

28 June 2017 | 9MFY17 Results Review

Gamuda Bhd

Earnings Caught-up but Impasse Ahead


INVESTMENT HIGHLIGHTS

- **Mixed 9MFY17 results**
- **Despite that earnings is catching up...**
- **...but PTMP is an impasse**
- **Hence, we downgrade our recommendation to NEUTRAL with a revised TP of RM5.36 per share**

Mixed 9MFY17 earnings. Gamuda's 9MFY17 PATAMI came in higher at RM499.3m (+5.3%yoy) reflecting revenue revival and marginal improvements from all key segments. However, its 9MFY17 earnings came in mixed - meeting only 61.1% and 74.7% of ours and Street's expectations of full year forecasts respectively. Gamuda's 9MFY17 results lagged our forecasts as we have assigned higher construction progress billings rate for the cumulative period. We believe the FYE17 results will even out the differences.

Despite that earnings is catching up... Earnings momentum for 9MFY17 is long overdue with net profit of RM499.3m was supported by a steep increase from revenue of RM2.19bn (+45.8%yoy). The improvement in both Gamuda's top and bottom line was attributable to; (i) cumulative year-to-date improvements in recognition of projects i.e. KVMRT Line 2 from construction segment chalking in RM152.2m (+101.3%YoY) of PBT and, (ii) pickup in sales of properties in Celadon City, Gamuda City, (Vietnam) Jade Hills and Horizon Hills and Bukit Bantayan (Malaysia) influences the property segment's PBT from RM49.3m in 9MFY16 to RM107.8m in 9MFY17 (+118.7%YoY). We have been persistent to highlight that Gamuda's property project in Vietnam presents a healthy sales growth due to its expanding middle-class.

...but PTMP is an impasse. Although Gamuda's orderbook is at RM8.9bn, we are worried for the progress of Penang Transport Masterplan (PTMP). We opine that it is better for the Federal government to take over the PTMP to expedite the progress and doubt that PTMP activities will commence in FY2017 due to political impasse.

Recommendation. We downgrade our recommendation to NEUTRAL due to YTD share price run-up (+15.47%) with a TP of RM5.36 per share based on sum-of-parts valuation (SOP). We refined our valuation to reflect changes in debt value and applied DCF valuation (WACC: 9.0%) instead of PER as we think the prospect of FYE18 PER of 18x is demanding and does not reflect our sector view. 

Downgrade to NEUTRAL
Revised Target Price (TP): RM5.36
(From RM5.50)

RETURN STATS	
Price (23 June 2017)	RM5.45
Target Price	RM5.36
Expected Share Price Return	-1.6%
Expected Dividend Yield	+2.0%
Expected Total Return	+0.4%

STOCK INFO	
KLCI	1,779.4
Bursa / Bloomberg	5398 / GAM MK
Board / Sector	Main/Construction
Syariah Compliant	Yes
Issued shares (mil)	2,442
Par Value (RM)	1.00
Market cap. (RM'm)	13,309
Price over NA	1.78
52-wk price Range	RM4.65 – RM5.48
Beta (against KLCI)	1.04x
3-mth Avg Daily Vol	6.8m
3-mth Avg Daily Value	RM35.9m
Major Shareholders (%)	
EPF	11.33
KWAP	5.20
DYAM Raja Eleena	4.84
Vanguard	3.02

INVESTMENT STATISTICS

FYE July	FY14	FY15	FY16	FY17F	FY18F
Revenue (RM'm)	2,229.6	2,399.0	2,121.0	2,666.0	2,104.4
EBIT (RM'm)	488.3	601.9	494.1	790.0	870.0
Pre-tax Profit (RM'm)	851.6	858.1	780.6	984.0	1022.0
PATAMI (RM'm)	712.3	682.1	668.7	817.8	838.3
FD EPS (sen)	30.5	28.9	25.3	34.7	38.1
EPS growth (%)	1.9	-5.2	-14.0	22.2	9.7
PER(x)	15.7	16.7	17.2	20.2	19.7
Net Dividend (sen)	12.0	12.0	11.0	14.0	14.2
Net Dividend Yield (%)	2.5	2.4	2.3	2.0	2.0

Source: MIDFR

SOP VALUATION

Segments	Stake	Basis	Indicative value (RM'm)	Per share (RM)
Construction	Various	DCF Valuation (WACC 9%)	4,900	2.07
MRT Line 1 PDP Fees	50%	DCF Valuation (WACC:9%)	170.1	0.07
MRT Line 2 PDP Fees	50%	DCF Valuation (WACC:9%)	345.9	0.15
PTMP PDP Fees		DCF Valuation (WACC:9%)		
Property	Various	RNAV @ 15% discount	6,339.9	2.68
Concessions Assets				
Litrak	48%	MIDFR Target Price of RM5.34	1,312.8	0.56
Kesas	70%	DCF Valuation (WACC:7%)	1,133.5	0.48
Smart Tunnel	50%	DCF Valuation (WACC:7%)	364.8	0.15
Indian Tolls	70%	DCF Valuation (WACC:8%)	318.2	0.13
Splash	40%	Book value of RM2.8b	1,120.0	0.48
Net debt/cash		As at 9MFY17	(3,336)	(1.41)
Proceeds from warrants		Full conversion	94.5	0.04
Sum-of-Parts (SOP)			12,879.6	5.36
Enlarged no. of shares				2,357.7

Source: MIDFR

DAILY PRICE CHART



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9MFY17 RESULTS SUMMARY

FYE Jul (RM'm)	Quarterly Results					Cumulative		
	3Q17	2Q17	3Q16	YoY	QoQ	9M17	9M16	YoY
Revenue	839.4	853.8	467.2	79.7%	-1.7%	2,198.2	1,507.5	45.8%
EBIT	170.3	168.2	106.7	59.6%	1.2%	472.2	325.3	45.2%
Pre-tax profit	221.2	218.6	185.7	19.1%	1.2%	645.5	570.3	13.2%
Tax	(42.8)	-39.4	(20.6)	107.8%	8.6%	(112.8)	(62.5)	80.5%
Core Net Profit	178.4	166.2	165.1	8.1%	7.3%	499.3	474.0	5.3%
EPS (sen)	6.8	6.6	6.2	10.6%	2.9%	19.8	19.2	3.5%
				(%-pt)	(%-pt)			(%-pt)
EBIT margin	20.3%	19.7%	22.8%	-11.2%	3.0%	21.5%	21.6%	-0.5%
Pre-tax margin	129.9%	130.0%	174.0%	-25.4%	-0.1%	29.4%	37.8%	-22.4%
Net profit margin	-19.3%	-18.0%	-11.1%	74.4%	7.4%	22.7%	31.4%	-27.8%
Effective tax rate	-5.1%	-4.6%	-4.4%	15.6%	10.5%	4.2%	11.0%	-61.7%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.