

Gamuda Berhad

(5398 | GAM MK) Main | Construction

Going Strong Down Under

KEY INVESTMENT HIGHLIGHTS

- **SMW-WTP project now at 39% completion progress; both TBMs Betty and Dorothy deployed**
- **Gamuda Australia, including TunSol and DTI, have over 1,800 employees across Australia**
- **Australia tender book is at AUD5b - AUD6b; strategy over the next 3-5 years is to tap on RE projects**
- **Maintain BUY with an unchanged TP of RM5.55**

Sydney visit. We were in Sydney recently in a working trip led by Gamuda, where we visited sites related to the group's maiden and largest project in Australia, the Western Tunnelling Package for the Sydney Metro West (SMW-WTP). The group has made great progress from our observations and this further strengthens our view of Gamuda's growth alongside the positive prospects in Australia. Sites that we visited were the Parramatta metro station site, Rosehill Services Facility and the Eastern Creek Precast Facility.

SMW-WTP recap. To recap, the size of the SMW-WTP is about AUD2.57b (RM7.7b), including RM1.2b of variation orders and the current completion progress is at 39%. Gamuda Australia and its consortium partner Laing O'Rourke was awarded the project by the New South Wales (NSW) Government in Mar-22. The job scope includes 9km of twin, metro rail tunnel between Westmead and Sydney Olympic Park; excavation and civil works for new metro stations in the Parramatta CBD and Westmead Health Precinct; earthworks, civil structures, utilities and connecting tunnels for a maintenance and stabling facility at Clyde; and excavation and underground structures for the Services Facility at Rosehill.

Parramatta metro station. Our visit began at the Parramatta metro station site, where major construction works commenced in Jun-23 with the construction of the diaphragm wall (D-wall) that will form part of the station box excavation. It is a permanent retention structure that will be constructed around the perimeter of the station box. Excavation and construction of D-wall are round the clock for five days a week and is expected to be completed early next year. Once interlocked, the total perimeter of the Parramatta D-wall measures 440 metres. Each D-wall panel is 30 metres deep, 6.3 metres long and 1 metre wide. About 95 workers are on site every day, which will balloon to 130 workers at the peak of the progress. Upcoming work at Parramatta includes constructing the D-wall perimeter, excavation and steel struts of the future station box, and nozzle construction for the entrance to the tunnel boring machine (TBM) tunnels and construction of the twin metro TBM tunnels (mid 2024-2025). The autonomous TBMs are expected to arrive in Parramatta in early 2025.

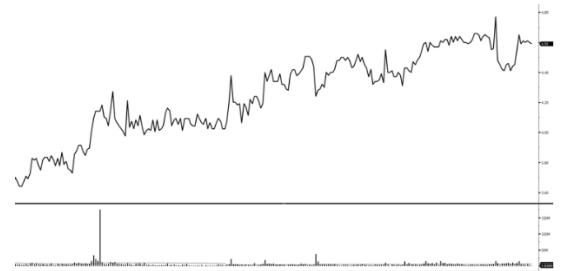
Maintain BUY

Unchanged Target Price: RM5.55

RETURN STATISTICS

Price @ 26 th Dec 2023 (RM)	4.59
Expected share price return (%)	+20.92
Expected dividend yield (%)	2.16
Expected total return (%)	+23.08

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.1	-0.9
3 months	3.6	4.3
12 months	22.1	24.1

INVESTMENT STATISTICS

FYE July	2024E	2025F	2026F
Revenue	11,569.0	12,154.4	12,519.0
Operating Profit	1,654.4	1,685.2	1,752.5
Profit Before Tax	1,563.4	1,589.2	1,772.1
Core Net Profit	1,085.9	1,137.2	1,232.3
Core EPS	40.8	42.7	46.3
DPS (sen)	12	12	12
Dividend Yield	2.2%	2.2%	2.2%

KEY STATISTICS

FBM KLCI	1,450.78
Issue shares (m)	2662.74
Estimated free float (%)	58.33
Market Capitalisation (RM'm)	12,505.22
52-wk price range	RM3.70 - RM4.77
3-mth average daily volume (m)	6.24
3-mth average daily value (RM'm)	28.38
Top Shareholders (%)	
Amanah Saham Nasional Bhd	13.91
Employees Provident Fund Board	8.57
KWAP	4.14

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Rosehill Services Facility. The next stop was where the TBMs were launched. TBM Betty began tunnelling in Aug-23, where it has tunnelled 180 metres and constructed 100 concrete rings, while the second TBM, nicknamed Dorothy, was launched recently. Both TBMs made history in Australia as the first autonomous TBMs to be used in the country. Both machines will feature AI software developed by Gamuda that will automatically steer, operate and monitor various TBM functions. A little fun fact, TBM Betty was named after four-time Olympic champion Betty Cuthbert while TBM Dorothy was named after Australian human rights activist Dorothy Buckland-Fuller. The autonomous TBMs will tunnel 4.5km towards the Sydney Olympic Park where they will then be retrieved and return to Rosehill to be relaunched and to build another 4.5km metro tunnels to Westmead via the new Parramatta Station. Both TBMs operate 24 hours daily for seven days a week and are expected to tunnel about 180 metres weekly, depending on ground conditions.

Eastern Creek Precast Facility. The final site visit was to the precast facility at Eastern Creek, which is used to manufacture concrete segments needed to line the twin tunnels for the SMW-WTP. Each ring around the tunnel are formed by six segments. They are loaded into the TBM and as the machine excavates a section of tunnel, it lifts six segments onto the tunnel's circular wall to form a ring, which are designed to fit together to create a waterproof permanent lining. Grout is then pumped around the segments to secure them into place. About 85 to 90 concrete segments are produced daily, each weighing about 3.8 tonnes. The facility operates round the clock the entire week. About 60,000 concrete segments are needed to fully line the metro twin tunnels between Sydney Olympic Park and Westmead and 14,000 segments have been produced to date. The facility currently has two months of inventory buffer, or about 6,000 concrete segments. The production is expected to be completed by Dec-24.

Figure 1: TBM Betty (left) and TBM Dorothy (right)



Source: Sydney Metro

Figure 2: Precast concrete production floor



Source: Sydney Metro

Gamuda's entry into Australia. Gamuda Engineering Australia (GEA) was established in 2019, starting with a team of only six people. They were approached by the Australian Trade Commission (Austrade) in 2018 to explore opportunities in the Land Down Under as there is a huge pipeline of projects of about AUD180b over the next decade. Covid-19 threw a spanner in the works but that did not stop Gamuda from participating in tenders through various virtual meetings. The team had grown to about 50 people when it secured its first project, the SMW-WTP in 2022. They then secured the Coffs Harbour Bypass project in Jun-22, a major road transport project worth AUD1.35b (RM4.1b). In Dec-22, they scored the third win for the extension of the M1 Motorway worth AUD1.03b (RM3.08b). GEA has since expanded its workforce to 485 people, 80% homegrown and the remaining, mainly technical experts transferred from Malaysia. In 2022, they have also acquired the majority shareholding of Tunnelling Solutions (TunSol), a Melbourne-based firm specialising in mined tunnelling and drill and blast capabilities while in Jun-23, it completed the acquisition of DT Infrastructure (DTI), which does complex infrastructure construction such as rail, road and bridge, and defence, energy and marine infrastructure. As a group, Gamuda now has a presence in the whole of Australia with more than 1,800 employees, including about 1,200 from DTI and 200 from TunSol. They also have 200 engineers based in Malaysia that actively supports the group's activities in Australia, as a way of reducing overhead. Through the synergistic capabilities between Gamuda and DTI, the group is now seen as a Tier 1 construction player in Australia.

Meeting with Gamuda Australia. Gamuda Australia CEO Ewan Yee guided that the group's current tender book was about AUD5b – AUD6b (RM15.8b – RM19.0b) in various stages from expression of interest to the actual tendering process. Gamuda's plan over the next three to five years is to be actively involved in the renewable energy sector and to expand its geographical reach, starting with the state of Queensland. It will also be tapping into the expertise of TunSol to take on pumped hydro projects. Chief Strategy and Growth Officer Jarred Hardman said Gamuda Australia's go to market strategy is a three-prong approach through build, partner and invest, which are to identify investment opportunities and securing shovel ready projects for delivery in FY25/26; building greenfield portfolio of sites for construction in FY26-FY28 with the initial focus on solar and battery energy storage system (BESS) projects and exploring opportunities in pumped hydro; and using innovative partnering models to secure international experts in the hydro sector and working in partnership with DTI.

Earnings estimates and expectations. We are making no changes to our earnings estimates.

Target price. We are maintaining our TP at RM5.55, as we peg a PER of 13x based on +1SD above its three-year historical mean to the group's FY25F EPS of 42.7 sen.


Maintain BUY. Gamuda remains our top pick for the construction sector, backed by its strong overseas expansion plan especially in Australia and its consistency in clinching sizeable jobs. Its bulging order book of almost RM26b provides strong earnings visibility at least over the next three financial years and in Malaysia, its prospects remain bright as we can expect Gamuda's involvement in the MRT3, Penang LRT and Pan Borneo Sabah projects. In Australia, the strong pipeline of infrastructure projects bodes well for Gamuda's prospects, which is now recognised as a Tier 1 contractor post-acquisition of DTI, placing them in a sweet spot to undertake other infrastructure projects. The group's balance sheet also remains healthy with a net gearing of 24.7%, well below its self-imposed limit of 70%. All factors considered, we are maintaining our BUY recommendation on Gamuda. 

Table 1: Gamuda's projects in Australia

	Stake (%)	Balance works (RM'b)	Completion status (%)	Award/Completion Year
SMW-WTP	100	4.7	39	2022/2026
Coffs Harbour Bypass	50	1.7	16	2022/2027
M1 Motorway	40	1.1	9	2023/2028
DTI projects	100	4.6	n/a	various

Source: Gamuda

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	5,089.5	8,233.6	11,569.0	12,154.4	12,519.0
Operating profit	685.3	922.8	1,654.4	1,685.2	1,752.5
Finance costs	(93.8)	(88.4)	(311.0)	(316.0)	(250.4)
Profit before tax	1,008.2	1,067.6	1,563.4	1,589.2	1,722.1
Tax	(168.9)	(230.9)	(497.5)	(472.1)	(509.8)
Net profit	806.2	860.1	1,085.9	1,137.2	1,232.3
Core net profit	805.8	860.8	1,085.9	1,137.2	1,232.3

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Property, plant and equipment	1,095.5	1,701.7	1,735.7	1,787.8	1,841.4
Land held for property development	3,507.9	3,769.1	3,721.5	3,833.2	3,834.2
Non-current assets	7,119.3	8,674.3	8,660.7	8,824.5	8,824.5
Cash	2,794.3	3,169.5	2,875.3	3,019.1	3,020.1
Trade debtors	2,478.1	2,904.5	5,125.1	5,347.9	5,132.8
Current assets	11,068.2	15,227.5	17,434.5	17,821.1	17,607.0
Trade creditors	2,677.1	3,810.6	5,206.1	5,469.5	5,383.3
Short-term debt	1,535.3	1,409.7	1,238.5	1,244.3	1,244.3
Current liabilities	5,887.2	6,958.6	8,182.8	8,452.0	8,365.8
Long-term debt	3,244.7	5,514.0	3,550.9	3,618.0	3,437.1
Non-current liabilities	3,677.0	5,985.4	4,022.3	4,089.4	3,908.5
Share capital	3,723.2	4,078.1	4,223.0	4,223.0	4,223.0
Retained earnings	6,177.6	6,744.3	7,479.3	8,297.0	9,209.8
Equity	10,249.9	10,957.8	13,890.1	14,104.2	14,157.2

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	1,008.2	1,067.6	1,563.4	1,589.2	1,772.1
Depreciation & amortisation	240.9	386.3	295.0	312.5	405.1
Changes in working capital	519.2	646.9	1,052.8	1,033.1	1,126.7
Operating cash flow	444.2	(588.9)	(274.3)	(276.5)	(90.3)
Capital expenditure	(523.0)	(2,296.8)	(200.0)	(200.0)	(200.0)
Investing cash flow	498.7	837.3	250.0	250.0	250.0
Debt raised/(repaid)	(239.6)	2,053.6	(259.1)	(272.1)	(272.1)
Dividends paid	(319.6)	694.4	(565.1)	(578.1)	(306.0)
Financing cash flow	623.3	942.8	(589.4)	(604.6)	(578.1)
Net cash flow	1,301.3	1,908.4	2,830.6	4,479.8	(418.4)
Beginning cash flow	1,984.7	2,830.6	2,241.2	3,875.2	4,480.8
Ending cash flow	1,008.2	1,067.6	1,563.4	1,589.2	4,062.4

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