Gamuda Berhad

(5398 | GAM MK) Main | Construction

Aiming for +20% CAGR from FY24-FY28

***Maintain* BUY**

***Revised* Target Price: RM7.50**

(Previously RM6.83)

KEY INVESTMENT HIGHLIGHTS

- **9MFY24 core net profit grew +5.1%yoy to RM639.6m; deemed within with expected lumpy earnings in 4QFY24**
- **Construction revenue grew +88.5%yoy to RM7.18b, 86.4% from overseas projects; net profit grew +3.3%yoy to RM364.0m**
- **Order book remains strong at RM24.2b; management confident of surpassing RM30.0b mark by Dec-24**
- **Maintain BUY with an upgraded TP of RM7.50**

Within expectations. Gamuda Bhd recorded a core net profit of RM235.8m in 3QCY24, an increase of +5.6%yoy on the back of stronger revenue that grew +20.5%yoy to RM2.49b. For the cumulative 9MFY24, the group's revenue grew +79.1%yoy to RM8.63b while its core earnings grew +5.1%yoy to RM639.6m. The results make up 58.9% of our full-year estimates at 65.0% of consensus but we deem it in line as lumpy earnings recognitions are expected in 4QFY24 from both its construction and property divisions.

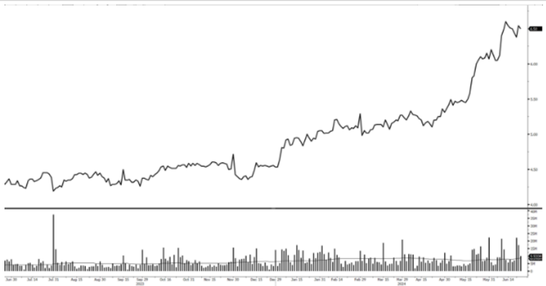
Construction margins to pick up. Construction revenue grew +88.5%yoy to RM7.18b in 9MFY24, 86.4% of which were from overseas operations. Net profit, however, was flattish with a +3.3% growth to RM364.0m as contribution is currently heavily skewed towards overseas operations but management is optimistic that margins have bottomed and that it is now in the path of inflection with gradually improving overseas margins and a stronger mix of upcoming local projects that will drive the overall margins higher. Overseas net margins rose to 3.6% during the nine-month period (9MFY23: 3.3%) and overall, the segment's net margins dropped to 5.1% (9MFY23: 9.2%).

Order book on track to record high. Management is confident of surpassing the RM30.0b mark for its order book by Dec-24. Its outstanding order book now stands at RM24.2b and assuming a burn rate of RM5.0b every six months, we believe Gamuda can secure at least RM10.0b of new projects in 2HCY24. This will likely come from Segment 1 of the Penang LRT (RM4.8b based on 60% stake in SRS Consortium), Ulu Padas Hydroelectric Dam project in Sabah which may add another RM2.0b; and Pan Borneo Sabah. Overseas replenishment prospects include a tunnelling package for the Suburban Rail Loop in Victoria and some wins from its wholly owned Australian subsidiary DT Infrastructure, which has been shortlisted for a pipeline of projects to the tune of RM2.0b-RM3.0b.

Data centre opportunities. The pipeline of data centre projects in Malaysia is healthy enough for Gamuda to be selective on projects for the time being. Management revealed that they have been receiving "many calls" on such opportunities, especially after its recent completion of AIMS Cyberjaya Block 2 in only eight months, way ahead of the initially planned period of 13 months. The group is optimistic on prospects in the hyperscale space where speed of build takes priority over the price tag.

RETURN STATISTICS	
Price @ 25th Jun 2024 (RM)	6.50
Expected share price return (%)	+15.4
Expected dividend yield (%)	+2.1
Expected total return (%)	**+17.5**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.4	9.6
3 months	23.3	21.1
12 months	45.7	27.7

INVESTMENT STATISTICS

FYE July	2024E	2025F	2026F
Revenue	13,498.1	16,872.6	18,559.9
Operating Profit	1,147.3	1,552.3	1,726.1
Profit Before Tax	1,277.3	1,647.6	1,817.6
Core Net Profit	1,008.6	1,298.6	1,429.6
Core EPS	36.4	46.9	51.6
DPS (sen)	16	16	20
Dividend Yield	2.1%	2.1%	2.1%

KEY STATISTICS	
FBM KLCI	1,587.15
Issue shares (m)	2662.74
Estimated free float (%)	58.39
Market Capitalisation (RM'm)	18,009.45
52-wk price range	RM4.16 - RM6.72
3-mth average daily volume (m)	8.37
3-mth average daily value (RM'm)	48.23
Top Shareholders (%)	
Amanah Saham Nasional Bhd	13.68
Employees Provident Fund Board	8.63
Generasi Setia M Sdn bhd	4.12

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Property division RM5.0b sales target still on track. Revenue from properties jumped +46.9%yoy during the nine-month period to RM2.83b, about 54.4% of which were from overseas developments. Net profit grew +30.8%yoy to RM275.6m. A total of RM2.30b of sales was achieved in 9MFY24 but management maintains its RM5.0b sales target for FY24, indicating about RM2.70b of sales from 4QFY24 alone, of which 60% has been achieved. This will largely come from Phase 1 of Eaton Park in Ho Chi Minh City that was sold out over the weekend of its launch, the newly launched Gardens Park (Sungai Buloh), West Hampstead Central (London); stronger growth at Gamuda Cove and Gamuda Gardens and its newly launched quick turnaround projects (QTPs), The Meadows and Springville. Management said Vietnam will continue to be the main market for its property development business. (Refer to our visit note published earlier this month on Gamuda's prospects in Vietnam).

New five-year projections. Fresh from its review of business plans and targets prior to the July year end, management guided towards an optimistic +20% CAGR in revenue over five years from FY24 to FY28. By FY28, it expects to achieve a topline of RM30.0b, doubling what it expects to achieve in FY24 where 2/3^{rds} are expected to be delivered by its construction business and 1/3rd from property. On top of the stronger expected rollout of infrastructure jobs in Malaysia, the prospects for Gamuda's construction business are to be driven by overseas projects, especially Australia. Similarly, property development will see strong overseas proportions of about 60%, mainly Vietnam, UK and Australia.

Stronger dividends with higher earnings. Gamuda declared a second interim dividend of 10 sen, raising its FY24 DPS to 16 sen (dividend yield 2.5%), up from its usual 12 sen. Group managing director Dato' Lin Yun Ling in one of his rare appearances in quarterly results briefing yesterday, shared that Gamuda may up the ante to a DPS of 20 sen moving forward if the earnings trajectory is as projected.

Earnings estimates. We slash our FY24E bottom line estimates just slightly by -7.1% to RM1.01b in line with the lower expected margins but we raise our FY25F/FY26F earnings estimates by +9.9%/+13.6% to RM1.30b and RM1.43b respectively, on the back of stronger revenue projections and the expected improvement in margins moving forward.

Target price. We are upgrading our **TP** to **RM7.50** (from RM6.83), as we peg a PER of 16x based on +1SD above its six-year historical mean to the group's FY25F EPS of 46.9 sen.

Maintain BUY. Gamuda remains our top pick for the construction sector, backed by its successful overseas expansion plan; its consistency in clinching sizeable jobs and it being a front runner for most mega projects in Malaysia. We also like its exposure in the data centre construction space, now making its name as a premium builder. Its bulging order book of RM24.2b provides strong earnings visibility over the next few financial years and it is expected to grow larger with the potential wins as stated above. The improving prospects of its property development business, especially from its exposure in Vietnam where demand currently outstrips supply, places it in a favourable position. All in all, we are maintaining our **BUY** recommendation on **Gamuda**.

GAMUDA BHD: 3QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**3QFY24**	**2QFY24**	**3QFY23**	**QoQ**	**YoY**	**9MFY24**	**9MFY23**	**YoY**
Revenue	2,490.1	3,330.8	2,067.1	-25.2%	20.5%	8,625.5	4,816.7	79.1%
Profit from operations	69.7	168.9	254.8	-58.7%	-72.7%	481.8	578.3	-17%
Finance costs	(31.5)	(25.2)	(7.5)	-24.9%	-317.4%	(94.2)	(62.7)	-50%
Share of profit of assoc. companies	2.1	6.8	2.4	-69.8%	-15.2%	10.8	4.3	154%
Share of profit of joint ventures	228.6	89.2	59.8	156.4%	282.5%	349.9	204.4	71%
Profit before tax	268.9	239.6	309.5	12.2%	-13.1%	748.2	724.3	3%
Tax expense	(26.4)	(23.4)	(81.9)	-12.7%	67.8%	(87.7)	(141.1)	38%
Profit from continuing operations	242.7	216.2	227.5	12.3%	6.7%	660.8	583.2	13%
Profit from discontinued ops.	0.0	0.0	0.0	-	-	0.0	57.2	-100%
Minority interest	6.7	7.4	4.2	-9.7%	60.5%	20.9	20.2	3.4%
Reported net profit	235.8	208.8	223.4	12.9%	5.6%	639.6	608.4	5.1%
Core net profit	233.8	207.6	223.3	12.6%	4.7%	635.7	607.7	4.6%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	5,089.5	8,233.6	13,498.1	16,872.6	18,559.9
Operating profit	685.3	922.8	1,147.3	1,552.3	1,726.1
Finance costs	(93.8)	(88.4)	(90.0)	(124.7)	(128.5)
Profit before tax	1,008.2	1,067.6	1,277.3	1,647.6	1,817.6
Tax	(168.9)	(230.9)	(293.8)	(378.9)	(418.0)
Net profit	806.2	860.1	1,008.6	1,298.6	1,429.6
Core net profit	805.8	860.8	1,008.6	1,298.6	1,429.6

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	1,277.3	1,647.6	1,817.6
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**

Profitability Margins	2022A	2023A	2024E	2025F	2026F
Operating profit margin	13.5%	11.2%	8.5%	9.2%	9.3%
PBT margin	19.8%	13.0%	9.5%	9.8%	9.8%
PAT margin	15.8%	10.4%	7.5%	7.7%	7.7%
Core PAT margin	15.8%	10.5%	7.5%	7.7%	7.7%

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 *rise* 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 *fall* 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