

29 October 2018 | Corporate Update

Gamuda Berhad

MRT2 impact likely to turn marginal

Maintain BUY

Adjusted Target Price(TP): RM2.89
(from RM2.78)


INVESTMENT HIGHLIGHTS

- **MMC-Gamuda to continue MRT2 UG project**
- **A set of revised cost structure could weigh down margin**
- **Downside risks include adjustment to margin and extension of completion date**
- **Maintain BUY with adjusted TP of RM2.89**

Latest updates. KVMRT2 UG portion is still running, albeit a cost reduction of RM3.6b which is agreeable by both key parties - MoF and Gamuda-MMC. This was subsequent to revision done by the JV Co, whereby the earlier cost-cut was not deemed sufficient by the government. The overall project will now carry a value of RM30.5b.

A set of revised cost structure could weigh down margin. The project's continuation seemed as a rational avenue for the group to manage the risk at hand. Recall that the total construction cost currently worth RM30.5b, after a significant reduction by RM8.8b. The hefty haircut arrived and offered by Gamuda-MMC means that total earnings contribution would probably be marginal once completed as a result of widening margin compression.

Impact to earnings. Given the revision, we are expecting a conservative sum of RM49.2m from the UG contract on top of Gamuda's annual profit estimate. This is taking into account the downside risks namely adjustment to margin and the extension of completion deadline.

Recommendation. Our adjusted TP at **RM2.89** constitutes a **BUY** call on the stock. Moving forward, we are feeling sanguine on the prospect of property segment which is on; 1) the completion of construction works at 661 Chapel Street, Australia and 2) potential of better take-up rates in the domestic market for new townships and <RM500k properties. 

RETURN STATS	
Price (26 Oct 2018)	RM2.47
Target Price	RM2.89
Expected Share Price Return	+17.0%
Expected Dividend Yield	+4.5%
Expected Total Return	+21.5%

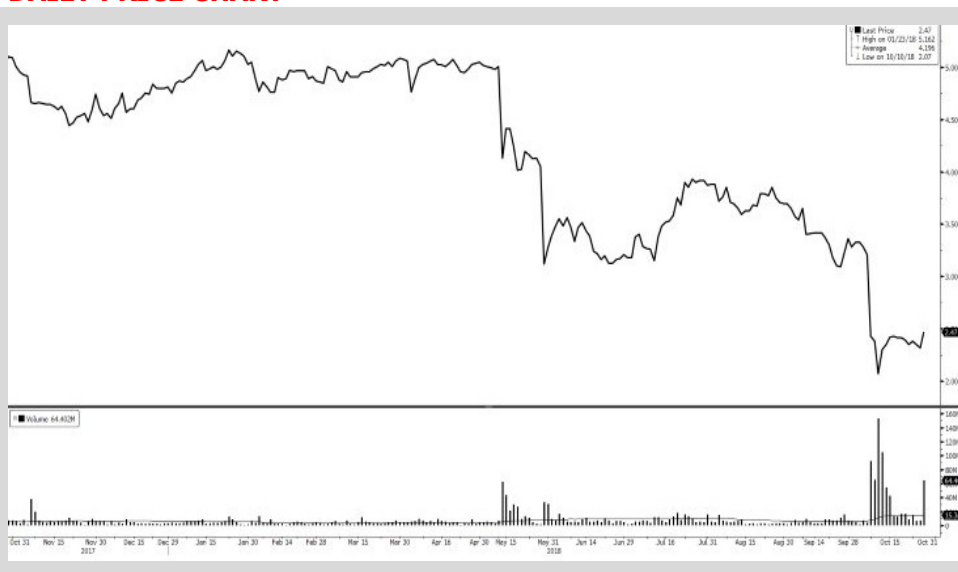
STOCK INFO	
KLCI	1683.06
Bursa / Bloomberg	5398 / GAM MK
Board / Sector	Main/ Construction
Syariah Compliant	Yes
Issued shares (mil)	2,468.0
Market cap. (RM'm)	6,096.1
Price over NA	0.81
52-wk price Range	RM2.00 – RM5.31
Beta (against KLCI)	1.29
3-mth Avg Daily Vol	14.95m
3-mth Avg Daily Value	RM40.02m
Major Shareholders	
EPF	11.3%
SKIM ASB	8.7%
DYAM RAJA ELEENA	4.8%

INVESTMENT STATISTICS

FYE July	FY15	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	2,399.00	2,121.00	3,211.40	4,227.00	2,105.00	3,234.00
EBIT (RM'm)	601.90	494.10	682.50	696.60	636.50	730.35
Pre-tax Profit (RM'm)	858.10	780.60	656.20	729.30	882.30	703.30
PATAMI (RM'm)	682.10	668.70	602.00	513.80	656.00	649.20
FD EPS (sen)	28.90	25.30	24.80	20.80	26.50	26.32
EPS growth (%)	(0.05)	(12.46)	(1.98)	(16.13)	27.40	(0.70)
PER (x)	8.41	9.60	9.80	11.68	9.17	9.23
Net Dividend (sen)	12.00	11.00	11.00	11.90	11.00	11.00
Net Dividend Yield (%)	4.94	4.53	4.53	4.90	4.53	4.53

Source: Company, MIDF Research

DAILY PRICE CHART



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Source: Bloomberg

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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.