

Gamuda (GAM MK)

Pre-Q for PTMP's BL LRT

Positive earnings addition; maintain BUY

Pre-qualification (pre-Q) registration for EPCC works, including funding model and O&M for the Bayan Lepas LRT (BL LRT) project under the Penang Transport Master Plan (PTMP) was called by the Penang State yesterday. Gamuda, a 60% partner in SRS Consortium which has been appointed project delivery partner (PDP) for the PTMP in Jul 2020, should see earnings addition in the form of PDP fees. We have yet to incorporate any such PDP fees in our earnings forecasts for Gamuda. We make no change to our earnings forecasts for now, and MYR4.20 RNAV-TP.

BL LRT to take on an extended project scope

The BL LRT project scope is slightly revised from what was announced by Gamuda to Bursa on 1 Jul 2020; it now comprises: (i) a 26.8km elevated viaduct (vs. 23.5km previously), (ii) 23 stations (vs. 20 previously), (iii) 1 depot (unchanged), and (iv) 5 park-and-ride facilities (unchanged). JVs or consortiums (of up to 3 companies) are invited for the pre-Q exercise by the Penang State, with registration of interest to close on 8 Aug. [\[link\]](#)

PTMP's PDP scope of works, recap

Recall that the PDP scope for the PTMP comprises 3 main components: (i) reclamation of Island A under the Penang South Islands (PSI) reclamation, and subsequent marketing/tender/sale of land there, (ii) an urban rail transit, and (iii) two highways of 19.5km and 5km each (the latter to connect to Island A of the PSI). Cost and completion date of each PTMP component will be discussed later, per Gamuda's announcement on 1 Jul 2020. The PDP will be paid a fee of 5.0-5.75%.

Timeline to tie in with PSI development

With the BL LRT alignment to connect into PSI, its construction timeline needs to tie in with the PSI development. A fresh and updated EIA report for PSI had been submitted to the DOE in Mar 2022; the EIA report was on public display from 20 May to 18 Jun, and EIA approval is expected in 4Q22 for reclamation to start almost immediately. The BL LRT has suffered setbacks as it was originally to be funded by State bonds, guaranteed by the Federal Government which saw a change in 2020.

FYE Jul (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,663	3,517	4,446	5,966	6,323
EBITDA	646	692	1,001	982	1,024
Core net profit	525	588	753	764	630
Core EPS (sen)	21.1	23.4	29.5	29.9	24.7
Core EPS growth (%)	(27.1)	11.0	25.9	1.5	(17.5)
Net DPS (sen)	6.0	0.0	12.0	12.0	12.0
Core P/E (x)	16.9	12.0	12.3	12.1	14.7
P/BV (x)	1.0	0.8	1.0	0.9	0.9
Net dividend yield (%)	1.7	0.0	3.3	3.3	3.3
ROAE (%)	4.5	6.6	8.0	7.8	6.2
ROAA (%)	2.9	3.2	4.0	4.0	3.1
EV/EBITDA (x)	19.5	14.4	12.8	13.7	12.5
Net gearing (%) (incl perps)	37.0	27.0	31.6	35.5	28.4
Consensus net profit	-	-	722	689	730
MKE vs. Consensus (%)	-	-	4.3	10.8	(13.7)

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BUY

Share Price	MYR 3.62
12m Price Target	MYR 4.20 (+19%)
Previous Price Target	MYR 4.20

Company Description

Gamuda Bhd engages in engineering and construction, property development and water and expressway concessions.

Statistics

52w high/low (MYR)	3.75/2.62
3m avg turnover (USDm)	1.6
Free float (%)	69.5
Issued shares (m)	2,554
Market capitalisation	MYR9.2B USD2.1B

Major shareholders:

Employees Provident Fund	14.7%
Permodalan Nasional Bhd.	14.6%
Kumpulan Wang Persaraan	8.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	7	(3)	27
Relative to index (%)	8	8	35

Source: FactSet

Abbreviation

EPCC = Engineering, procurement, construction & commissioning
O&M = Operation & maintenance
EIA = Environmental Impact Assessment
DOE = Department of Environment

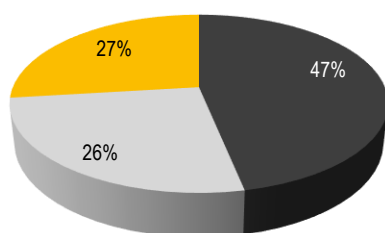
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Tear Sheet Insert

Value Proposition

- Leading engineering & construction (E&C) player that has carved a niche in highly technical tunnelling works.
- Its capabilities have enabled it to clinch key infra projects and gain above-industry average E&C margins.
- Completed infra projects include SMART, Ipoh-Padang Besar EDT, KVMRT1, LDP, SAE, SPRINT, SSP3 and Sg S'gor Dam.
- Has also accumulated strategic property landbank in MY (Klang Valley mainly), VN (HCMC and Hanoi) and SG worth MYR56b in remaining GDV.
- Four urban and matured tolled highways in the Klang Valley provide a recurring income base.

Pretax profit breakdown in FY21 (before FRS11)

■ Engineering & construction ■ Property development ■ Concessions

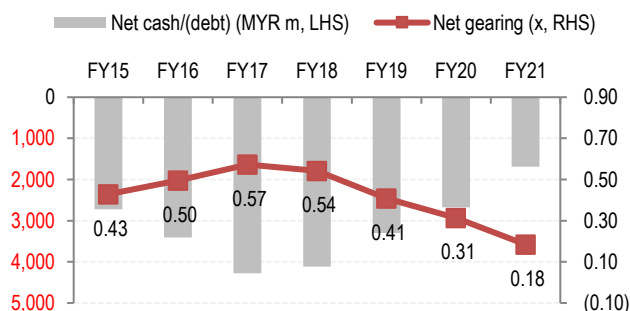


Source: Company

Financial Metrics

- FY20-21 earnings impacted by Malaysia's MCO and COVID-19 induced Standard Operating Procedures at work sites.
- Medium-term earnings to be supported by an outstanding E&C orderbook of MYR14.4b as of 1 Jul 2022 and unbilled property sales of MYR5.4b as of end-Apr 2022.
- Targeting E&C job replenishment from PSI and KVMRT3; intends to make Australia its 2nd E&C base.
- Targeting MYR4b property pre-sales in FY22 (+39% YoY); have ventured into UK recently as its 4th property base.
- Net gearing stood at 0.11x end-Apr 2022, below its internal cap of 0.7x.

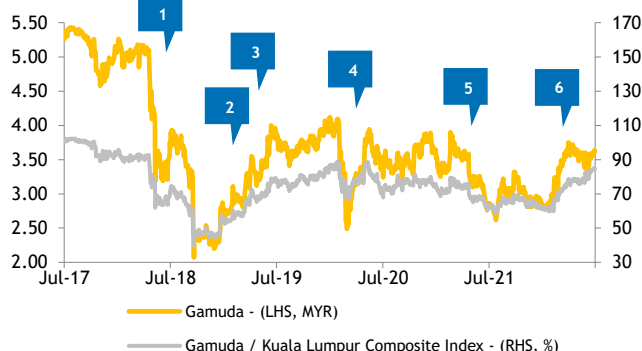
Net debt and gearing



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Post GE14 (May 2018) overhang on Malaysia construction stemming from i) review and cancellation of major infra projects and ii) potential abolition of tolled highways.
2. Potential revival of ECRL and sale of its tolled highways.
3. News on revival of Bandar Malaysia project (May 2019), followed by Minister of Finance (Inc.)'s proposed take-over of Gamuda's four tolled highways (Jun 2019).
4. Start of Movement Control Order (MCO) (18 Mar 2020).
5. Announcement (on 11 May 2021) of Gamuda's exclusion from MSCI Global Standard Index.
6. Sale of its highway concessions (announced on 4 Apr 2022) and major E&C wins of MYR11.7b in FY22-YTD.

Swing Factors

Upside

- Substantial orderbook replenishment, including from major domestic rail projects such as KVMRT3.
- Stronger-than-expected property pre-sales in Malaysia and overseas.
- PSI Island A reclamation work pace proceeds ahead of expectations.

Downside

- Delay in implementation of key infrastructure projects.
- PSI Island A reclamation work pace falls short of the targeted timeline.

Risk Rating & Score¹	35.3 (High)
Score Momentum²	-3.8
Last Updated	24 Jan 2022
Controversy Score³ (Updated: 4 Dec 2021)	1 - Society incidents (community relations) & business ethics incidents

Business Model & Industry Issues

- As a leading engineering, infrastructure and property group, Gamuda acknowledges its heavy ESG responsibility including that of the environment. Milestones in 2021 included the launch of 'Gamuda Green Plan 2025' (GGP), the Group's ESG framework, anchored on 4 pillars: (1) sustainable planning & design for construction; (2) community & business; (3) environmental & biodiversity conservation; (4) enhancing sustainability via digitalisation. GGP commits to reduce corporate GHG emission intensity by 30% in 2025, 45% in 2030.
- With the view that ESG and digital will be central to Gamuda's operations moving forward, young leaders in their 30s fill at least half the board seats and executive positions in Gamuda Engineering & Gamuda Land since Jan 2021. Gamuda is at the forefront in managing its ESG risks, in our view. Its enhanced resume will lend support in the future tender of major engineering & infrastructure projects in Malaysia and overseas.

Material E issues

- Besides GHG reduction commitment, GGP's other strategic priorities are (i) a 40% reduction in CO2e emission by 2030, (ii) planting of 1m trees/saplings by 2023 (302k planted as of end-FY21), (iii) developing 2,000 acres of green/waterscapes over 12 urban forest clusters within its property projects by 2023.
- E&C:** GGP commits to a 'circular construction' approach by maximising efficiency of raw materials/resources & reducing wastages (20% reduction of construction waste to landfill, 50% recycling of water at construction sites - both by 2025).
- Property:** Gamuda Parks (GP), set up in 2018 to formalise the Group's efforts in land and biodiversity conservation in its development projects, jointly manages (with the Govt) the *Paya Indah Discovery Wetlands* (1,114 acres), located next to the *Gamuda Cove* development. GP's agendas include (i) a wetland arboretum to regenerate flora and fauna species, and address carbon storage value, and (ii) biodiversity audits in Gamuda's developments in collaboration with local experts.
- Penang South Islands:** To be a low carbon development - smart industrial park will be powered by renewable energy; low carbon mobility has been incorporated into the masterplan.

Material S issues

- Gamuda's staff force (3,615 end-FY21) is diversified in age (<30 yrs old: 26%, 30-50: 61%, >50: 13%) and gender (women made up 35% end-FY21 vs. 31% end-FY20).
- Gamuda Plant Operator School (since 1997) and Tunnelling Training Academy (2011) have trained >45,000 and ~1,000 people respectively. BIM Academy (set up in 2018) aims to train >1,000 employees and subcontractors over 2020-22, in Building Information Modelling digital construction.
- To minimise COVID-19 infection within its workforce, Gamuda set up (i) a RT-PCR testing laboratory in 2020, with capacity to test 20,000 employees fortnightly; and (ii) Centralised Quarantine Quarters at every CLQ. It will soon launch Gamuda Clinics at 2 locations, serving also the community.
- The Group allocates 2% of its profits p.a. to Yayasan Gamuda (YG), set up in 2016. Enabling Academy, under YG, has trained 66 autism disorder adults and assisted them in securing jobs with >30 partner companies since 2017. YG has awarded 471 scholarships since 1996; the *Star Golden Hearts Award* is YG's annual recurring anchor project, now into its 5th year (2022).

Key G metrics and issues

- Gamuda's Board comprises 7 Directors: 4 Independent Non-Executive (incl. Chairman) + 1 Non-Independent Non-Executive + 2 Executive. Independent directors make up 57% of its Board. Its Independent Non-Executive Directors have not served a cumulative term >9 years each as recommended by the Malaysian Code on Corporate Governance.
- There are presently 3 women on Gamuda's Board or 43% representation, above the 30% requirement.
- Gamuda provides detailed disclosure on remuneration of directors and top 5 Group senior management. In FY21, remuneration to executive directors (including to alternate directors) was 1.3% of pretax profit, non-executive directors 0.1%, and top 5 senior management 0.5%.
- Gamuda has been audited by Ernst & Young for 20 years since FY02 (and Arthur Andersen, prior to that).
- Gamuda's Integrity and Governance Unit (IGU) was set up on 13 Dec 2019, in line with the Malaysian Anti-Corruption Commission's Strategic Plan of IGU 2019-21. Two policies were adopted in FY21: (i) Anti-Bribery and Corruption Policy; (ii) Whistleblowing Policy and Procedures (which superseded the 2011 whistleblowing policy). Integrity Pledges for directors and staff were also implemented in FY21.
- Since 2018, the Group has digitalised procurement to raise transparency and efficiency. The Group's Digital Procurement Platform leverages on the SAP Ariba e-platform. >MYR300m has been saved since the digitalisation of procurement and supply chain processes, via supply chain collaboration.
- Transactions with related parties include fees for professional services rendered by a law firm of which a director has an interest. The amount is small, at up to MYR1.3m p.a. over FY16-FY21. There were no other material contracts involving directors and major shareholders during our period of review (FY16-FY21).

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Valuation & foreign shareholding

Fig 1: RNAV

1.0 CONCESSIONS					
	<u>DCF / BV</u> <u>(MYR'm)</u>	<u>Shareholding</u> <u>(%)</u>	<u>Gamuda's share</u> <u>(MYR'm)</u>	<u>Total (MYR'm)</u>	
Expressways					
Lebuhraya Damansara-Puchong	2,232	42.8%	955		
Shah Alam Expressway	1,149	70.0%	804		
Western Traffic Dispersal Scheme (SPRINT)	706	51.8%	366		
KL Flood Mitigation Programme	65	50.0%	32		
				2,158	

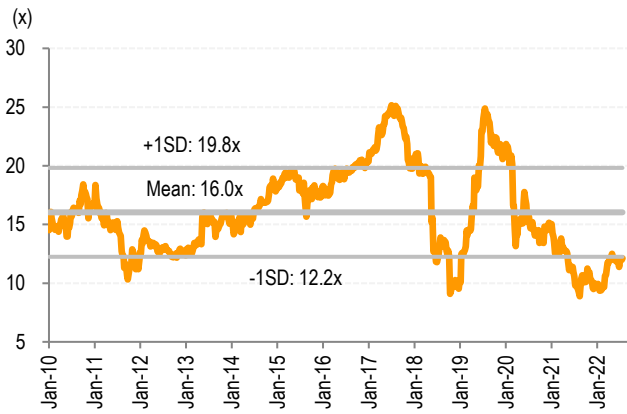
Total concessions				2,158	
2.0 PROPERTY					
	<u>Unsold areas</u> <u>(acres)</u>	<u>Bal. GDV</u> <u>(MYR'm)</u>	<u>Shareholding</u> <u>(%)</u>	<u>NPV of future profits</u> <u>(MYR'm)</u>	<u>Gamuda's share</u> <u>(MYR'm)</u>
Kota Kemuning (Klang Valley)	10	30	50.0%	5	3
Valencia (Klang Valley)	0	0	98.8%	0	0
Bandar Botanic (Klang Valley)	30	1,370	100.0%	114	114
Jade Hills (Klang Valley)	80	860	100.0%	84	84
Horizon Hills (Iskandar Malaysia)	310	2,380	50.0%	229	115
Madge (Klang Valley)	0	20	100.0%	3	3
Robertson (Klang Valley)	0	70	100.0%	12	12
Highpark Suites (Klang Valley)	0	350	100.0%	39	39
Gamuda Gardens (Klang Valley)	620	10,300	100.0%	433	433
Kundang Estates (Klang Valley)	20	240	100.0%	34	34
Gamuda Cove (Klang Valley)	1,450	23,250	100.0%	486	486
Twentyfive.7 (Klang Valley)	150	4,420	100.0%	267	267
Bukit Bantayan (Sabah)	10	680	100.0%	39	39
Gamuda City (Hanoi)	270	10,090	100.0%	690	690
Celadon City (HCMC)	20	750	100.0%	167	167
Chapel Street (Melbourne)	0	120	100.0%	12	12
GEM Residences (Singapore)	0	0	50.0%	0	0
Anchorvale Crescent / OLA (Singapore)	4	1,060	50.0%	131	65
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	2,974	55,990			2,562
<i>Property NBV @ 31 Jul 2021</i>					5,933
Total Properties RNAV					8,495
<i>(-) 40% discount</i>					<i>(3,398)</i>

Discounted Properties					5,097
3.0 ENGINEERING & CONSTRUCTION					
		<u>Est. net profit</u> <u>(MYR'm)</u>	<u>Target PER (x)</u>	<u>Gamuda's share</u> <u>(MYR'm)</u>	
FY23E E&C profit		172	15	2,585	
Cash & investment securities at holding company @ 31 Jul 2021				870	

TOTAL RNAV				10,710	
				=====	
No. of ordinary shares @ 9 Mar 2022 (post DRP)				2,554	
RNAV per share (MYR) - rounded				4.20	

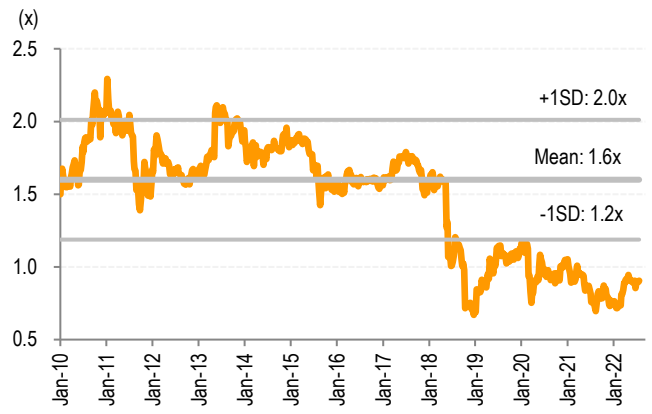
Source: Maybank IBG Research

Fig 2: 12M forward PER



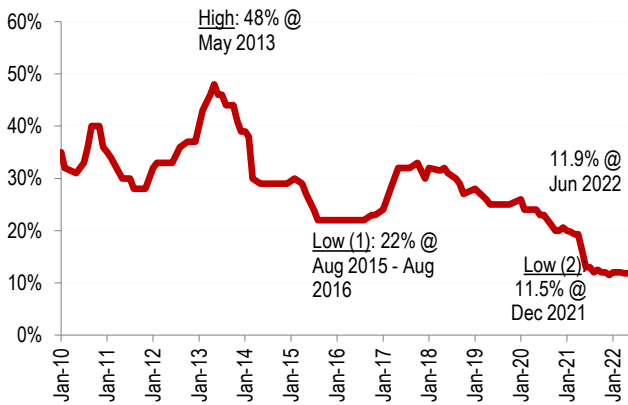
Source: Bloomberg, Maybank IBG Research

Fig 3: 12M forward P/B



Source: Bloomberg, Maybank IBG Research

Fig 4: Foreign shareholding



Source: Company

FYE 31 Jul	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	23.8	14.7	12.3	12.1	14.7
Core P/E (x)	16.9	12.0	12.3	12.1	14.7
P/BV (x)	1.0	0.8	1.0	0.9	0.9
P/NTA (x)	1.0	0.8	1.0	0.9	0.9
Net dividend yield (%)	1.7	0.0	3.3	3.3	3.3
FCF yield (%)	2.0	8.1	nm	nm	11.5
EV/EBITDA (x)	19.5	14.4	12.8	13.7	12.5
EV/EBIT (x)	29.8	21.3	16.8	18.3	16.9

INCOME STATEMENT (MYR m)

Revenue	3,663.0	3,517.2	4,445.7	5,965.5	6,323.0
EBITDA	646.0	692.3	1,001.4	982.2	1,023.6
Depreciation	(223.1)	(225.2)	(236.9)	(249.2)	(262.2)
EBIT	422.9	467.1	764.5	733.0	761.4
Net interest income / (exp)	7.1	4.5	(1.2)	(7.2)	(13.5)
Associates & JV	308.4	314.7	243.6	283.4	132.5
Exceptionals	(148.1)	0.0	0.0	0.0	0.0
Pretax profit	590.3	786.3	1,006.9	1,009.2	880.4
Income tax	(161.3)	(154.1)	(206.1)	(196.0)	(201.9)
Minorities	(52.5)	(43.9)	(47.9)	(49.3)	(48.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	376.5	588.3	752.9	763.9	630.3
Core net profit	524.6	588.3	752.9	763.9	630.3

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,147.2	2,656.7	1,945.7	1,271.2	1,818.7
Accounts receivable	2,223.7	1,748.4	2,400.0	3,220.4	3,413.4
Inventory	917.7	808.6	985.8	1,426.3	1,516.8
Property, Plant & Equip (net)	997.5	960.7	989.6	1,007.5	1,013.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	2,010.1	1,825.0	2,068.5	2,351.9	2,484.5
Other assets	10,231.3	10,440.9	10,440.9	10,440.9	10,440.9
Total assets	18,527.5	18,440.2	18,830.5	19,718.3	20,688.1
ST interest bearing debt	2,513.0	1,452.2	1,524.8	1,601.0	1,681.1
Accounts payable	1,760.5	1,745.6	1,800.2	2,273.2	2,957.1
LT interest bearing debt	2,952.2	3,775.6	3,586.8	3,407.5	3,237.1
Other liabilities	2,334.0	1,951.0	1,909.0	1,915.0	1,914.0
Total Liabilities	9,560.0	8,924.5	8,820.5	9,196.7	9,789.7
Shareholders Equity	8,541.1	9,163.6	9,609.9	10,072.3	10,400.9
Minority Interest	426.5	352.1	400.1	449.3	497.5
Total shareholder equity	8,967.6	9,515.7	10,010.0	10,521.6	10,898.4
Total liabilities and equity	18,527.5	18,440.2	18,830.5	19,718.3	20,688.1

CASH FLOW (MYR m)

Pretax profit	590.3	786.3	1,006.9	1,009.2	880.4
Depreciation & amortisation	223.1	225.2	236.9	249.2	262.2
Adj net interest (income)/exp	(7.1)	(4.5)	1.2	7.2	13.5
Change in working capital	255.9	519.2	(706.0)	(678.4)	495.4
Cash taxes paid	(161.3)	(154.1)	(206.1)	(196.0)	(201.9)
Other operating cash flow	(308.4)	(314.7)	(243.6)	(283.4)	(132.5)
Cash flow from operations	592.5	1,057.4	89.3	107.9	1,317.1
Capex	(411.8)	(488.0)	(250.0)	(250.0)	(250.0)
Free cash flow	180.7	569.4	(160.7)	(142.1)	1,067.1
Dividends paid	(225.8)	0.0	(306.5)	(301.6)	(301.6)
Equity raised / (purchased)	72.9	3.5	0.0	0.0	0.0
Change in Debt	320.0	(304.1)	(116.2)	(103.1)	(90.3)
Other invest/financing cash flow	65.4	(563.8)	(127.6)	(127.6)	(127.6)
Effect of exch rate changes	24.4	9.3	0.0	0.0	0.0
Net cash flow	413.2	(295.0)	(711.0)	(674.5)	547.5

FYE 31 Jul	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(19.8)	(4.0)	26.4	34.2	6.0
EBITDA growth	(15.6)	7.2	44.7	(1.9)	4.2
EBIT growth	(26.2)	10.5	63.7	(4.1)	3.9
Pretax growth	(34.5)	33.2	28.1	0.2	(12.8)
Reported net profit growth	(46.2)	56.3	28.0	1.5	(17.5)
Core net profit growth	(26.6)	12.1	28.0	1.5	(17.5)
Profitability ratios (%)					
EBITDA margin	17.6	19.7	22.5	16.5	16.2
EBIT margin	11.5	13.3	17.2	12.3	12.0
Pretax profit margin	16.1	22.4	22.6	16.9	13.9
Payout ratio	39.6	0.0	40.7	40.1	48.6
DuPont analysis					
Net profit margin (%)	10.3	16.7	16.9	12.8	10.0
Revenue/Assets (x)	0.2	0.2	0.2	0.3	0.3
Assets/Equity (x)	2.2	2.0	2.0	2.0	2.0
ROAE (%)	4.5	6.6	8.0	7.8	6.2
ROAA (%)	2.9	3.2	4.0	4.0	3.1
Liquidity & Efficiency					
Cash conversion cycle	80.7	80.1	69.7	106.4	107.1
Days receivable outstanding	204.5	203.3	168.0	169.6	188.8
Days inventory outstanding	108.4	119.5	100.7	91.7	105.2
Days payables outstanding	232.3	242.8	199.0	154.9	186.9
Dividend cover (x)	2.5	nm	2.5	2.5	2.1
Current ratio (x)	1.6	2.2	2.2	2.1	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.9	2.1	2.1	2.1	2.1
Net gearing (%) (incl perps)	37.0	27.0	31.6	35.5	28.4
Net gearing (%) (excl. perps)	37.0	27.0	31.6	35.5	28.4
Net interest cover (x)	na	na	nm	101.7	56.3
Debt/EBITDA (x)	8.5	7.6	5.1	5.1	4.8
Capex/revenue (%)	11.2	13.9	5.6	4.2	4.0
Net debt/ (net cash)	3,317.9	2,571.1	3,165.9	3,737.3	3,099.5

Source: Company; Maybank IBG Research

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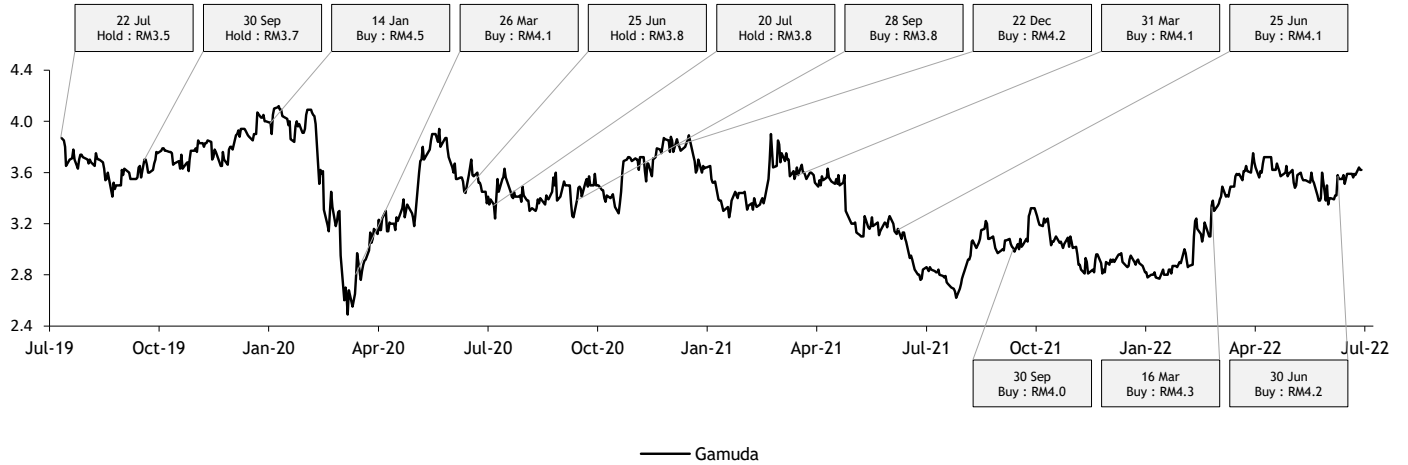
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