

18 August 2015 | Corporate Update

Gamuda Berhad

What's Next After the PTMP PDP?

Maintain NEUTRAL
Unchanged (TP): RM4.83

INVESTMENT HIGHLIGHTS


- Gamuda has been awarded with Project Delivery Partner (PDP) role for Penang Transport Masterplan (PTMP) by Penang State Government with expected fees of 6% from the total project amount of RM27bn.
- The PDP fees will potentially be RM1.62bn over 13 years.
- We make no changes to our earnings forecasts as yet due to uncertainties with regard to the timeline of the project.
- Overall, we maintain our Neutral stance with an unchanged TP of RM4.83.

Secured the PDP role for PTMP. The award of PDP role in PTMP by the State Government of Penang is in line with our expectation. We have expected that Gamuda will clinch the award due to its track record as the PDP of KVMRT Line 1.

Scope of The PDP. The job scope of the PDP is to manage the projects under the PTMP packages such as; (i) improvement of operation of the existing transport system, (ii) constructing the George Town Outer Bypass, North Coast Pair Road and Air Itam - Relau Pair Road, (iii) constructing new commuter rail services, (iv) upgrading the Butterworth - George Town Ferry, and (v) starting the construction of the outer sections of the George Town - Airport Line.

Our View. We are positive that Gamuda have clinched the PDP role, however we remain cautious on its next step.

Impact on earnings. The PTMP job is scheduled to start this year with duration of 15 years. Nevertheless, at this juncture, we make no changes to Gamuda's earnings forecasts as we are uncertain with regard to the progress timeline of the entire project.

Recommendation. Our TP of **RM4.83** is derived based on FY16 sum-of-parts valuation (SOP) on the back of prospective PER of 18x with a discount of 4% to reflect risk of divestment loss in SPLASH. We maintain **NEUTRAL** despite the expected total return exceeding 15% threshold due to our conservative view of current market situation. 

RETURN STATS	
Price (17 August 2015)	RM4.15
Target Price	RM4.83
Expected Share Price Return	+16.4%
Expected Dividend Yield	+2.6%
Expected Total Return	+19.0%*

* see Recommendation

STOCK INFO	
KLCI	1,654
Bursa / Bloomberg	5398 / GAM MK
Board / Sector	Main/Construction
Syariah Compliant	No
Issued shares (mil)	2,405.9
Par Value (RM)	1.00
Market cap. (RM'm)	10,802.5
Price over NA	1.74x
52-wk price Range	RM4.80 – RM5.36
Beta (against KLCI)	0.99x
3-mth Avg Daily Vol	4.32m
3-mth Avg Daily Value	RM21.1m
Major Shareholders (%)	
EPF	9.79
ASB	8.16
KWAP	5.51

Can Gamuda provide all the solutions? Our examination of the PTMP illustrates a strong need for; (i) highway constructions and maintenance, (ii) traffic dispersal system, (iii) light and mass transit construction, mechanical and electrical system, (iv) tunnelling, (v) hillslope and landslide mitigation due to elevated and karstic topography, and (vi) the location of the reclaimed land. Gamuda's track record, in-house expertise and technology provided it with credibility to satisfy all the requirements under PTMP. However, going it all alone may result in ballooning gearing ratio. Thus, we reckon the best solution is to partner with other bidders with strategic stakes to undertake the work packages. The partnership can also extend to the land reclamation for development.

PTMP Project Segments. The projects are segmented into 3 parts: i) Highway Network costing RM16.02b, ii) Strategic Implementation costing RM805m (inclusive of traffic dispersal system), and iii) Public Transport Network (Bus Rapid Transit and Trams) costing RM9.627b. In return, Gamuda now has the option to reclaim on 2 optional areas: i) 2,000 acres in the Bayan Baru part of Penang of which 600 acres will be used for the Penang International Airport and Free Trade Zone expansion, or ii) land located between Penang Bridge and mouth of Sg. Pinang river (Middle Bank). So far Gamuda remains mum on its choice of the land.

We envisage it will be more attractive for Gamuda to develop the land in the southern part of Penang Island due to its better accessibility to the mainland as well as affordability of the location for potential end buyers. This is in line with its other transit proximate developments such as Kota Kemuning and Bandar Botanic.

INVESTMENT STATISTICS

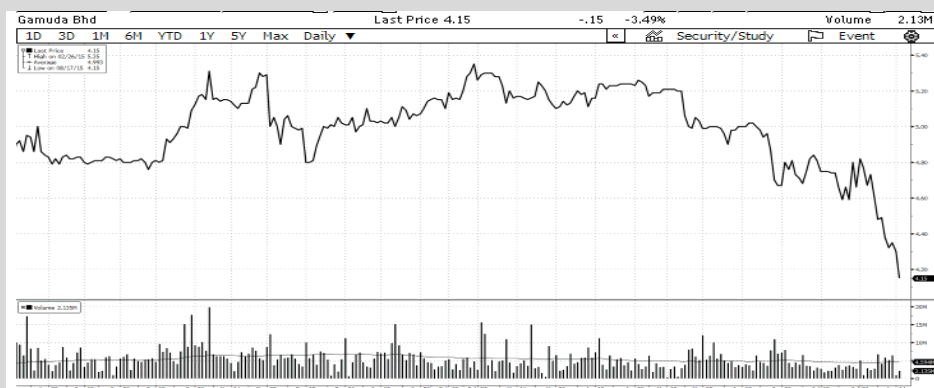
FYE July	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM'm)	2,235.4	2,229.6	1,657.6	1,959.6	2,237.4
EBIT (RM'm)	345.6	488.3	544.0	572.2	645.7
Pre-tax Profit (RM'm)	656.4	851.6	892.0	864.3	916.9
PATAMI (RM'm)	651.6	712.3	735.5	709.0	738.0
FD EPS (sen)	29.9	30.5	31.2	30.1	31.3
EPS growth (%)	17.1	1.9	2.3	-3.6	4.1
PER(x)	18.8	15.7	15.2	16.2	15.6
Net Dividend (sen)	12.0	12.0	12.0	12.0	13.0
Net Dividend Yield (%)	2.5	2.5	2.6	2.5	2.6

Source: MIDFR

SOP VALUATION

Segments	Stake	Basis	Indicative value (RM'm)	Per share (RM)
Construction	Various	FY16 earnings-to-PER 18x	3,352.3	1.42
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
Property	Various	RNAV @ 20% discount	6,000.9	2.55
Concessions Assets				
Litrak	48%	MIDFR Target Price of RM4.56	1,121.1	0.48
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 9MFY15		(2,218.6)	(0.94)
Proceeds from warrants	Full conversion		94.5	0.04
Sum-of-Parts (SOP)			11,802.6	5.01
	Discount		4%	(0.18)
				4.83
Enlarged no. of shares				2,357.7

DAILY PRICE CHART



Syed Muhammed Kifni
 Fadli Dzulkifly
 abdul.fadhli@midf.com.my
 03-2772 1668

Source: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement	FY13	FY14	FY15F	FY16F	FY17F	Cash Flow Statement	FY13	FY14	FY15F	FY16F	FY17F
Revenue	2,235.4	2,229.6	1,657.6	1,959.6	2,237.4	Operating activities					
Operating expenses	-1,867.9	-1,714.7	-1,087.0	-1,360.8	-1,565.1	PBT	656.4	851.6	892.0	864.3	916.9
Depr & Amort	-22.0	-26.6	-26.6	-26.6	-26.7	Depr & Amort	22.0	26.6	26.6	26.6	26.7
EBIT	345.6	488.3	544.0	572.2	645.7	Chgs in working capital	-334.8	-688.0	-12.5	-29.2	-74.8
Interest expense	-51.4	-66.4	-96.0	-97.0	-98.8	Non-cash adjustment	-295.5	-413.9	-348.0	-292.1	-271.3
Share of JV	121.0	186.1	229.8	181.7	150.9	Interest expense	-94.5	-107.0	-96.0	-97.0	-98.8
Share of associate	241.2	243.7	214.2	207.4	219.2	Tax paid	-124.8	-102.3	-114.8	-108.6	-122.8
PBT	656.4	851.6	892.0	864.3	916.9	CF from Operations	-171.2	-433.0	347.3	364.0	375.9
Taxation	-106.9	-116.6	-114.8	-108.6	-122.8						
Minority interest	8.7	15.7	41.6	46.7	56.2	Investing activities					
Normalised PATAMI	651.6	712.3	735.5	709.0	738.0	Capex	-34.7	-16.6	-30.0	-30.0	-30.0
						Other investments	-23.9	221.3	-798.2	-392.2	0.0
Balance Sheet	FY13	FY14	FY15F	FY16F	FY17F	CF from Investments	-58.7	204.6	-828.2	-422.2	-30.0
Non-current assets	4,036.8	5,637.4	6,883.0	7,667.6	8,041.1						
PPE	299.5	284.9	288.3	291.7	295.0	Financing activities					
Others	3,737.2	5,352.5	6,594.6	7,375.9	7,746.0	Dividends paid	-261.9	-277.4	-294.2	-283.6	-295.2
						Net proceeds in borrowings	114.0	358.1	916.6	59.2	111.9
Current assets	4,399.3	4,715.4	4,801.9	4,585.1	4,866.9	Others	528.5	154.4	94.5	0.0	0.0
Inventories	94.9	295.1	295.5	309.5	326.6	CF from Financing	380.6	235.1	716.9	-224.4	-183.3
Receivables	1,155.6	1,817.0	1,667.1	1,718.9	1,821.0						
Others	2,272.2	1,721.3	1,721.3	1,721.3	1,721.3	Net changes in cash	150.7	6.7	235.9	-282.6	162.6
Cash & equivalent	876.6	882.0	1,118.0	835.4	998.0	Beginning cash	725.7	876.6	882.0	1,118.0	835.4
TOTAL ASSETS	8,436.1	10,352.8	11,684.9	12,252.8	12,908.0	Overdrafts	0.0	0.0	0.0	0.0	0.0
						Ending cash	876.4	883.3	1,118.0	835.4	998.0
Share capital	2,276.6	2,323.4	2,417.9	2,417.9	2,417.9						
Minority interest	226.1	687.4	729.0	775.8	832.0	Ratios	FY13	FY14	FY15F	FY16F	FY17F
Reserves	2,601.4	3,150.9	3,592.3	4,017.6	4,460.4	Revenue growth	-27.6%	-0.3%	-25.7%	18.2%	14.2%
TOTAL EQUITY	5,104.1	6,161.7	6,739.1	7,211.3	7,710.2	PBT growth	-9.9%	29.7%	4.7%	-3.1%	6.1%
						Norm. PATAMI growth	19.1%	9.3%	3.3%	-3.6%	4.1%
Non-current liability:	1,742.9	2,391.7	3,356.6	3,399.6	3,484.5	PBT margin	17.8%	38.2%	53.8%	44.1%	41.0%
Long-term borrowings	1,513.1	1,738.6	2,703.5	2,746.5	2,831.4	Norm. PATAMI margin	13.9%	31.9%	44.4%	36.2%	33.0%
Others	229.8	653.1	653.1	653.1	653.1	ROE	12.1%	13.0%	12.2%	11.0%	10.7%
						ROA	5.9%	6.9%	6.3%	5.8%	5.7%
Current liabilities	1,589.1	1,799.4	1,589.1	1,641.9	1,713.3	Net gearing (x)	-0.29	-0.30	-0.39	-0.42	-0.38
Short-term borrowings	459.7	792.2	743.8	760.0	787.0	BV/share (RM)	2.24	2.66	2.86	3.06	3.27
Payables	1,068.0	930.2	768.2	804.8	849.2	PBV (x)	2.12	1.80	1.73	1.62	1.51
Others	61.4	77.1	77.1	77.1	77.1	EWBITDA (x)	24.0	26.0	25.7	25.1	22.4
TOTAL LIABILITIES	3,332.0	4,191.1	4,945.7	5,041.5	5,197.8						

Source: MIDFR

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 >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.