

## Gamuda Berhad

(5398 | GAM MK) Main | Construction

### Overseas Operations Lead Again

#### KEY INVESTMENT HIGHLIGHTS

- 9MFY23 core net profit surged +33.7% to RM384.4m, within house estimates but above consensus
- About 44% of core earnings contributed from overseas operations
- PSI land reclamation to begin in Jul-23
- Order book remains strong at RM21.5b, earnings visibility up to FY26/27
- Maintain BUY with an unchanged TP of RM5.04

**Within expectations.** Gamuda Bhd's 3QFY23 core net profit grew +12.1%yoy to RM223.3m on the back of improving contributions from its overseas projects. For the nine-month period ended Apr-23, the group's core net profit surged +24.9%yoy to RM607.7m, which came in within our expectations but above consensus, making up 74.7% and 82.5% respectively of full-year estimates. About 44.0% of its core earnings came from overseas operations. The group declared a 6 sen dividend per share, which brings its FY23 dividend per share to 50 sen, including a 38 sen special dividend paid in Dec-22 following the sale of its highway concessions.

**Slightly tighter margins.** The group's construction and engineering segment rose 2.6x during the quarter to RM1.36b while its net profit grew +68.3% to RM125.1m. For the nine-month period, the segment's revenue grew +59.9%yoy to RM3.81b, giving it a net profit of RM352.3m, an increase of +34.7%yoy, attributable mainly to the group's projects in Australia and Taiwan. PBT margins have declined slightly to 13.3% from 16.2% a year ago, mainly due to the lower margins from Australia. In a post-result briefing yesterday, management guided that construction revenue is achieving RM1b per quarter and is set to improve further as overseas projects gain momentum.

**Stronger property results.** Revenue from the property segment was almost unchanged at RM725.3m for the quarter, a -1.9%yoy reduction but the net profit declined -22.5%yoy to -RM98.3m. For the nine-month period, revenue grew +15.3%yoy to RM1.93b, while the net profit came in +5.3%yoy higher at RM210.7m. Total presales recorded during the cumulative period was RM1.9b. While this is below the group's target of RM4.5b for FY23, management is maintaining its target due to substantial bookings in hand, which should lead to strong surge in presales by 4QFY23.

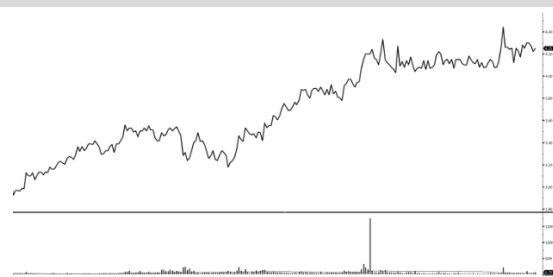
**PSI reclamation to start.** Gamuda will be kick starting the Penang South Island (PSI) reclamation project on July 1. The project developer Silicon Island Development (SID) has awarded through SRS TC, the RM3.5b turnkey contract to Gamuda to reclaim 1,260 acres of Silicon Island under Phase 1, which is about 55% of the entire island. The project is expected to be completed in seven years, by June 30, 2030. Management guided that PBT margin could be in the range of 15%.

**Maintain BUY**
**Unchanged Target Price: RM5.04**

#### RETURN STATISTICS

Price @ 22nd June 2023 (RM)	4.25
Expected share price return (%)	+18.6
Expected dividend yield (%)	2.4
Expected total return (%)	+21.0

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.2	4.4
3 months	4.2	5.4
12 months	40.8	44.4

#### INVESTMENT STATISTICS

FYE July	2023E	2024F	2025F
Revenue	8,130	11,569	12,154
Operating Profit	1,124	1,695	1,700
Profit Before Tax	1,576	2,373	2,419
Core Net Profit	814.0	833	864
Core EPS	31.8	30.2	33.8
DPS (sen)	50	12	12
Dividend Yield	9.9%	2.4%	2.4%

#### KEY STATISTICS

FBM KLCI	1,394.67
Issue shares (m)	2553.93
Estimated free float (%)	49.98
Market Capitalisation (RM'm)	11,311.04
52-wk price range	RM3.00 - RM4.44
3-mth average daily volume (m)	3.85
3-mth average daily value (RM'm)	16.04
Top Shareholders (%)	
Employees Provident Fund Board	14.22
Amanah Saham Nasional Bhd	13.78
KWAP	5.00

#### Analyst

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**Stellar order book.** The outstanding construction order book stands at RM21.5b, providing Gamuda with earnings visibility up to FY26/27. Australian projects still make up the bulk of its order book at RM12.4b (57.7%). These include RM4.5b of projects following the completion of acquisition of Downer Group's transport projects (DTP) business. Malaysian projects totalled RM5.8b, or 27.0% of the total orderbook. Other overseas projects include RM2.0b (9.3%) in Taiwan and RM1.3b (6.0%) in Singapore. The group's target is to secure RM12b to RM13b of new jobs annually. Management guided that they aim to grow their Australia and Taiwan businesses further.

**MRT3 updates.** MRT Corp extended the tender validity duration to end Sep-23, though there are no indication if the tenders would be awarded by then or if the government has decided on the cost reduction of the project. Recall that the awards for the three main packages of MRT3 has been delayed since Dec-22 following the general election and the subsequent review by the government in an attempt to slash the cost by 10% to RM45b.

**Renewal of Group MD's contract.** The contract of Gamuda's founder and group managing director Dato' Lin Yun Ling has been renewed for another five years up to June 30, 2028. We also find reassurance in the group's succession planning with its current pool of younger generation leaders. Among them are 33-year-old executive director Justin Chin who has shadowed Dato' Lin for several years. He was a Gamuda scholar and now the managing director of Gamuda Engineering. The group's property development arm – Gamuda Land – is led by 40-year-old Chu Wai Lune, who has been with the group since 2008.

**Earnings estimates.** We are retaining our top and bottom line estimates for Gamuda as the results are in line with our expectations.

**Target price.** As such, we are also maintaining our TP of RM5.04, which was arrived by pegging a forward PER of 15.8x based on +1SD above its five year mean to the group's FY24F EPS of 31.9 sen.

**Maintain BUY.** Our optimism on Gamuda's earnings outlook remains strong, backed by its stellar order book and its strong overseas presence, which is now contributing almost half of the group's bottom line. It is set to make greater strides in Australia, where it has just completed the acquisition of DTP, which was a division within the Downer Group, specialising in rail. We also like that Gamuda remains the front-runner of MRT3's largest underground package and that it plans to take it a step further by bidding for the systems package. While there could be a delay in the rollout of MRT3, it would have minimal impact on Gamuda, which already has a vast number of jobs under its wing, on top of its capability to secure even more projects. All factors considered, we are maintaining our **BUY** recommendation on **Gamuda**, which is our top pick for the construction sector. 

### GAMUDA BHD: 3QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	Q323	Q223	Q322	QoQ	YoY	9MFY23	9MFY22	YoY
<b>Income Statement</b>								
Revenue	2,067.1	1,443.0	1,140.6	43%	81.2%	4,816.7	3,047.4	58%
Profit from operations	254.8	175.6	194.6	45%	31%	578.3	398.9	45%
Finance costs	(7.5)	(27.6)	(17.3)	73%	56%	(62.7)	(66.5)	6%
Share of profit of associated companies	2.4	0.2	1.9	1038%	25%	4.3	5.7	-26%
Share of profit of joint ventures	59.8	82.0	63.8	-27%	-6%	204.4	233.6	-12%
Profit before tax	309.5	230.1	243.0	34%	27%	724.3	571.7	27%
Tax expense	(81.9)	(31.2)	(37.0)	-163%	-121%	(141.1)	(92.8)	-52%
Profit from continuing operations	227.5	198.9	206.0	14%	10%	583.2	472.7	23%
Profit from discontinued operations	0.0	0.0	23.5	-	-100%	57.2	74.7	-23%
Minority interest	4.2	4.3	4.9	-4%	-15%	20.2	11.1	81.8%
Reported net profit	223.4	194.6	201.1	15%	11.1%	608.4	493.4	23.3%
Core net profit	223.3	194.7	199.3	15%	12.1%	607.7	486.7	24.9%

Source: Company, MIDFR

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	3,517.2	5,089.5	8,130.0	11,569.0	12,154.4
Operating profit	586.1	685.3	1,124.5	1,695.2	1,699.5
Finance costs	(114.5)	(93.8)	(241.2)	(311.0)	(303.7)
Profit before tax	786.3	1,008.2	1,575.8	2,373.4	2,419.0
Tax	(154.1)	(168.9)	(327.9)	(452.4)	(456.3)
Net profit	588.3	806.2	813.9	833.2	864.1
Core net profit	583.7	805.8	813.9	833.2	864.1
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Property, plant and equipment	960.7	1,095.5	1,359.8	1,322.8	1,388.9
Land held for property development	3,305.1	3,507.9	3,613.1	3,721.5	3,833.2
<b>Non-current assets</b>	<b>8,528.3</b>	<b>7,119.3</b>	<b>7,988.8</b>	<b>8,060.2</b>	<b>8,238.0</b>
Cash	2,656.7	2,794.3	3,051.4	2,875.3	3,019.1
Trade debtors	1,746.5	2,478.1	3,252.0	5,125.1	5,347.9
<b>Current assets</b>	<b>9,895.1</b>	<b>11,068.2</b>	<b>12,869.0</b>	<b>14,813.5</b>	<b>15,214.1</b>
Trade creditors	1,745.6	2,677.1	3,658.5	5,206.1	5,469.5
Short-term debt	1,452.2	1,535.3	1,142.4	1,152.6	1,161.6
<b>Current liabilities</b>	<b>4,480.9</b>	<b>5,887.2</b>	<b>6,475.7</b>	<b>8,033.5</b>	<b>8,305.8</b>
Long-term debt	3,775.6	3,244.7	3,195.5	3,304.7	3,377.6
<b>Non-current liabilities</b>	<b>4,426.8</b>	<b>3,677.0</b>	<b>3,627.8</b>	<b>3,737.0</b>	<b>3,809.9</b>
Share capital	3,620.9	3,723.2	3,723.2	3,723.2	3,723.2
Retained earnings	5,542.6	6,177.6	6,301.1	6,427.1	6,555.7
<b>Equity</b>	<b>9,515.7</b>	<b>10,249.9</b>	<b>10,754.3</b>	<b>11,103.2</b>	<b>11,336.4</b>
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	786.3	1,008.2	1,575.8	2,373.4	2,419.0
Depreciation & amortisation	225.2	240.9	308.7	295.0	312.5
Changes in working capital	569.6	519.2	646.9	1,052.8	1,033.1
<b>Operating cash flow</b>	<b>971.6</b>	<b>444.2</b>	<b>639.7</b>	<b>1,031.9</b>	<b>1,029.7</b>
Capital expenditure	(457.1)	(523.0)	(200.0)	(200.0)	(200.0)
<b>Investing cash flow</b>	<b>(819.2)</b>	<b>498.7</b>	<b>2,500.3</b>	<b>250.0</b>	<b>250.0</b>
Debt raised/(repaid)	(251.3)	(239.6)	(246.8)	(259.1)	(272.1)
Equity raised/(repaid)	(122.4)	(88.0)	(1,114.9)	(306.0)	(306.0)
Dividends paid	(370.2)	(319.6)	(1,361.7)	(565.1)	(578.1)
<b>Financing cash flow</b>	<b>(217.8)</b>	<b>623.3</b>	<b>1,778.3</b>	<b>716.8</b>	<b>701.6</b>
<b>Net cash flow</b>	<b>1,518.8</b>	<b>1,301.3</b>	<b>1,984.7</b>	<b>3,763.0</b>	<b>4,479.8</b>
<b>Beginning cash flow</b>	<b>1,301.3</b>	<b>1,984.7</b>	<b>3,763.0</b>	<b>4,479.8</b>	<b>5,181.4</b>
<b>Ending cash flow</b>	<b>786.3</b>	<b>1,008.2</b>	<b>1,575.8</b>	<b>2,373.4</b>	<b>2,419.0</b>
Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	16.7%	13.5%	13.8%	14.7%	14.0%
PBT margin	22.4%	19.8%	19.4%	20.5%	19.9%
PAT margin	16.7%	15.8%	10.0%	7.2%	7.1%
Core PAT margin	16.6%	15.8%	10.0%	7.2%	7.1%
Operating profit margin	16.7%	13.5%	13.8%	14.7%	14.0%

Source: Bloomberg, MIDFR

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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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology