

01 October 2018 | 4QFY18 Results Review

Gamuda Berhad

Earnings slashed by SPLASH

Downgrade to NEUTRAL
Adjusted Target Price(TP): RM3.15
(From RM3.70)

INVESTMENT HIGHLIGHTS

- Performance weighed down by one-off losses...
- ...but core business continued to perform well
- Operationally strong in key segments i.e. constructions
- Downgrade with an adjusted TP of RM3.15

4Q reported losses, but core profit displayed its mettle. The group posted a net loss of -RM101m in 4QFY18, contrarian to a profitable quarter in the same period last year. The negative deviation was steered by one-off losses on disposal of Splash (-RM300m) and impairment on investment in Gamuda Water (-RM4m). We arrived at a core net profit of RM203m (+1.0%yoy) by stripping off these one-off items. Cumulatively, the group's business ended the year on a positive note, recording +16.8%yoy higher core net profit - at the tune of RM818.4m for FY18. Accordingly, the cumulative core net profit formed 100.9% and 103.1% of ours and consensus' full year estimates respectively.

Operationally strong. FY18 revenue came in strong; recording RM7.2b (+25.7%yoy) as result of robust property sales which emerged as the highest contributor of segmental revenue growth at RM2.5bn (+38.7%yoy). The growth was propelled by sales in both Vietnam (Celadon City) and Singapore (GEM Residences) markets. Notably, overseas sales contributed about 70% of the group's property revenue. Consequently, we saw the group's FY18 core net profit was largely represented by this segment, amounting to RM76m.


Construction revenue backed by strong orderbook. Construction segment continued to post growth in revenue, of RM4.1bn (+19.5%yoy) in 4QFY18. Largely, the growth was attributable to the higher work progress from the KVMRT Line 2 project, whereby the Group is the PDP and sole underground works package contractor. Moving forward, we expect construction revenue to be resilient backed by the on-track progress of Pan Borneo Sarawak Highway project.

RETURN STATS	
Price (28 Sep Aug 2018)	RM3.36
Target Price	RM3.15
Expected Share Price Return	-6.6%
Expected Dividend Yield	+4.0%
Expected Total Return	+2.0%

STOCK INFO	
KLCI	1,793.15
Bursa / Bloomberg	5398 / GAM MK
Board / Sector	Main/ Construction
Syariah Compliant	Yes
Issued shares (mil)	2,468.0
Market cap. (RM'm)	8,292.6
Price over NA	1.07
52-wk price Range	RM3.00 – RM5.35
Beta (against KLCI)	1.06
3-mth Avg Daily Vol	6.34m
3-mth Avg Daily Value	RM22.6m
Major Shareholders	
EPF	11.0%
SKIM ASB	8.7%
DYAM Raja Eleena	4.8%

Recent developments on land acquisition. Gamuda has recently received the Letter of Award (28.02.18) by the Housing Development Board (HDB) of Singapore confirming their acceptance of the tender submitted by Gamuda with Evia Real Estate (8) Pte Ltd ("Evia"). The tender was submitted to acquire the land parcel in Singapore's Anchorvale Crescent site, earmarked for executive condominium development. The tender price was SGD318.9m (~RM963.0m), which translates to SGD576.2psf. The respective stakes for the land acquisition shall be on the basis of 50% Gamuda, 30% Ho Lee Group and 20% Evia. Based on the 50% stake, the group would have spent approximately RM481.5m for the land acquisition. The acquisition is set to be financed by a combination of internal funds and also bank borrowings. Notably, the transition is expected to complete by 4Q18. Consequently, this acquisition will mark another positive development by Gamuda as the group strives towards diversifying its market exposure. This is positive in the medium term, hedging against any downside risks in the domestic market and tapping into Singapore's sturdy property market.

Earnings forecast unchanged. Given the core net income and its unbilled orderbook of c.RM13.0bn we maintain our earnings forecasts at this juncture.

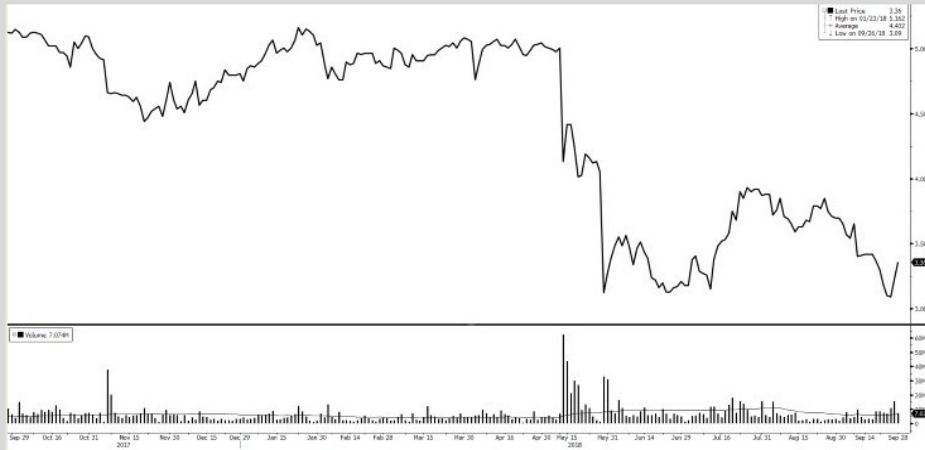
Recommendation. Downgrade to NEUTRAL with an adjusted TP of **RM3.15** per share by rolling over our FYE20 EPS to 13.0x price-to-earnings ratio to reflect our defensive stance on the sector by assigning a lower multiples which commensurate with KL Construction Index insipid multiples and valuation prospects. 

INVESTMENT STATISTICS

FYE July	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	2,121.0	3,211.4	4,227.0	2,210.0	2250
EBIT (RM'm)	494.1	682.5	696.6	670.0	675
Pre-tax Profit (RM'm)	780.6	656.2	729.3	1038.0	650
PATAMI (RM'm)	668.7	602.0	513.8	820.0	600
FD EPS (sen)	25.3	24.8	20.8	33.1	24.2
EPS growth (%)	-12.5	-2.0	-16.1	59.1	-26.9
PER(x)	13.28	13.5	16.2	9.9	13.8
Net Dividend (sen)	11.0	11.0	11.9	12.0	11
Net Dividend Yield (%)	3.3	3.3	3.5	4.0	3.3

Source: Company, MIDF Research

DAILY PRICE CHART



Fadhli Dzulkiyly
abdul.fadhli@midf.com.my
03-2772 8462

Danial Razak
muhammad.danial@midf.com.my
03-2173 8396

Source: Bloomberg

GAMUDA 12MFY18 RESULTS

FYE Jul (RM'm)	Quarterly Results					Cumulative		
	4Q18	3Q18	4Q17	YoY	QoQ	12MFY18	12MFY17	YoY
Revenue	1,214.0	1,237.6	1,013.1	19.8%	-1.9%	4,227.0	3,211.4	31.6%
EBIT	157.8	184.4	210.4	-25.0%	-14.4%	696.6	682.2	2.1%
Pre-tax profit	(52.2)	253.9	180.4	-128.9%	-120.6%	564.3	656.2	-14.0%
Tax	(37.9)	(41.1)	(56.9)	-33.4%	-7.8%	164.9	169.7	-2.8%
PATAMI	(101.0)	200.6	102.7	-198.3%	-150.3%	513.8	602.0	-14.7%
EPS (sen)	(4.1)	7.9	4.2	-197.4%	-152.1%	20.7	23.8	-13.0%
				(%pt)	(%pt)	12MFY18	12MFY17	(%pt)
EBIT margin	13.0%	14.9%	20.8%	-37.4%	-12.8%	16.5%	21.2%	-22.4%
Pre-tax margin	-33.1%	137.7%	85.7%	-138.6%	-124.0%	13.3%	20.4%	-34.7%
Net profit margin	72.6%	-16.2%	-31.5%	-330.2%	-548.5%	12.2%	18.7%	-35.2%
Effective tax rate	-3.1%	-3.3%	-5.6%	-44.4%	-6.0%	3.0%	-25.9%	-111.5%
Revenue Breakdown								
Segments	12MFY18	12MFY17	YoY (%)	Comments				
E&C	4065.5	3326.3	22.2	Positive progress from Pan Borneo (29.0%) and KVMRT2 (28.0%)				
Property Development	2591.4	1868	38.7	Healthy sales from Vietnam, Singapore and local projects				
Concessions	511.8	508.1	0.7					
Total	7,169.0	5,702.5	25.7					
PBT Breakdown								
Segments	12MFY18	12MFY17	YoY (%)	Comments				
E&C	296.7	225	31.9	Robust construction activities				
Property Development	205.6	214.8	-4.3	Supportive sales from overseas property mart				
Concessions	115.5	164.9	-30.0	SPLASH disposal				
Taxation	-164.9	-169.7	16.8					
Total	818.3	700.5	16.8					

Source: Bursa Malaysia

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.