

09 October 2018 | Corporate Update

## Gamuda Berhad

*Property segment to lend support in the near term*

**Upgrade to BUY**

**Adjusted Target Price(TP): RM2.78**  
(from RM3.15)

### INVESTMENT HIGHLIGHTS

- **Based on a statement by MoF, MMC-Gamuda underground work contract has been terminated**
- **A negative surprise to orderbook and earnings**
- **JV Co participation in new tendering bid is conceivable**
- **23% reduction of turnkey contract value**
- **Cut TP to RM2.78 but upgrade to BUY pursuant to recent selloff**

**Termination of MMC-Gamuda underground work contract.** Recall that MoF has been pushing for further cost reduction in public infrastructure spending, as it works towards improving the government's fiscal standing. Based on a statement by MoF, the contract cancellation of MRT2 ground work portion came after the failure to make further reduction in costs, as what was desired by the new government. Following this development, we reckon the financial impact to MMC-Gamuda JV Co would be negative.

#### **MMC-Gamuda's media statement on the contract termination.**

We understand from a press statement made by the JV Co that they have yet to receive neither communication nor notification from MRT Corp, the counter party to the award of the Project. Practically, there has been no official confirmation from MRT Corp that MMC Gamuda has been terminated as the underground contractor.

**The underground portion of MRT2 contract** carries an outstanding orderbook value of RM5.6b, with project completion spans until May 2022. We are expecting about 8%-11% of potential earnings reduction for every quarter in FY19/20/21/22 to the tune of 24.0m-26.0m. Cumulatively, this accounted for 11% and 13% of our and consensus full year 2019 estimates.

**Impact from changes to turnkey contract.** On top of this, we understand that the above-ground contract value has been reduced by 23%, with the JV's previous role as a PDP has now switched to a turnkey contractor. Based on the new remaining contract value of RM4.4b, we are estimating a full year net profit contribution of RM55.0m to Gamuda. It is notable that this is a reduction of -29.9% from the previous contract.

RETURN STATS	
Price (8 Oct 2018)	RM2.43
Target Price	RM2.78
Expected Share Price Return	+14.4%
Expected Dividend Yield	+4.5%
<b>Expected Total Return</b>	<b>+18.9%</b>

STOCK INFO	
KLCI	1,775.75
Bursa / Bloomberg	5398 / GAM MK
Board / Sector	Main/ Construction
Syariah Compliant	Yes
Issued shares (mil)	2,468.0
Market cap. (RM'm)	5,997.4
Price over NA	0.79
52-wk price Range	RM2.32 – RM5.31
Beta (against KLCI)	1.06
3-mth Avg Daily Vol	6.39m
3-mth Avg Daily Value	RM22.8m
Major Shareholders	
EPF	11.0%
SKIM ASB	8.7%
DYAM RAJA ELEENA	4.8%

**Would there be a second chance for the JV Co?** We are not ruling out the possibility of Gamuda and MMC to participate in the retendering process, if an agreement is reached. Assuming that both entities are able to reduce cost, we believe the outcome will be positive. This is taking into consideration the JV Co initial involvement in the project and the competitive cost advantage it is able to achieve, in comparison to potential tender bids by other contractors.

**Despite the changes agreed for the above-ground contract value,** the entirety of its outcome to Gamuda is still uncertain subsequent to the news on the contract termination. This is considering the lack of official confirmation from MRT Corp to MMC-Gamuda JV Co since the news broke. On this occasion, we adopt a conservative view hence we decided to revise our forward valuation on the stock.

**Our recommendation.** Given the change in valuation, we lowered our **TP to RM2.78**, pegging its **FY20 EPS to PE of 11x**. Note that our valuation methodology has switched from SOP to PE multiples, as we make allowance for the current market sentiment on the sector. We believe that forward PE can better reflect its fair value in the short to medium term, as uncertainties remain on the horizon. Consequent to the slump in Gamuda's stock price yesterday, our adjusted TP currently constitutes a **BUY** call. Accordingly, we believe the weakness of the stock price should be viewed as an opportunity for investors to take position.

**Shedding light on its business prospect.** Overall, we are still upbeat on Gamuda's earnings growth prospect based on its strong orderbook and healthy contribution in the property segment. On the property segment, we remain optimistic on its medium term outlook predicated on 1) the completion of construction works at 661 Chapel Street, Australia, and 2) potential of better take-up rates in the domestic market. 

## 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	2,250.00
EBIT (RM'm)	601.90	494.10	682.50	696.60	636.50	675.00
Pre-tax Profit (RM'm)	858.10	780.60	656.20	729.30	882.30	650.00
PATAMI (RM'm)	682.10	668.70	602.00	513.80	656.00	600.00
FD EPS (sen)	28.90	25.30	24.80	20.80	26.50	24.20
EPS growth (%)	(0.05)	(12.46)	(1.98)	(16.13)	27.40	(8.68)
PER (x)	8.41	9.60	9.80	11.68	9.17	10.04
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



Source: Bloomberg

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

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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.