit to RM615m (+23% y-o-y). This was above our forecast and consensus estimate due to stronger-than-expected construction earnings. An interim dividend of 6 sen was declared.

Another stellar quarter for construction. 3QFY18 construction pretax profit increased 18% y-o-y to RM104m, bringing the 9MFY18 number to RM332m (+44% y-o-y). This was underpinned by MRT Line 2 and Pan Borneo Sarawak, which is 22% completed for above ground/32% for tunnelling, and 25% completed respectively. Two tunnel drives have commenced – both from Bandar Malaysia North Station to Chan Sow Lin station which started in March 2018 and May 2018 respectively.

Its current outstanding orderbook (excluding PDP fees for MRT 2) stands at RM6.4bn. 9MFY18 construction margins were 10.6% vs 9.1% in 9MFY17 and should show gradual improvements as MRT Line 2 tunnelling works ramp up.

9MFY18 property presales driven by overseas projects. 3QFY18 property presales came in at RM0.7bn, bringing 9MFY18 property presales to RM2.6bn (+86% y-o-y) which is on track to hit its RM3.5bn sales target for FY18 (+47% y-o-y). The strong presales in 9MFY18 were driven by overseas projects, largely from Vietnam and Singapore which contributed two-thirds of total group presales. On the domestic front, sales have been driven by new launches such as Gamuda Gardens and twentyfive.7, while other existing projects such as Horizon Hills, Robertson and Jade Hills have achieved decent sales.

Property earnings also improved but margins were lower. 9MFY18 property pretax profit rose 17% y-o-y to RM169m but 9MFY18 margins were lower at 9.5% vs 12.7% in 1HFY17. The lower margins were due to the higher contribution from its overseas projects which have lower margins while upfront costs for its new townships are high. Unbilled sales now stand at RM2.2bn, giving earnings visibility of about two years.

Raising earnings. We raise our FY18/19/20F earnings by 9%/11%/9%, respectively, to factor in better construction margins. We leave our new order wins assumptions unchanged, which are RM3bn/RM2bn for FY19/20F respectively.

BUY rating maintained. At the current price, we think the market is ignoring; i) the changing landscape where Malaysian contractors will be prioritised over foreign contractors and Gamuda is a key beneficiary; ii) Gamuda's core competencies and reputation for large-scale infrastructure contracts such as MRT 1 and 2, and its improving property franchise which is on track to show a 47% growth in presales in FY18F to RM3.5bn, and iii) potential revival of PTMP. Valuations are at a bargain, with the stock trading at 11x FY19 PE and 1.1x FY19 P/NTA. We reiterate our BUY rating.

Key highlights from briefing.

MRT 2 exploring cost cuts. It was reported recently that the MRT Corp and the Council of Eminent Persons are exploring ways to reduce the cost of MRT Line 2. So far, MRT 2 has reached 22% and 31% completion for above ground and tunnelling portion respectively. Thus far, nothing concrete has been disclosed but possible ways to lower costs could include i) shortening the length of the line; and ii) fewer underground or above ground stations. We understand any forms of changes to lower costs will likely result in compensation from the government as contracts have been signed.

Banking on Penang Transport Master Plan (PTMP). Given the deferment of the High Speed Rail and MRT 3 project, Gamuda has set its sights on the PTMP. The tentative timeline for this project is to secure all Federal Government approval by 4Q18. So far, the railway scheme for the LRT and Environmental Impact Assessment reports for the Pan

Island Link 1 and reclamation works have been submitted to the relevant parties.

One of the key hurdles for this project in the past was obtaining Federal Government approval for the Light Rail Transit (LRT) portion which was submitted in March 2016. Gamuda has a 60% stake in the SRS Consortium, the Project Delivery Partner (PDP) for this RM32bn project.

The estimated total contract value for PTMP without the undersea tunnel, which is not under the purview of the PDP, is RM32bn. RM16bn is allocated for the public transportation system, while the remaining RM16bn is for land reclamation works at three islands in the south. The contract value for the LRT portion alone is c.RM8bn.

Quarterly / Interim Income Statement (RMm)

FY Jul	3Q2017	2Q2018	3Q2018	% chg yoy	% chg qoq
Revenue	839	1,003	1,238	47.4	23.4
Cost of Goods Sold	(691)	(867)	(1,085)	57.0	25.1
Gross Profit	149	136	153	2.9	12.6
Other Oper. (Exp)/Inc	21.8	35.3	31.7	45.1	(10.4)
Operating Profit	170	171	184	8.3	7.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	82.2	121	96.5	17.3	(20.3)
Net Interest (Exp)/Inc	(31.3)	(23.7)	(27.1)	13.4	(14.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	221	268	254	14.7	(5.4)
Tax	(42.8)	(44.3)	(41.2)	(3.8)	(7.0)
Minority Interest	(7.5)	(12.8)	(12.0)	(60.0)	(5.6)
Net Profit	171	211	201	17.4	(5.0)
Net profit bef Except.	171	211	201	17.4	(5.0)
EBITDA	253	292	281	11.3	(3.8)
Margins (%)					
Gross Margins	17.7	13.5	12.3		
Opg Profit Margins	20.3	17.1	14.9		
Net Profit Margins	20.4	21.1	16.2		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Jun 17	5.48	6.70	BUY
2:	07 Jul 17	5.43	6.70	BUY
3:	02 Aug 17	5.40	6.70	BUY
4:	29 Sep 17	5.28	6.70	BUY
5:	29 Nov 17	4.74	6.70	BUY
6:	04 Dec 17	4.75	6.70	BUY
7:	06 Mar 18	5.08	6.70	BUY
8:	26 Mar 18	5.11	6.70	BUY
9:	06 Apr 18	5.09	6.70	BUY
10:	14 May 18	4.21	4.73	HOLD
11:	06 Jun 18	3.55	4.73	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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