

Gamuda (GAM MK)

Tracking towards its E&C orderbook targets

Maintain BUY with a higher MYR5.25 TP

Our fact-finding visit to Penang reaffirms our positive view on Penang's potential, with Gamuda to play a key role in *Silicon Island* development and the Penang Transport Master Plan (PTMP). Elsewhere, its involvement in the Upper Padas HEP project provides E&C orderbook replenishment; it will also bring Gamuda a step closer towards its 800MW RE asset portfolio target under its Gamuda Green Plan 2025. We maintain our BUY call with a higher SOP-based TP (+45sen).

Silicon Island to start marketing in 1Q 2024

Reclamation works have started; the target is for the 1st 100 acres to be available in 2025, and 100 acres in every subsequent quarter. Plans are also for marketing of the industrial land to start in 1Q 2024. Beyond the reclamation works, we believe Gamuda's E&C orderbook could expand further to include the common infrastructure works which we estimate to be worth MYR2.2b. We also expect Gamuda to play an active role in Green Tech Park's renewable energy (RE) development. Green Tech Park has an estd. power requirement of 65MW, per Gamuda's FY21 Annual Report.

Upper Padas HEP: technical risks seem contained

Negotiations on the PPA with offtaker, Sabah Electricity Corp (SEC), are ongoing. From the onset, we estimate an E&C orderbook upliftment of MYR2.4b for Gamuda, assuming MYR3.2b construction cost and Gamuda to take on 75% of the turnkey work. Referencing to SEC's website on the project, technical risks relating to terrain, below-ground/soil/rock composition, and ease of accessibility to the project site seem contained.

Reviewing earnings forecasts & SOP valuation

We update our financial model for the MYR4.2b E&C replenishment in FY24 to-date, comprising MYR3b relating to the Kaohsiung MRT Package YC01, and MYR1.2b contribution from DTI. Consequently, our FY24E core net profit forecast is raised by 6%, FY25-26E trimmed by 2-3%. On strong E&C wins potential that would provide the extended earnings visibility and growth, we lift our PER target for Gamuda's E&C ops to 16x, from 15x. This leads to a higher SOP-based TP of MYR5.25 vs. MYR4.80 previously.

FYE Jul (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	4,921	8,234	11,399	12,928	12,866
EBITDA	853	878	1,153	1,424	1,499
Core net profit	832	860	912	1,008	1,055
Core EPS (sen)	33.0	33.7	34.2	37.9	39.6
Core EPS growth (%)	41.0	2.1	1.7	10.6	4.7
Net DPS (sen)	12.0	50.0	12.0	12.0	12.0
Core P/E (x)	10.2	12.8	13.4	12.2	11.6
P/BV (x)	0.9	1.0	1.1	1.0	1.0
Net dividend yield (%)	3.6	11.6	2.6	2.6	2.6
ROAE (%)	8.5	17.3	8.2	8.6	8.5
ROAA (%)	4.3	3.9	3.7	3.9	3.8
EV/EBITDA (x)	11.9	15.8	14.4	11.5	10.8
Net gearing (%) (incl perps)	12.5	25.1	36.2	31.9	29.4
Consensus net profit	-	-	975	1,110	1,213
MIBG vs. Consensus (%)	-	-	(6.5)	(9.2)	(13.0)

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BUY

Share Price	MYR 4.60
12m Price Target	MYR 5.25 (+17%)
Previous Price Target	MYR 4.80

Company Description

Gamuda Bhd engages in engineering and construction, property development and water O&M.

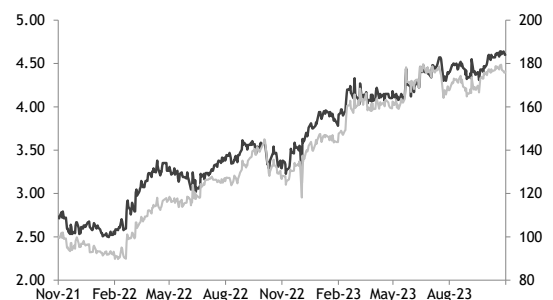
Statistics

52w high/low (MYR)	4.64/3.13
3m avg turnover (USDm)	4.9
Free float (%)	70.9
Issued shares (m)	2,698
Market capitalisation	MYR12.4B
	USD2.6B

Major shareholders:

Employees Provident Fund	14.3%
Permodalan Nasional Bhd.	13.6%
Kumpulan Wang Persaraan	4.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	5	40
Relative to index (%)	(0)	5	39

Source: FactSet

Abbreviation

E&C = Engineering & construction
RE = Renewable energy
PPA = Power purchase agreement

Note

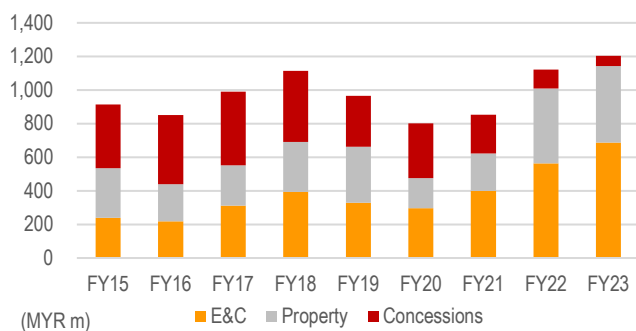
Net gearing at the table on the left excludes "marketable securities" vs. our quotes in the text

ESG@MAYBANK IBG
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 KVMRT 1&2, Ipoh-Padang Besar EDT, SMART, LDP, SAE, SPRINT, SSP3 and Sg S'gor Dam.
- Has also accumulated strategic property landbank in MY (Klang Valley mainly), VN (HCMC and Hanoi), LDN and AU worth MYR52b in remaining GDV.
- Exited the tolled highway business after selling its four urban concessions in Aug 2022 (completed on 13 Oct 2022).

Pretax profit breakdown (before FRS11)

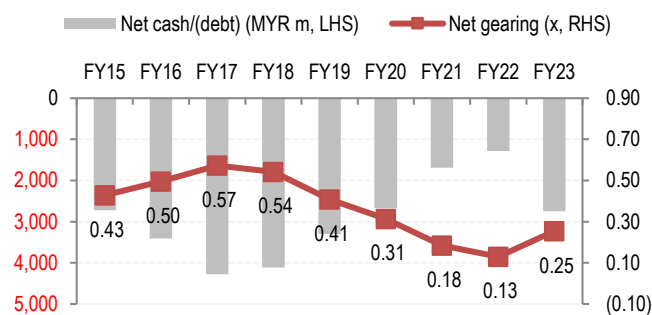


Source: Company

Financial Metrics

- FY20-22 earnings impacted by pandemic induced movement restrictions & standard operating procedures at work sites.
- Medium-term earnings to be supported by an outstanding E&C orderbook of MYR24.8b as at Oct 2023, and unbilled property pre-sales of MYR6.7b as of end-Jul 2023.
- Targeting MYR25b E&C job replenishment in FY24-25; Australia is now its 2nd E&C base.
- Targeting MYR5.6b property pre-sales in FY24 (+27% YoY); have ventured into UK recently as its 4th property base.
- Net gearing (including 'marketable securities') stood at 0.25x end-Jul 2023, below its internal cap of 0.7x, giving a debt headroom of c.MYR5b.

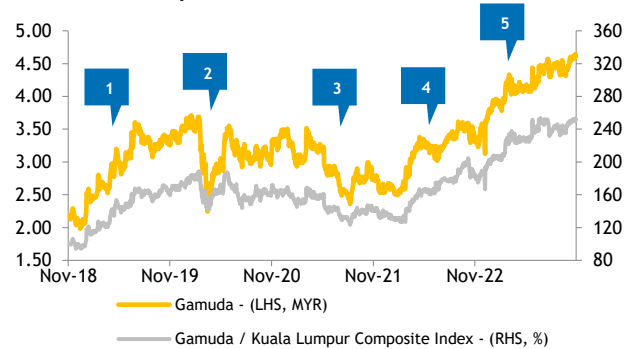
Net debt and gearing (including 'marketable securities')



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. News on revival of Bandar Malaysia project (May 2019), followed by Minister of Finance (Inc.)'s proposed takeover of Gamuda's four tolled highways (Jun 2019).
2. Start of pandemic induced movement restriction in Malaysia (18 Mar 2020).
3. Announcement (on 11 May 2021) of Gamuda's exclusion from MSCI Global Standard Index.
4. Sale of its highway concessions (announced on 4 Apr 2022) and major E&C wins of MYR11.6b in FY22.
5. Inclusion in MSCI Emerging Market Index wef 28 Feb 2023.

Swing Factors

Upside

- Substantial orderbook replenishment, including from major domestic rail projects such as KVMRT3 civil and system work packages.
- Stronger-than-expected property pre-sales in Malaysia and overseas.
- Penang South Island's (PSI) Island A (renamed *Silicon Island*) 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.
- Cost overrun and delay in E&C orderbook execution.

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Risk Rating & Score¹	35.5 (High)
Score Momentum²	+1.5
Last Updated	21 Apr 2023
Controversy Score³ (Updated: 19 Apr 2023)	1 - Society incidents (community relations)

Business Model & Industry Issues

- As a leading engineering and property group, Gamuda acknowledges its heavy ESG responsibility including that of the environment.
- Milestones included the launch of 'Gamuda Green Plan 2025' (GGP) in 2021, 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 lower Scope 1 & 2 emissions intensity by 30% in 2025, 45% in 2030 (fr base year 2022).
- 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 and 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

- 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; 11 lakes), located next to the *Gamuda Cove* development. GP's agendas include (i) a Wetlands 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 model of sustainable (low carbon) development - Green Tech Park to be powered 100% by renewable energy; low carbon mobility has been incorporated into the masterplan.
- Gamuda's biodiversity commitment includes (i) planting of 1m trees/saplings by 2023 (612k planted at end-FY22), and (ii) developing 2,000 acres of green/waterscapes across 12 urban forest clusters within its property projects by 2025.

Material S issues

- Gamuda's staff force (3,895 end-FY22) is diversified in race (Bumiputera: 46%, Chinese: 28%, Indian: 5%, Others: 21%) and gender (women made up 36% end-FY22 vs. 31% end-FY20).
- Gamuda Plant Operator School (since 1997) and Tunnelling Training Academy (2011) have trained >45,000 and >1,000 pax each. BIM Academy (since 2018) has upskilled >5,000 employees 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 (it remains the 1st and only private company in Malaysia to have in-house RT-PCR testing laboratories); and (ii) Centralised Quarantine Quarters at every Centralised Labour Quarters. It launched two Gamuda Clinics in FY22, serving also the community.
- The Group allocates 2% of its profits before tax p.a. to Yayasan Gamuda (YG), set up in 2016. Enabling Academy, under YG, has trained 76 autism disorder adults since 2017 and assisted them in securing jobs. YG has awarded 529 scholarships since 1996. The *Star Golden Hearts Award* is YG's annual recurring anchor project, now into its 6th year (2023).

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 4 women on Gamuda's Board or 57% representation, above the 30% requirement.
- Gamuda provides detailed disclosure on remuneration of directors. In FY22, remuneration to executive directors (including alternate directors) was 1.0% of pretax profit, non-executive directors 0.1%. Disclosures on remuneration of its top 5 senior management (on named basis) are in bands of MYR50k.
- 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 (ABC) Policy; (ii) Whistleblowing Policy and Procedures (which superseded the 2011 whistleblowing policy). Integrity Pledges for directors and staff were implemented from FY21. In FY22, it rolled out the Gamuda Organisational Anti-Corruption Plan 2021-24, and extended its ABC and Whistleblowing policies to its ops in Australia, Singapore, Vietnam and Taiwan.
- 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. Gamuda has also implemented the 1st phase of its new cloud-based ERP system, which is on the SAP S/4HANA platform; this enables the Group to have improved governance, amongst others.
- 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-FY22. There were no other material contracts involving directors and major shareholders during our period of review (FY16-FY22).

¹Risk 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. **²Score 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. **³Controversy 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).

Quantitative parameters (Score: 56)							
	Particulars	Unit	FY19	FY20	FY21	FY22	IJM (FY22)
E	Scope 1 GHG emissions	tCO2e	6071	1287	2998	8428	28312
	Scope 2 GHG emissions	tCO2e	4759	4723	14845	18147	38995
	Total	tCO2e	10830	6010	17843	26575	67307
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	5709	365817
	Total	tCO2e	NA	NA	NA	32284	433124
	GHG intensity (Scope 1 and 2)	tCO2e/MYRm rev	NA	NA	NA	6	NA
	Energy consumed	MWh	3333	NA	22111	30865	69455
	Share of renewable energy use in operations	%	NA	NA	Negligible	Negligible	4%
	Water recycled	%	NA	NA	NA	NA	NA
	Cases of environmental non-compliance	number	0	0	0	0	1
S	% of women in workforce	%	29.0%	31.1%	34.8%	36.2%	36.0%
	% of women in management	%	NA	30.0%	30.0%	31.0%	34.0%
	Lost time injury frequency (LTIF) rate - GEngg	number	NA	1.27	2.18	0.00	0.63 (grp)
	Lost time injury frequency (LTIF) rate - GLand	number	NA	0.00	0.00	0.00	NA
	Enabling Academy (pax trained since 2017)	number	40	63	66	76	NA
Gamuda scholarship (pax supported fr 1996)	number	410	444	471	529	>350	
G	MD/CEO remuneration as % of PBT	%	0.67%	0.97%	0.56%	0.43%	0.65%
	Board (ex-CEO) remuneration as % of PBT	%	1.27%	1.51%	0.86%	0.66%	1.35%
	Independent directors on the Board	%	57%	57%	57%	57%	55%
	Female directors on the Board	%	43%	43%	43%	57%	27%

(May 2023)

Qualitative Parameters (Score: 100)	
a)	Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? <i>Yes - Gamuda Green Plan 2025 is a strategic roadmap towards driving sustainability. A Sustainability Steering Committee (chaired by the Group MD and which meets quarterly with the Group CSO) reports to the Board.</i>
b)	Is the senior management salary linked to fulfilling ESG targets? <i>Yes - ESG parameters are incorporated in performance evaluation of all employees since FY21, including senior management.</i>
c)	Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? <i>Yes - besides TCFD, Gamuda has aligned its sustainability reporting to Sustainability Accounting Standards Board (SASB) and Carbon Disclosure Project (CDP).</i>
d)	Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>Yes - for now, the parameter is employees' commute.</i>
e)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>Gamuda has planted 612,072 trees as at end-FY22, meeting 61% of its target for 1m trees by 2023. This supports the development of 2,000 acres of green/waterscapes (total investments of e.MYR33m) across 12 forest clusters within its property townships. Gamuda has installed solar PV panels on its 5 assets (generating capacity of >1,700kWp) as it targets to develop >800MW of its own RE assets.</i>
f)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>Yes - Gamuda has set clear internal targets and parameters for carbon offsetting.</i>

Target (Score: 67)		
Particulars	Target	Achieved
Reduce Scope 1 & 2 emissions intensity by 30% in 2025, 45% in 2030; net zero by 2050	Net-0	N/A
Plant 1m trees by 2023 under the Advanced Tree Planting scheme	1 mil	61.2%
800MW of own RE asset portfolio	800MW	NA
All future residential & commercial projects to be Green Building Index (GBI) certified	GBI	Yes
Gamuda scholarship - to double the quantum allocation	2x	NA
2% of yearly PBT allocation to Yayasan Gamuda	2.0%	Not disclosed
Impact		
NA		
Overall score: 69		
As per our ESG matrix, Gamuda (GAM MK) has an overall score of 69.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	56	28
Qualitative	25%	100	25
Target	25%	67	17
Total			69

As per our ESG assessment, GAM has an established framework, internal policies, and tangible mid/long-term targets. GAM's overall ESG score is 69, which makes its ESG rating above-average, in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

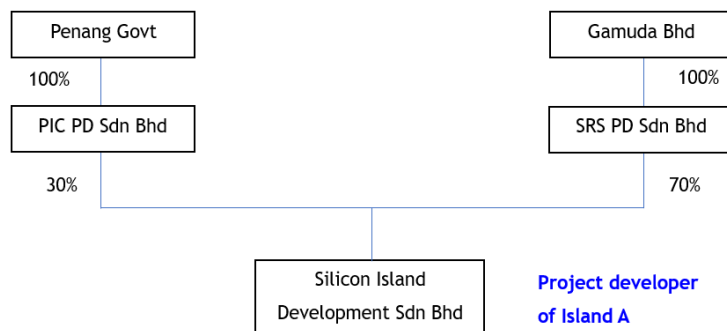
Silicon Island to start marketing in 1Q 2024

We met with Silicon Island Development Sdn Bhd (SID)'s management, led by its Chairman, Dato' Seri Farizan bin Darus and CEO, Dato' Szeto Wai Loong, during our fact-finding visit to Penang on 23 Oct 2023.

To recap:

- SID is the project developer of *Silicon Island* (previously known as Island A of the Penang South Islands; 2,300 acres) via the deployment of private sector capital without any recourse to the Penang State Government or Penang Infrastructure Corp (a unit of the Penang Government).
- SID is 70% owned by Gamuda (via SRS PD Sdn Bhd) and 30% by the Penang Government (via PIC PD Sdn Bhd).
- In Jun 2023, SID awarded Phase 1 of the reclamation works (for 1,260 acres) under a design-and-construct contract (MYR3.717b) to turnkey contractor, SRS TC Sdn Bhd (100% owned by Gamuda) whom, in turn, awarded the works (MYR3.497b, on fixed lump-sum contract) to Gamuda Engineering Sdn Bhd (100% owned by Gamuda).
- Works commencement date was 1 Jul 2023, with a completion deadline of 30 Jun 2030.

Fig 1: *Silicon Island's* stakeholders



Source: Gamuda's announcement to Bursa Malaysia on 22 Jun 2023, Maybank IBG Research (chart)

Key takeaways from our meeting:

- **Marketing of industrial land to start in 1Q 2024.** Reclamation works for *Silicon Island* have started, with a ground breaking scheduled for Dec 2023. The target is for the 1st 100 acres of the reclaimed land to be available in 2025, and 100 acres in every subsequent quarter. Plans are also for marketing of the industrial land to start in 1Q 2024.

Silicon Island will take on a smart city set-up with MSC Cybercity status with 50% CO₂ emissions reduction target as compared to business as usual. About 20% of the total land area is designated for open spaces, parks, beaches and esplanades alongside 140km of shaded pedestrian and cycling paths. The active land use will comprise 50% industrial, 20% residential, and 30% commercial.

- **100% RE powered industrial park.** *Silicon Island's* Green Tech Park (c.700 acres) will leverage on smart, sustainable and resilient design, as it positions to be a leading industrial park for E&E players globally. The park will be 100% powered by renewable energy, adding to its appeal. Initial timeline targets are for: 1) the 1st piece of land to be available in 2025, 2) start of factory construction in 2026, and 3) commencement of factory operation (by industries locating there) by 2027.

Green Tech Park's focus will be on high-tech manufacturing - semiconductor IC design; software development; embedded systems design; product design & development; assembly, testing & packaging; automated test equipment & equipment fabrication; medical devices; and global business services.

- **Heart of the Island (HOTI).** The commercial centre, to be known as *Heart of the Island*, will be located on the South-East of *Silicon Island*. HOTI will be designed with both marine waterfronts and internal waterways, offering canal walks and buildings interacting with the water edge. HOTI will also house components with tourism potential - botanical garden & public squares, aquarium & underwater museum, waterfront shopping retail malls & market place, education & learning facilities, office with 24/7 facilities, campuses/ centres of excellence, F&B hubs and amusement parks.
- **Residential component.** *Silicon Island's* residential land will be concentrated along the waterfront, thus providing aesthetic appeal to draw in the demand. The plan is for approximately 20,000 residential units comprising landed homes, condominiums, apartments and affordable housing. The residential clusters will have direct access to the recreational waterfront and coastal parkway. Land has also been allocated for schools; religious, health and community centres; safety and security hubs; sports complex; etc.

Fig 2: *Silicon Island's* layout plans



Source: *Silicon Island Development*

Our views:

- **Potential for Gamuda's E&C orderbook to grow further.** At MYR3.497b being the contract value for the reclamation works, we estimate this works out to be MYR64psf on rather shallow waters of 3-4 meters in depth (we understand).

Beyond the reclamation works, we believe there is opportunity for Gamuda's E&C orderbook to expand further, potentially in FY25, to incorporate the common infrastructure works component of *Silicon Island*. Assuming at MYR40psf, the potential contract value for this common infrastructure works is MYR2.2b, we estimate, for *Silicon Island's* Phase 1 of 1,260 acres.

Under a Project Development Agreement dated 6 Mar 2023 between the State Government and SID, SID is required to award the full scope of *Silicon Island* works, which includes the reclamation of 2,300 acres, common infrastructure works and Highway PIL2A, on a turnkey basis to SRS TC (100%-Gamuda). For the common infrastructure works, SRS TC (as a turnkey contractor) is expected to tender out the work packages. This compares to Phase 1 reclamation (1,260 acres) where the entire work package was awarded on a fixed lump-sum contract to Gamuda Engineering; this was to hasten the work pace.

- **Land sale recognition from FY26 or FY27?** Based on the target timeline for the 1st 100 acres of the industrial land to be available in 2025 and factory construction to start in 2026, and assuming the first land sale is locked in by 2026, we estimate that earnings recognition for the land sale could occur in FY26 or FY27.

With Green Tech Park to target MNCs who are determined to achieve their green/low carbon emission targets - Green Tech Park's 700 acres will be 100% powered by RE - a premium pricing for its industrial land is justified. The pricing is also dependent on the land title, i.e. freehold vs. leasehold. For perspective, the reserve price for Penang Development Corp's (PDC) latest request for proposal for approx. 170 acres for the planned *Linear Water Front Development* in Bayan Lepas is MYR100psf. Also, PDC's latest invitation for proposal for its sale of 19 acres of development land at Bandar Cassia (on the mainland) has a MYR70psf reserve price, presumably on leasehold title.

- **A role in *Silicon Island's* RE development?** We expect Gamuda to also, directly or indirectly (via ERS Energy; Fig.2), play an active role in Green Tech Park's renewable energy (RE) development. Per Gamuda's FY21 Annual Report, Green Tech Park has an estimated power requirement of 65MW, but we believe this has yet to fully include the energy needs of the industries locating in Green Tech Park. Based on a rule-of-the-thumb estimate of a construction cost of MYR3m per MW capacity for solar photovoltaics (PV) EPCC projects, we estimate a potential construction value of MYR200m for the 65MW.

A role in *Silicon Island's* RE needs also fits into Gamuda's target of achieving at least 800MW in renewable energy (RE) asset portfolio (solar & hydropower) plus ESG target under its Gamuda Green Plan 2025.

Fig 3: About ERS Energy

Gamuda acquired a 14.6% investment stake in ERS Energy Sdn Bhd in Dec 2022 for MYR80m cash via a subscription of new shares. Gamuda's holding is expected to go up to 30% eventually on a total investment cost of MYR200m - the balance MYR120m will also be via a subscription of new ERS shares - with the timing for this 2nd tranche subscription to be based on ERS' funding requirement.

- ERS, incorporated in 2009, is a leading solar energy engineering, procurement, construction and commissioning (EPCC) company.
- It is one of the early entrants to the solar industry in the country, and is today one of the largest solar EPCC player in Malaysia and in the region having completed >700MW of solar projects.
- Besides solar photovoltaics (PV) EPCC projects, ERS is also into O&M of solar PV systems (contracted O&M currently is >400MW), solar PV energy storage solutions, trading and wholesaling of solar PV equipment, and electric vehicles charging solutions.
- ERS is Gamuda's JV partner in NEDA Pekan Sdn Bhd to develop a 39MW solar power plant under the New Enhanced Dispatch Arrangement (NEDA) framework.
- ERS' largest EPCC project is the 155MW Pekan LSS, Pahang (photo below) which was completed in 2022.



Source: Gamuda's announcement to Bursa dated 7 Dec 2022, ERS Energy

Upper Padas HEP in Tenom, Sabah

Gamuda's recent 45% stake in UPP Holdings Sdn Bhd (40% Sabah Energy Corporation Sdn Bhd [SEC], 15% Kerjaya Kagum Hitech JV Sdn Bhd [KKHJV]; source: announcement to Bursa on 30 Oct 2023) will also bring it a step closer towards its 800MW RE asset portfolio target under its Gamuda Green Plan 2025 (in addition to its potential role in *Silicon Island's* RE development). UPP Holdings will undertake private finance initiative (PFI) to develop the Upper Padas Hydroelectric Power Plant (HEP) in Tenom with a maximum generating capacity of 187.5MW.

Other details:

- Total project cost is an estimated MYR4b including interest during construction.
- The project construction period is 5 years and it has an initial operating period of 40 years.

- A consortium comprising Gamuda and KKHJV shall be appointed the project's turnkey contractor.
- Pending is a Power Purchase Agreement (PPA) with offtaker, Sabah Electricity Sdn Bhd; the target is to execute the PPA by 1H 2024.
- The project will be funded by a minimum debt-to-equity ratio of 80:20.
- SEC is a unit of the Sabah State Government, whereas KKHJV is a private company incorporated in Jun 2015 with construction of power plant as its principal activity. KKHJV's shareholders are Kerjaya Kagum Sdn Bhd (70%; a 100%-subsidiary of Conlay Land Sdn Bhd) and Lim Chin Hong (30%).

According to SEC's website [\[link\]](#):

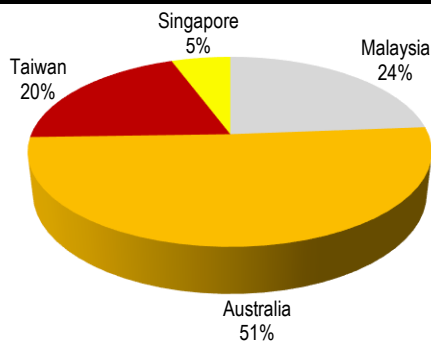
- The Upper Padas HEP will supply an additional 15% of Sabah's electricity which has a dependable capacity of approximately 1,180MW as of 2021.
- The project involves the construction of a 1) 120-meter high-roller compacted concrete hydroelectric dam across the Ulu Padas River near Kuala Tomani, 2) a 187.5MW power generation facility, 3) associated transmission lines, 4) related infrastructure, and 5) a water reservoir spanning 12km in length, and covering an area of 5.9km².
- The Ulu Padas site is considered ideal due to its narrow reservoir and large catchment area of c.1,885km². The location has convenient access, a straightforward land use pattern, and minimal impact on existing settlements as there will be no or minimal inundation of residential areas.
- Construction will start in 2024 and is expected to complete in 2029.

Our views:

- **Potentially MYR2.4b addition to Gamuda's E&C orderbook.** Based on the estimated project cost of MYR4b which includes interest during construction, we estimate a construction cost (alone) of MYR3.2b assuming 8% financing rate over 5 years of construction. Assuming Gamuda takes on 75% of the works (equivalent to its 45% stake in UPP Holdings vs. KKHJV's 15% stake - both will form a consortium to take on the turnkey construction), this project could raise Gamuda's E&C orderbook by MYR2.4b. With the construction to take 5 years, this project would provide earnings visibility into FY29 or FY30.
- **Technical/execution risks seem contained.** Technical risks common for hydro-electric power plant (HEP) projects include terrain, below-ground/soil/rock composition, and ease of accessibility to the project site. This draws reference to the Bakun HEP project which encountered such problems leading to construction delays and cost overruns. From SEC's website, these risks seem contained as the project location has "convenient access, a straightforward land use pattern". SEC further adds that there will be "minimal impact on existing settlements as there will be no or minimal inundation of residential areas." As far as Gamuda is concerned, it can draw on its experience in the Sg Selangor Phase 3 (SSP3) main dam construction which was completed in 2003.
- **Details on the PPA are pending.** Negotiations on the PPA with offtaker, Sabah Electricity, are ongoing. We view a project IRR of >12% to be the minimum depending on the PPA details and terms (ie. whether take-and-pay or take-or-pay), considering also the construction risk. Based on a prescribed 80:20 debt-to-equity funding, Gamuda's equity participation is MYR360m (MYR4b project cost x 20% equity x 45% Gamuda's stake). With equity participation to stretch over the period of construction (5 years), this should not significantly impact Gamuda's balance sheet.

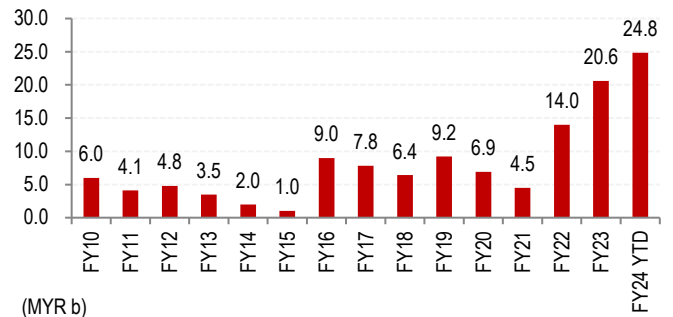
Current E&C orderbook

Fig 4: MYR24.8b outstanding orderbook



Source: Company, Maybank IBG Research (chart)

Fig 5: Outstanding E&C orderbook



Source: Company, Maybank IBG Research (chart)

Fig 6: E&C orderbook - MYR24.8b outstanding @ FY24 YTD

Project	Outstanding (MYR m)	Status
MALAYSIA		
Silicon Island - Phase 1 reclamation	3,700	Expected to take 7-8 years (1,260 acres).
Rasau Water Supply Scheme - Stage 1	1,900	Work progress at 5% (vs. 2% @ end-Apr 2023). Targeted completion: 2025.
Pan Borneo Sarawak - WPC-04 (65% share)	Min	Work progress at 99% (vs. 99% @ end-Jan 2023). Targeted completion: 2023.
Data centre & others	200	Newly secured in 3QFY23.
Various others	100	(1) 2 nd trunk road Sarawak valued at MYR224m secured in a JV with Naim Engineering (work progress at 50% @ end-Jul 2023). (2) Residential building & other civil works in M'sia.
AUSTRALIA		
Sydney Metro West - Western Tunnel (100% share)	4,100	Work progress at 37% (vs. 27% @ end-Apr 2023). A design-and-construct contract with Gamuda as the Head Contractor, and Laing O'Rourke Australia as project delivery partner. Targeted completion: 2026.
Coffs Harbour Bypass (50% share)	1,800	Work progress at 11% (vs. 7% @ end-Apr 2023). A design-and-construct contract. Targeted completion: Late-2027.
M1 Motorway (40% share)	1,100	Newly secured; work progress at 4%. Targeted completion: 2028.
DTI projects	5,600	Various stages of completion.

Fig 6: E&C orderbook - MYR24.8b outstanding @ FY24 YTD (continued)

Project	Outstanding (MYR m)	Status
TAIWAN		
Marine bridge (70% share)	100	Work progress at 84% (vs. 82% @ end-Apr 2023). Targeted completion: 2023.
Seawall reclamation (70% share)	200	Work progress at 65% (vs. 56% @ end-Apr 2023). Targeted completion: 2025.
Transmission line (50% share)	200	Work progress at 9% (vs. 1% @ end-Apr 2023). Targeted completion: 2025.
Marine bridge extension (70% share)	100	Work progress at 65% (vs. 46% @ end-Apr 2023). Targeted completion: 2024.
Tao Yuan underground (60% share)	1,300	Newly secured in 2022. Targeted completion: 2030.
Kaohsiung MRT Package YC01	3,030	Newly secured in Oct 2023. Targeted completion in 107 months (c.9 years)
SINGAPORE		
Bus depot (100% share)	500	Work progress at 42% (vs. 35% @ end-Apr 2023). Targeted completion: 2023.
Defu Station & Tunnel (60% share)	900	Work progress at 7% (vs. 4% @ end-Apr 2023). Targeted completion: 2030.
Total	24,830	

Source: Company

Financials & valuation

Raising FY24E core net profit by 6%. We take the opportunity to update our financial model for the MYR4.2b E&C replenishment in FY24 to-date comprising: 1) MYR3b relating to the Kaohsiung MRT Package YC01 secured on 25 Oct 2023, and 2) MYR1.2b contribution from its Australian-based DTI. These have lifted Gamuda's outstanding E&C orderbook to MYR24.8b from MYR20.6b as of end-FY23/Jul 2023, before deducting for works delivered/recognised in FY24-YTD.

Consequently, our FY24E core net profit forecast is raised by 6%, FY25-26E trimmed by 2-3% p.a. The latter is due to the Kaohsiung MRT win which has a longer construction period of 9 years vs. our 3-4 years assumption for potential wins, which have been earlier built into our financial model. Our key assumption on E&C orderbook replenishment is unchanged at MYR10b p.a. but we acknowledge upside potential. The internal target is MYR25b in job wins into 1HFY25.

Potential contracts include: 1) Bayan Lepas LRT (e.MYR10b, Penang International Airport to Komtar stretch), 2) *Silicon Island* Phase 1 common infrastructure works (based on our estd. MYR2.2b), 3) Upper Padas HEP (based on our estd. MYR2.4b), and 4) KVMRT3 CMC303 civil work package (e.MYR13.3b). Also, Gamuda, together with its partner, John Holland Pty Ltd, remain in the running for Melbourne's Suburban Rail Loop (SRL) East 2nd contract (connecting Glen Waverley and Box Hill); the tender is expected to open this year-end and the contract value could be north of AUD2b, we estimate. Gamuda is also vying for works relating to the Pan Borneo Highway (PBH) Sabah.

Raising SOP-TP to MYR5.25. On strong E&C wins potential that would provide the extended earnings visibility and growth, we lift our PER target for Gamuda's E&C operations to 16x on FY24E earnings, from 15x previously. This leads to a higher SOP-based TP of MYR5.25 vs. MYR4.80 previously.

Fig 7: Sum-of-parts valuation

1.0 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>
FY24E E&C profit	468	16	7,496

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>
Jade Hills (Klang Valley)	0	100	100%	13	13
Horizon Hills (Iskandar Malaysia)	243	2,222	50%	256	128
Gamuda Gardens (Klang Valley)	582	7,168	100%	481	481
Gamuda Parks (Klang Valley)	532	3,566	100%	192	192
Kundang (Klang Valley)	25	162	100%	20	20
Gamuda Cove (Klang Valley)	604	19,304	100%	885	885
twentyfive.7 (Klang Valley)	111	2,923	100%	253	253
Others (Malaysia)	37	2,449	100%	102	102
Gamuda City (Hanoi)	43	2,984	100%	360	360
Celadon City (HCMC)	0	281	100%	35	35
Chapel Street (Melbourne)	0	40	100%	0	0
OLA (Singapore)	0	0	50%	0	0
Quick turnaround projects	66	11,020	various	923	831
	-----	-----			-----
	2,243	52,219			3,299
Land, devt costs, invt prop @ 31 Jul 2023					8,187
Total Property					11,487
(-) 20% discount					(2,297)

Discounted Property					9,189

3.0 OTHERS

Group cash, invt securities less debt @ 31 Jul 2023	(2,746)
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TOTAL SOP

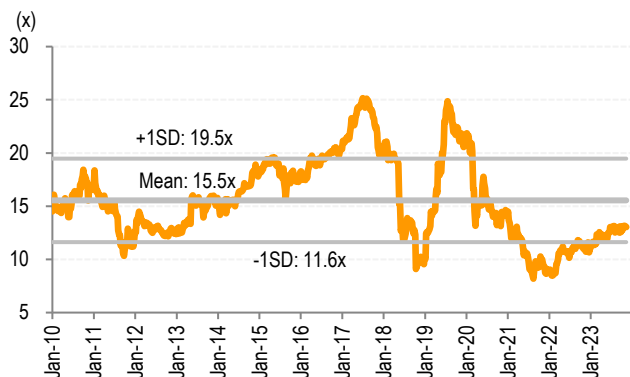
	13,939
	=====

No. of ordinary shares @ 31 Jul 2023	2,662.7
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SOP per share (MYR) - rounded	5.25
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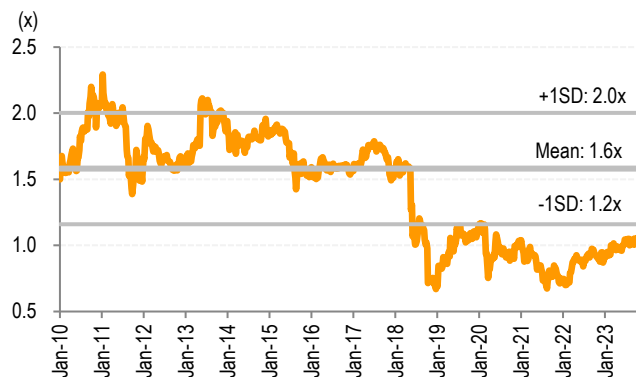
Source: Maybank IBG Research

Fig 8: 12M forward PER



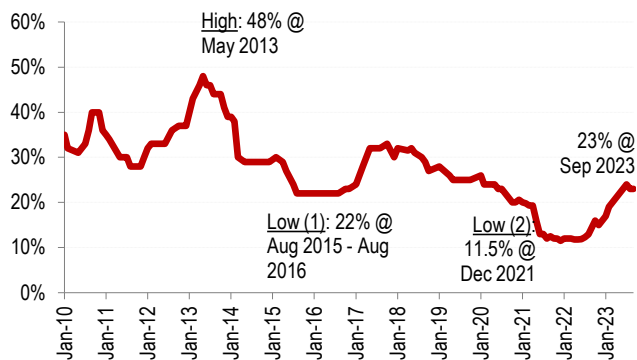
Source: Bloomberg, Maybank IBG Research

Fig 9: 12M forward P/B



Source: Bloomberg, Maybank IBG Research

Fig 10: Foreign shareholding - +7ppts, 2023 YTD



Source: Company

FYE 31 Jul	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	9.0	5.5	13.4	12.2	11.6
Core P/E (x)	10.2	12.8	13.4	12.2	11.6
P/BV (x)	0.9	1.0	1.1	1.0	1.0
P/NTA (x)	0.9	1.1	1.1	1.1	1.0
Net dividend yield (%)	3.6	11.6	2.6	2.6	2.6
FCF yield (%)	nm	nm	nm	10.9	10.9
EV/EBITDA (x)	11.9	15.8	14.4	11.5	10.8
EV/EBIT (x)	16.6	18.3	16.1	12.6	11.9

INCOME STATEMENT (MYR m)

Revenue	4,920.8	8,233.6	11,398.8	12,928.3	12,866.3
EBITDA	853.3	878.3	1,153.1	1,424.3	1,498.7
Depreciation	(240.9)	(118.8)	(124.7)	(130.9)	(137.5)
EBIT	612.4	759.5	1,028.4	1,293.4	1,361.3
Net interest income / (exp)	27.9	74.8	70.9	66.8	62.5
Associates & JV	401.1	233.2	117.0	23.3	23.9
Exceptionals	(26.0)	978.3	0.0	0.0	0.0
Pretax profit	1,015.5	2,045.9	1,216.3	1,383.5	1,447.7
Income tax	(179.8)	(230.9)	(296.8)	(367.2)	(384.4)
Minorities	(29.4)	(22.0)	(7.7)	(8.1)	(8.1)
Discontinued operations	0.0	45.4	0.0	0.0	0.0
Reported net profit	806.2	1,793.0	911.8	1,008.1	1,055.2
Core net profit	832.2	860.1	911.8	1,008.1	1,055.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	3,495.1	4,177.3	2,901.6	3,355.3	3,872.6
Accounts receivable	2,437.1	2,904.5	4,279.8	4,854.0	4,830.8
Inventory	655.4	717.2	999.1	1,121.8	1,108.5
Property, Plant & Equip (net)	1,095.5	1,701.7	1,877.0	2,046.0	2,208.6
Intangible assets	0.0	525.6	525.6	525.6	525.6
Investment in Associates & JVs	1,010.7	1,389.9	1,506.9	1,530.1	1,554.1
Other assets	11,568.9	12,485.7	12,855.7	13,595.7	14,520.7
Total assets	20,262.7	23,901.8	24,945.5	27,028.6	28,620.8
ST interest bearing debt	1,549.3	1,409.7	1,850.1	2,294.1	2,964.8
Accounts payable	2,666.6	3,810.6	4,057.2	5,227.4	5,632.2
LT interest bearing debt	3,230.7	5,514.0	5,238.3	4,976.4	4,727.6
Other liabilities	2,562.0	2,210.0	2,242.0	2,276.0	2,298.0
Total Liabilities	10,008.3	12,943.9	13,387.7	14,774.1	15,622.5
Shareholders Equity	9,905.0	10,822.4	11,414.7	12,103.3	12,838.9
Minority Interest	349.4	135.5	143.1	151.2	159.3
Total shareholder equity	10,254.4	10,957.9	11,557.8	12,254.5	12,998.3
Total liabilities and equity	20,262.7	23,901.8	24,945.5	27,028.6	28,620.8

CASH FLOW (MYR m)

Pretax profit	1,015.5	2,045.9	1,216.3	1,383.5	1,447.7
Depreciation & amortisation	240.9	118.8	124.7	130.9	137.5
Adj net interest (income)/exp	(27.9)	(74.8)	(70.9)	(66.8)	(62.5)
Change in working capital	(203.2)	(2,214.6)	(1,307.2)	573.2	524.7
Cash taxes paid	(179.8)	(230.9)	(296.8)	(367.2)	(384.4)
Other operating cash flow	(401.1)	(233.2)	(117.0)	(23.3)	(23.9)
Cash flow from operations	444.2	(588.9)	(451.0)	1,630.2	1,639.0
Capex	(523.0)	(2,296.8)	(300.0)	(300.0)	(300.0)
Free cash flow	(78.8)	(2,885.7)	(751.0)	1,330.2	1,339.0
Dividends paid	(88.0)	(1,070.7)	(319.5)	(319.5)	(319.5)
Equity raised / (purchased)	0.0	98.3	0.0	0.0	0.0
Change in Debt	(233.5)	2,053.6	164.8	182.1	421.8
Other invest/financing cash flow	1,023.6	2,747.3	(370.0)	(739.0)	(924.0)
Effect of exch rate changes	51.2	(20.7)	0.0	0.0	0.0
Net cash flow	623.3	942.8	(1,275.7)	453.8	517.3

FYE 31 Jul	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	39.9	67.3	38.4	13.4	(0.5)
EBITDA growth	23.3	2.9	31.3	23.5	5.2
EBIT growth	31.1	24.0	35.4	25.8	5.2
Pretax growth	29.2	101.5	(40.5)	13.7	4.6
Reported net profit growth	37.0	122.4	(49.1)	10.6	4.7
Core net profit growth	41.5	3.4	6.0	10.6	4.7
Profitability ratios (%)					
EBITDA margin	17.3	10.7	10.1	11.0	11.6
EBIT margin	12.4	9.2	9.0	10.0	10.6
Pretax profit margin	20.6	24.8	10.7	10.7	11.3
Payout ratio	37.5	71.2	35.0	31.7	30.3
DuPont analysis					
Net profit margin (%)	16.4	21.8	8.0	7.8	8.2
Revenue/Assets (x)	0.2	0.3	0.5	0.5	0.4
Assets/Equity (x)	2.0	2.2	2.2	2.2	2.2
ROAE (%)	8.5	17.3	8.2	8.6	8.5
ROAA (%)	4.3	3.9	3.7	3.9	3.8
Liquidity & Efficiency					
Cash conversion cycle	14.4	(10.2)	4.0	13.8	(2.8)
Days receivable outstanding	153.1	116.8	113.4	127.2	135.5
Days inventory outstanding	68.9	34.1	30.5	33.6	35.7
Days payables outstanding	207.5	161.1	139.9	146.9	174.1
Dividend cover (x)	2.7	1.4	2.9	3.2	3.3
Current ratio (x)	2.3	2.2	2.0	1.8	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	1.8	1.9	1.8	1.8
Net gearing (%) (incl perps)	12.5	25.1	36.2	31.9	29.4
Net gearing (%) (excl. perps)	12.5	25.1	36.2	31.9	29.4
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	5.6	7.9	6.1	5.1	5.1
Capex/revenue (%)	10.6	27.9	2.6	2.3	2.3
Net debt/ (net cash)	1,284.9	2,746.4	4,186.9	3,915.2	3,819.7

Source: Company; Maybank IBG Research

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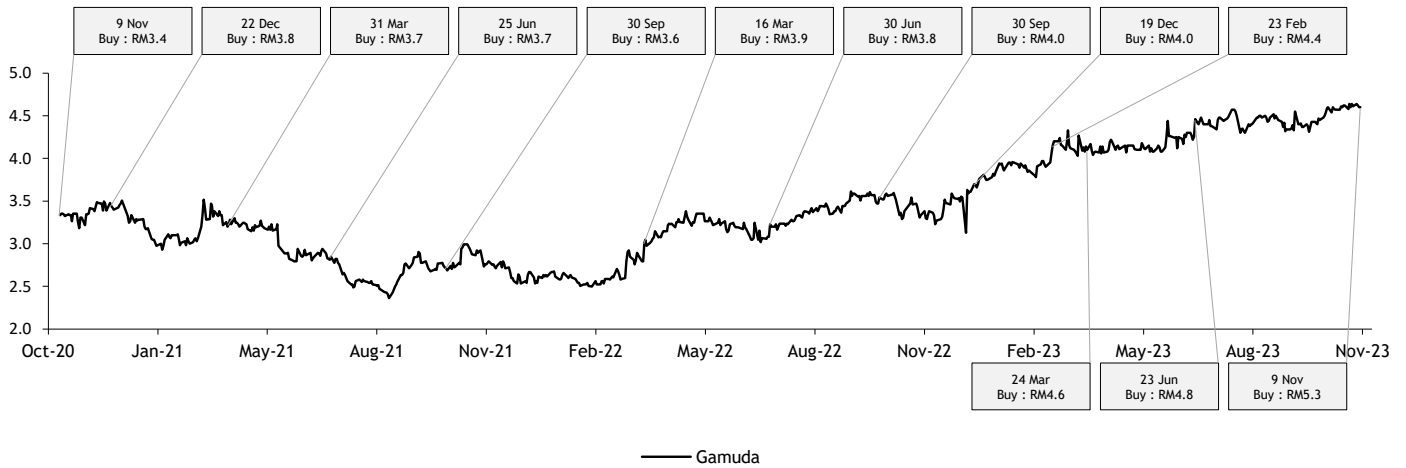
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Historical recommendations and target price: Gamuda (GAM MK)



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