Potential RM20b LRT project for Gamuda

- **Recommendation:**
- **Hold**

Target Price: RM2.50

By HwangDBS Vickers Research

Key Re-rating Catalyst

THE key re-rating catalyst for Gamuda Bhd is the potential RM20 billion new LRT line from Kota Damansara to Cheras.

It stands a good chance of clinching this contract because of its past experience, but we should not jump the gun because, 1) the government has not decided on the project, 2) timing of the project remains fluid as priority is to extend the existing LRT lines and 3) it is unknown if the contract will be awarded to one contractor or a consortium.

Lacks Near Term Catalyst

Besides the new LRT line, Gamuda does not seem to be aggressively eyeing other local jobs. This is understandable, since it has its hands full with the double tracking and Yenso Park infrastructure projects valued at a combined RM6.2 billion.

Moreover, we expect the potential sale of Splash to be long drawn with a new minister now, and there is still no revival of land sale in Yenso Park to a foreign developer. It's RM1.8 billion Nam Theun 1 project could also be cancelled. On a more positive note, there could be write-back of profits for its double tracking project in FY10F.

Adjusted FY10-11F Earnings Per Share by -2% and +9% after removing the Nam Theun 1 project and imputing new orderbook replenishment assumption of RM1.5-RM2 billion per annum vs zero previously.

We also expect consensus forecast for FY09, which is 26% above ours, to gravitate towards our forecast. Reiterate 'Hold' with higher RM2.50 target price based on 14 times CY10F Earnings Per Share.

Reiterate Hold

Following our meeting with Gamuda, we reiterate our 'Hold' rating with a higher price target of RM2.50, based on a higher PE multiple of 14 times (vs 12 times previously).

This is in line with our target multiple for IJM, but below its ten year average of 17.4 times.

Looking at its historical trading band, Gamuda could trade at higher multiples.

But apart from generally positive sentiment on the sector, we see nothing in the near term to catalyse this (sale of Splash in limbo, no revival in sale of land in Yenso Park, and no resolution for Nam Theun 1 project).

Moreover, the only possible key re-rating catalyst (RM20 billion new LRT line project) is at least 12 months away, if it takes off at all.

Adjusted FY10-11F Earnings

We revised FY10F Earnings Per Share by -2% and FY11F by +9% after taking into account the following,

1) removal of its RM1.8 billion BOT Nam Theun 1 project from our forecasts, as we do not expect a resolution to be reached soon.

This is compounded by the still unstable political climate in Thailand and

2) orderbook replenishment of RM1.5 billion for FY10F and RM2 billion for FY11F vs zero previously.

GAMUDA BHD

	2008A	2009F	2010F	2011F
TURNOVER (RM mil)	2,404	2,063	2,793	4,016
NET PROFIT (RM mil)	325	211	308	409
EPS (sen)	16.2	10.5	15.4	20.4
ROE (%)	10.8	6.9	9.8	12.2