

## Gamuda Berhad

(5398 | GAM MK) Main | Construction

### To Accelerate in 2HFY24

#### KEY INVESTMENT HIGHLIGHTS

- 1HFY24 core net profit grew +4.6%yoy to RM401.9m; 37.0% and 40.8% of house and consensus estimates but deemed in line
- Construction revenue grew +89.9%yoy to RM4.66b, 86.2% from overseas projects; PBT grew +2.2%yoy to RM269.9m
- Order book remains strong at RM24.1b, earnings visibility up to FY27/28. Management confident of RM25b job wins in 2 years
- Maintain BUY with an upgraded TP of RM5.98

**Below expectations.** Gamuda Bhd recorded a core net profit of RM207.6m in 2QCY24, an increase of +6.9%yoy on the back of a much stronger revenue that surged 2.3x to RM3.33b. For the cumulative 1HFY24m, the group's revenue grew 2.2x to RM6.14b while its core earnings grew +4.6%yoy to RM401.9m anchored by its overseas operations, which delivered 64% of the bottom line. While this came in at 37.0% of ours and 40.8% of consensus estimates, we still deem the results to be within our estimates on the back of stronger profits in 2HFY24 from stronger construction progress and lumpy property revenue.

**Construction margins to pick up.** Construction revenue grew +89.9%yoy to RM4.66b in 1HFY24, 86.2% of which were from overseas operations. PBT for the segment grew +2.2%yoy to RM269.9m, indicating a decline in margin from 10.8% in 1HFY23 to 5.8% in 1HFY24. This was mainly due to the revenue that was heavily skewed towards overseas operations. This is expected to pick up slightly in coming quarters with the improvement in operational efficiencies and stronger construction progress locally, which will be driven by the Silicon Island reclamation project in Penang. The six-month period was also affected by some delays in approvals, project start-ups and timings but these are being progressively resolved and management is optimistic of a stronger 2HFY24.

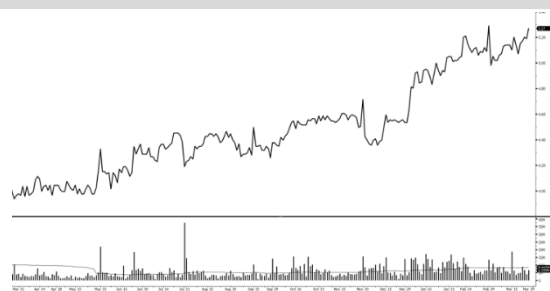
**Stronger property results.** Revenue from the property segment came in higher by +29.3%yoy to RM1.56b in 1HFY24 while PBT grew +39.0%yoy to RM209.5m, attributable to stronger performances in both domestic and overseas projects. Management expects significant increase in sales in 2HFY24 from lumpy recognitions and with secured bookings of RM600m being converted to sales. Unbilled sales currently stand at RM6.7b. Gamuda is expected to launch two new projects by mid-CY24, namely Gardens Park (adjacent to Gamuda Gardens) and Eaton Park in Ho Chi Minh, with GDV values of RM4.0b and RM5.1b respectively, both of which are expected to drive future sales. Meanwhile, management has notably slashed its FY24 sales target from RM5.6b to RM5.0b mainly due to its two pieces of land in Hanoi which is expected to take longer to sell.

**Maintain BUY**
**Revised Target Price: RM5.98**
*(Previously RM5.55)*

#### RETURN STATISTICS

Price @ 27 <sup>th</sup> Mar 2024 (RM)	5.27
Expected share price return (%)	+13.5
Expected dividend yield (%)	+2.0
<b>Expected total return (%)</b>	<b>+15.5</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.9	4.8
3 months	14.8	8.8
12 months	26.4	15.3

#### INVESTMENT STATISTICS

FYE July	2024E	2025F	2026F
Revenue	13,498.1	14,173.0	14,598.2
Operating Profit	1,214.8	1,346.4	1,445.6
Profit Before Tax	1,349.8	1,471.9	1,568.3
Core Net Profit	1,085.6	1,182.1	1,258.2
Core EPS	39.2	42.7	45.5
DPS (sen)	12	12	12
Dividend Yield	2.0%	2.0%	2.0%

#### KEY STATISTICS

FBM KLCI	1,530.60
Issue shares (m)	2662.74
Estimated free float (%)	58.45
Market Capitalisation (RM'm)	14,586.16
52-wk price range	RM3.99 –RM5.29
3-mth average daily volume (m)	8.22
3-mth average daily value (RM'm)	41.22
Top Shareholders (%)	
Amanah Saham Nasional Bhd	13.70
Employees Provident Fund Board	8.52
Generasi Setia M Sdn bhd	4.13

#### Analyst


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**Order books remain strong.** The group's unbilled construction order book stands at RM24.1b, made up mainly of overseas projects. Australian jobs make up 46.1% or RM11.1b of the outstanding order book, followed by RM4.5b (18.7%) in Taiwan and RM3.0b (12.4%) in Singapore. Malaysian projects make up RM5.4b or 22.4% of the total order book. Management is expecting some project wins in 2HFY24, including two data centre jobs. Another project on Gamuda's radar is the tunneling package for the Suburban Rail Loop in Victoria, of which we expect the contract size to be about AUD2.2b (RM6.75b). Gamuda and its partner John Holland are among the two consortiums shortlisted for the project, which is likely to be awarded by Jul-24. Meanwhile, it is also prequalifying for the Penang International Airport (PIA). Yet to be included in the order book is the Ulu Padas Hydroelectric Dam project in Sabah which may add another RM2.0b to the group's orderbook. Tariffs are still being negotiated.

**Renewable energy play.** Beyond the construction and infrastructure play in Australia, Gamuda also plans to tap on the multi-billion dollar RE industry there, both in EPCC opportunities and asset ownership. It is planning to secure some EPCC contracts, and the group will also leverage on the solar PV expertise of ERS Energy Sdn Bhd, paving the way for the latter to Australia. Recall that Gamuda acquired a 30% stake in ERS Energy in Dec-22 for RM200m.

**Earnings estimates.** Our FY24E estimated core earnings remain unchanged at RM1.09b though we have revised our revenue estimates higher by +16.7% to RM13.50b to reflect the stronger number expected by management and tighter profit margins than we initially expected. Similarly, our FY25F/FY26F earnings estimates were adjusted higher by +4.0%/+2.1%.

**Target price.** We are revising our **TP** from RM5.55 to **RM5.98**, as we peg a PER of 14x 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 and its consistency in clinching sizeable jobs with the absence of mega projects in Malaysia. Its bulging order book of RM24.1b provides strong earnings visibility at least over the next three financial years and it is expected to grow larger with expected wins from Australia, data centre jobs and upcoming infrastructure projects such as the Penang LRT, Pan Borneo Sabah and the PIA expansion. It is also the front-runner for the MRT3 tunnelling package with its partner MMC but we reiterate our view that we can expect further delays in terms of contract awards, which has been held back since Dec-22. The group's balance sheet also remains healthy with a net gearing of 28.6%, well below its self-imposed limit of 70%. All factors considered, we are maintaining our **BUY** recommendation on **Gamuda**. 

## GAMUDA BHD: 2QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	2QFY24	1QFY24	2QFY23	QoQ	YoY	6MFY24	6MFY23	YoY
Revenue	3,330.8	2,804.7	1,443.0	18.8%	>+100%	6,135.5	2,749.6	>+100%
Profit from operations	168.9	243.2	175.6	-30.6%	-3.8%	412.1	323.5	27%
Finance costs	(25.2)	(37.5)	(27.6)	32.7%	8.8%	(62.7)	(55.1)	-14%
Share of profit of associated companies	6.8	2.0	0.2	>+100%	>+100%	8.8	1.8	>+100%
Share of profit of joint ventures	89.2	32.1	82.0	>+100%	8.8%	121.2	144.6	-16%
Profit before tax	239.6	239.7	230.1	0.0%	4.1%	479.4	414.8	16%
Tax expense	(23.4)	(37.9)	(31.2)	38.1%	24.8%	(61.3)	(59.2)	-4%
Profit from continuing operations	216.2	201.9	198.9	7.1%	8.7%	418.1	355.7	18%
Profit from discontinued operations	0.0	0.0	0.0	-	-	0.0	57.2	-100%
Minority interest	7.4	6.8	4.3	8.2%	70.8%	14.2	16.1	-11.4%
Reported net profit	208.8	195.0	194.6	7.1%	7.3%	403.8	385.0	4.9%
Core net profit	207.6	194.3	194.7	6.9%	6.6%	401.9	384.4	4.6%

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Revenue	5,089.5	8,233.6	13,498.1	14,173.0	14,598.2
Operating profit	685.3	922.8	1,214.8	1,346.4	1,445.6
Finance costs	(93.8)	(88.4)	-90.0	-94.5	-97.3
Profit before tax	1,008.2	1,067.6	1,349.8	1,471.9	1,568.3
Tax	(168.9)	(230.9)	-297.0	-323.8	-345.0
Net profit	806.2	860.1	1,085.6	1,182.1	1,258.2
Core net profit	805.8	860.8	1,085.6	1,182.1	1,258.2

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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
<b>Non-current assets</b>	<b>7,119.3</b>	<b>8,674.3</b>	<b>8,660.7</b>	<b>8,824.5</b>	<b>8,824.5</b>
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
<b>Current assets</b>	<b>11,068.2</b>	<b>15,227.5</b>	<b>17,434.5</b>	<b>17,821.1</b>	<b>17,607.0</b>
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
<b>Current liabilities</b>	<b>5,887.2</b>	<b>6,958.6</b>	<b>8,182.8</b>	<b>8,452.0</b>	<b>8,365.8</b>
Long-term debt	3,244.7	5,514.0	3,550.9	3,618.0	3,437.1
<b>Non-current liabilities</b>	<b>3,677.0</b>	<b>5,985.4</b>	<b>4,022.3</b>	<b>4,089.4</b>	<b>3,908.5</b>
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
<b>Equity</b>	<b>10,249.9</b>	<b>10,957.8</b>	<b>13,890.1</b>	<b>14,104.2</b>	<b>14,157.2</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
PBT	1,008.2	1,067.6	1,349.8	1,471.9	1,568.3
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
<b>Operating cash flow</b>	<b>444.2</b>	<b>(588.9)</b>	<b>(274.3)</b>	<b>(276.5)</b>	<b>(90.3)</b>
Capital expenditure	(523.0)	(2,296.8)	(200.0)	(200.0)	(200.0)
<b>Investing cash flow</b>	<b>498.7</b>	<b>837.3</b>	<b>250.0</b>	<b>250.0</b>	<b>250.0</b>
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)
<b>Financing cash flow</b>	<b>623.3</b>	<b>942.8</b>	<b>(589.4)</b>	<b>(604.6)</b>	<b>(578.1)</b>
<b>Net cash flow</b>	<b>1,301.3</b>	<b>1,908.4</b>	<b>2,830.6</b>	<b>4,479.8</b>	<b>(418.4)</b>
<b>Beginning cash flow</b>	<b>1,984.7</b>	<b>2,830.6</b>	<b>2,241.2</b>	<b>3,875.2</b>	<b>4,480.8</b>
<b>Ending cash flow</b>	<b>1,008.2</b>	<b>1,067.6</b>	<b>1,563.4</b>	<b>1,589.2</b>	<b>4,062.4</b>

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Operating profit margin	13.5%	11.2%	14.3%	13.9%	14.0%
PBT margin	19.8%	13.0%	13.5%	13.1%	13.8%
PAT margin	15.8%	10.4%	9.4%	9.4%	9.8%
Core PAT margin	15.8%	10.5%	9.4%	9.4%	9.8%

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