

1 April 2024

Construction & Engineering | Construction

## Gamuda (GAM MK)

**Buy** (Maintained)

### The Cat Is Out Of The Bag For Penang LRT; Stay BUY

Target Price (Return): MYR6.30 (+20%)  
 Price (Market Cap): MYR5.27 (USD3,058m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (MYR/USD) 40.4m/8.70m

- **Keep BUY and SOP-based MYR6.30 TP, 20% upside and c.2% FY24F (Jul) yield.** The Cabinet on 29 Mar announced that the Penang Light Rail Transit (LRT) Mutiara Line was approved on 22 Mar. Under this project, MRT Corp will be the project developer and asset owner. The Penang LRT will have a stretch of c.29km with 20 stations including two interchange stations at Komtar and Penang Sentral – estimated to take six years to be completed ie by 2030.
- **Contracts for the Penang LRT comprises three segments** – i) Silicon Island to Komtar (Segment 1), ii) Komtar to Penang Sentral (Segment 2) and iii) turnkey systems and rolling stocks (Segment 3). Gamuda via its subsidiary, SRS Consortium (SRS) has been offered the contract for Segment 1 based on the Single Sourcing Request For Proposal (SSRFP) mechanism following a request by the Penang Government, which appointed SRS as the project delivery partner (PDP) of the Penang Transportation Master Plan (PTMP) which includes the Penang LRT through an open tender in Aug 2015.
- **Impact to Gamuda.** Details of the contract value of Segment 1 would be finalised subject to negotiations between SRS and MRT Corp within a period of up to six months before works can begin in 3QCY24 or 4QCY24. We view that the total construction cost for Segment 1 would be in the range of MYR8-10bn with a PBT margin of 5-8%. While there was no mention of the Komtar to Tanjung Bungah line under the approved Penang LRT alignment, Penang Chief Minister Chow Kon Yeow expressed hope that it will be considered in the future phase of the project.
- **Further thoughts.** The SSRFP mechanism likely implies a turnkey contractor role (higher accountability-bearing cost overruns and financing) for SRS in our view vs a PDP role (paid with fees to ensure a project is delivered on time and within the budget). Nonetheless, GAM is very well experienced in handling large ticket projects and therefore, we see no major concern in managing project margins should Segment 1 be under a turnkey basis.
- **Additional opportunities still up for grabs.** The contracts for Segment 2 and 3 of Penang LRT will be done via open tenders which SRS would still be able to submit bids. Therefore, this may allow the possibility of further orderbook expansion from GAM's MYR24bn total outstanding orderbook as of end-Jan.
- **No changes to our earnings estimates** as our assumptions for the contract size of Segment 1 (MYR8-10bn) would still be within our MYR25bn job replenishment target over FY24F and FY25F. As such, our SOP-derived TP of MYR6.30 remains, after baking in a 6% ESG premium. Our BUY call is premised on its current valuation, trading at 13.9x FY25F P/E which we view as unjustified – GAM was trading at a 16x P/E in mid-CY17 during the construction upcycle when its orderbook was only at MYR7.8bn compared to MYR24bn now.
- **A key risk** includes slower-than-expected job replenishment from overseas.

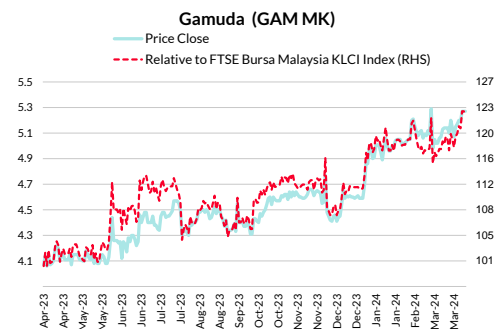
#### Analyst

Adam Bin Mohamed Rahim  
 +603 2302 8101  
[adam.mohamed.rahim@rhbgroup.com](mailto:adam.mohamed.rahim@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.8	(0.4)	14.8	19.0	30.4
Relative	9.2	0.6	9.2	11.1	22.3
52-wk Price low/high (MYR)				4.06	-5.29



Source: Bloomberg

Forecasts and Valuation	Jul-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Total turnover (MYRm)	5,144	8,281	13,071	14,168	15,162
Recurring net profit (MYRm)	806	860	916	1,022	1,167
Recurring net profit growth (%)	37.1	6.6	6.6	11.5	14.2
Recurring P/E (x)	16.93	16.11	15.52	13.92	12.19
P/B (x)	1.4	1.3	1.2	1.2	1.1
P/CF (x)	29.04	34.26	na	17.91	5.71
Dividend Yield (%)	2.3	9.5	2.3	2.3	2.3
EV/EBITDA (x)	19.15	13.60	12.01	10.51	8.37
Return on average equity (%)	8.5	9.2	8.3	8.7	9.3

Source: Company data, RHB

#### Overall ESG Score: 3.3 (out of 4)

##### E: EXCELLENT

Gamuda is actively conducting various simulations, projections, and baseline studies on its greenhouse gas (GHG) emissions. It continues to fine-tune its measurements and monitors processes to capture more scientific information, including its Scope 1 and 2 GHG emissions. Gamuda Park is the umbrella programme encompassing its efforts in biodiversity and nature conservation.

##### S: EXCELLENT

Gamuda is leading the construction industry standard with the establishment of the KVMRT Safety Training Centre. It is the first Malaysia-based subcontractor to win the Lendlease Safety Award for acing the global minimum requirement.

##### G: EXCELLENT

57% of Gamuda's board is independent, with full disclosures on director remunerations – this includes salaries and bonuses on a named basis. Gamuda has an in-house investor relations team and holds regular investor meetings, embodying good transparency and disclosure practices.

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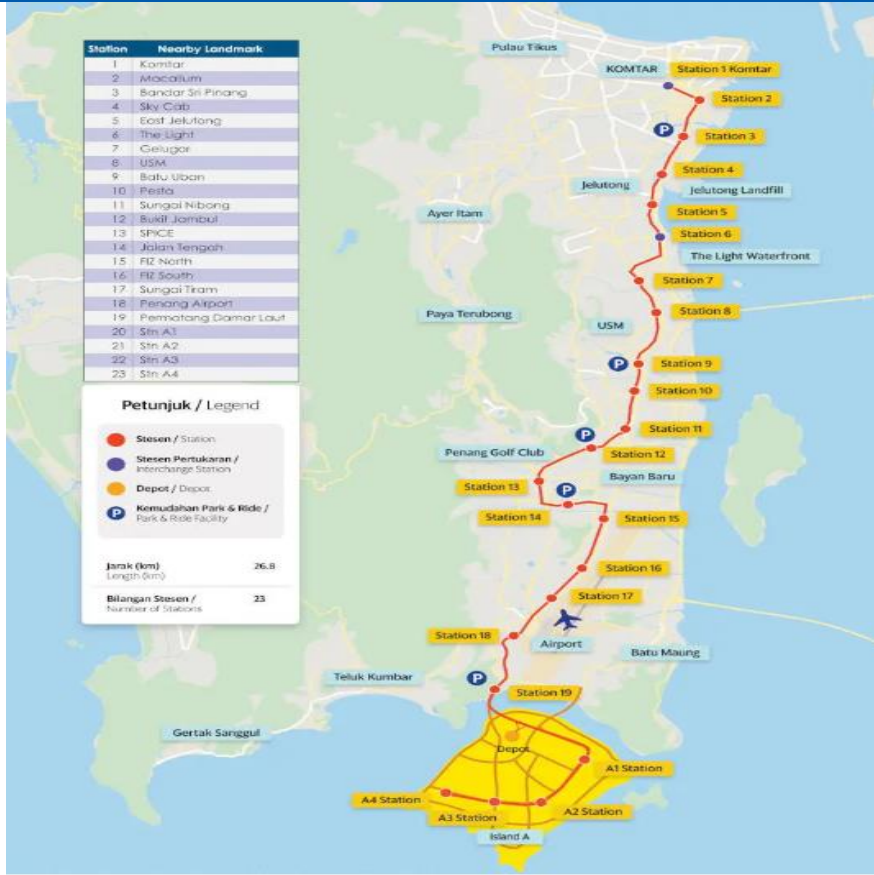
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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
Malaysia	Recurring EPS	0.31	0.33	0.34	0.38	0.43
Construction & Engineering	DPS	0.12	0.50	0.12	0.12	0.12
<b>Gamuda</b>	BVPS	3.82	4.10	4.22	4.48	4.79
GAM MK	Return on average equity (%)	8.5	9.2	8.3	8.7	9.3
Buy						
	<b>Valuation metrics</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	16.93	16.11	15.52	13.92	12.19
We value the group based on its SOP, derived from a combination of P/E, DCF, and RNAV valuation methodologies.	P/B (x)	1.4	1.3	1.2	1.2	1.1
	FCF Yield (%)	0.6	(2.8)	(5.7)	3.5	15.4
	Dividend Yield (%)	2.3	9.5	2.3	2.3	2.3
<b>Key drivers</b>	EV/EBITDA (x)	19.15	13.60	12.01	10.51	8.37
Gamuda's earnings are underpinned by construction orders and property sales.	EV/EBIT (x)	22.51	15.18	14.11	12.23	9.72
	<b>Income statement (MYRm)</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
<b>Key risks</b>	Total turnover	5,144	8,281	13,071	14,168	15,162
Slower-than-expected job replenishment from overseas.	Gross profit	1,088	1,710	1,996	2,058	2,721
	EBITDA	746	1,156	1,364	1,506	1,599
	Depreciation and amortisation	(112)	(120)	(203)	(212)	(223)
	Operating profit	635	1,036	1,161	1,294	1,376
	Net interest	(87)	(78)	(191)	(152)	(185)
	Pre-tax profit	898	1,191	1,193	1,356	1,542
	Taxation	(62)	(221)	(256)	(319)	(362)
	Reported net profit	806	948	916	1,022	1,167
	Recurring net profit	806	860	916	1,022	1,167
	<b>Cash flow (MYRm)</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
	Change in working capital	40	(166)	(1,435)	(181)	1,566
	Cash flow from operations	470	404	(509)	794	2,489
	Capex	(384)	(793)	(300)	(300)	(300)
	Cash flow from investing activities	397	(233)	(300)	(301)	(302)
	Dividends paid	(67)	(1,443)	(324)	(324)	(324)
	Cash flow from financing activities	(320)	771	(1,415)	(325)	(1,681)
	Cash at beginning of period	2,657	2,794	3,169	1,779	2,281
	Net change in cash	547	943	(2,224)	168	506
	Ending balance cash	3,255	3,716	945	1,947	2,788
	<b>Balance sheet (MYRm)</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
	Total cash and equivalents	2,794	3,169	1,779	2,281	4,544
	Tangible fixed assets	4,741	5,455	4,850	4,765	4,670
	Total investments	1,702	2,021	2,244	2,459	2,810
	Total assets	20,263	23,784	25,195	26,728	21,653
	Short-term debt	1,549	1,410	410	460	510
	Total long-term debt	3,231	5,514	5,614	5,714	5,814
	Total liabilities	10,008	12,858	13,656	14,476	8,545
	Total equity	10,254	10,927	11,539	12,253	13,108
	Total liabilities & equity	20,263	23,784	25,195	26,728	21,653
	<b>Key metrics</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
	Revenue growth (%)	46.2	61.0	57.8	8.4	7.0
	Recurrent EPS growth (%)	33.0	5.1	3.8	11.5	14.2
	Gross margin (%)	21.2	20.7	15.3	14.5	17.9
	Operating EBITDA margin (%)	14.5	14.0	10.4	10.6	10.5
	Net profit margin (%)	15.7	11.4	7.0	7.2	7.7
	Dividend payout ratio (%)	38.6	138.7	35.3	31.7	27.8
	Capex/sales (%)	7.5	9.6	2.3	2.1	2.0

Source: Company data, RHB

Figure 1: Proposed alignment of the Komtar-Silicon Island stretch for Penang LRT



Note: Alignment and station names are subject to review before actual implementation  
 Source: Penang Infrastructure Corporation

Figure 2: Initially proposed Georgetown-Butterworth LRT line (prior to approval for Komtar-Penang Sentral line)



Source: Penang Property Talk

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Figure 3: Gamuda's SOP valuation

Construction:		FY25F PATMI (MYRm)	Target P/E (x)	Total (MYRm)		
Value for overseas construction (bulk from Australia)		460.0	17	7,820.0		
Value for Malaysia construction		220.0	15	3,300.0		
Concessions:-		DCF (MYRm)	Stake (%)			
Gamuda Water (O&M concession for SSP 3)		492.9	80	394.3		
Property:-		Acres	WACC (%)	GDV (MYRm)	Ownership (%)	
Kota Kemuning		10	9	100	50	1.2
Horizon Hills		400	9	3,950.00	50	590.2
Valencia		0	9	20	98.8	0.3
Bandar Botanic		30	9	2,070.00	100	213.5
Jade Hills		180	9	1,300.00	100	296.0
Kundang		90	9	600	100	37.7
Gamuda Cove		1,530	9	20,878.00	100	2,699.9
Twentyfive7		257	9	3,000.00	100	268.0
Highpark Suites		5	9	570	100	9.6
Bukit Bantayan, Sabah		18	9	820	100	40.7
Gamuda City (Hanoi)		400	9	10,000.00	100	434.8
Celadon City (HCMC)		170	9	5,000.00	100	241.3
Chapel Street (Melbourne)		0	9	350	100	5.0
Gamuda Gardens		810	9	10,100.00	100	501.0
OLA Singapore		4	9	1,960.00	50	90.0
Sub Total - NPV of future profit						5,429.2
Property development BV						7,345.6
RNAV of property development						12,774.8
- 50% discount						-6,387.4
Value for property unit						6,387.4
Investment properties		Carrying value (MYRm)	Stake (%)			
		691.5	100			691.5
ERS Energy		Equity Value (MYRm)	Stake (%)			
		667.0	30			200.0
Holding company's net cash/ (debt)						(2,746.0)
SOP value						16,047.2
Intrinsic value per share						5.95
6% ESG premium						0.35
TP						6.30

Source: RHB

## Emissions And ESG

### Trend analysis

In FY23, Scope 2 emissions decreased to 6,718 tonnes of CO2 equivalents (FY22: 8,428 tonnes of CO2 equivalents) and Scope 2 increased to 20,107 tonnes of CO2 equivalents (FY22: 18,147 tonnes of CO2 equivalents).

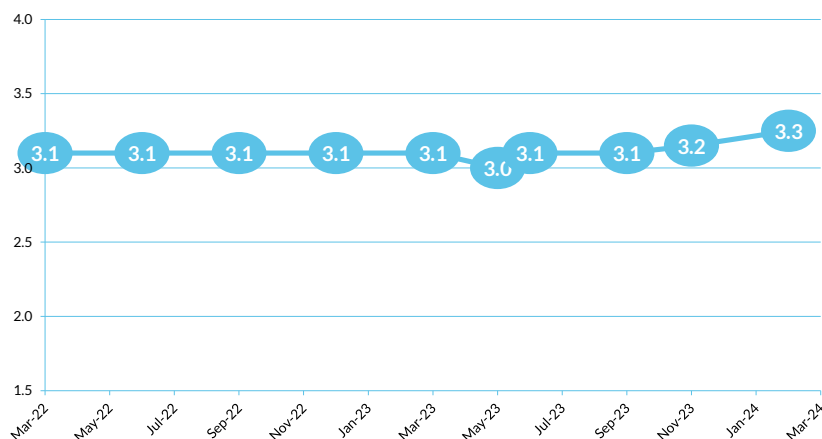
Emissions (tCO2e)	Jul-21	Jul-22	Jul-23
Scope 1	2,998	8,428	6,718
Scope 2	14,845	18,147	20,107
Scope 3	na	na	132,143
Total emissions	17,843	26,575	158,968

Source: Company data, RHB

## Latest ESG-Related Developments

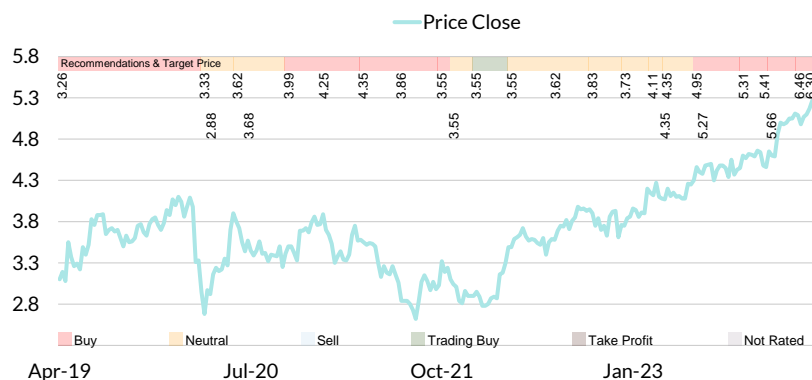
- **Expansion of its emissions traceability:** In FY23, the company began collecting our Scope 3 emission data from suppliers and disclosing data from eight out of the 15 emissions categories according to the GHG Protocol.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-28	Buy	6.30	5.27
2024-03-19	Buy	6.46	5.14
2024-02-12	Buy	6.46	5.05
2023-12-07	Buy	5.66	4.45
2023-11-20	Buy	5.41	4.65
2023-10-31	Buy	5.31	4.64
2023-10-26	Buy	5.31	4.62
2023-09-28	Buy	5.31	4.31
2023-07-20	Buy	5.27	4.47
2023-06-23	Buy	5.27	4.46
2023-06-08	Buy	4.95	4.12
2023-05-01	Neutral	4.35	4.15
2023-03-28	Neutral	4.35	4.09
2023-03-24	Neutral	4.35	4.10
2023-02-23	Neutral	4.11	4.15

Source: RHB, Bloomberg

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<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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#### KUALA LUMPUR

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 2302 8100  
Fax : +603 2302 8134

#### JAKARTA

**PT RHB Sekuritas Indonesia**  
Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel: +6221 509 39 888  
Fax : +6221 509 39 777

#### BANGKOK

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### SINGAPORE

**RHB Bank Berhad (Singapore branch)**  
90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470