Gamuda-CH trading at low premium

| BY SIOW CHEN MING |

Now trading at a low premium to the mother share, Gamuda-CH offers investors a good proxy for construction giant Gamuda Bhd, which could benefit from new contract wins as well as the commencement of property sales in Vietnam next year.

Gamuda-CH closed at 40.5 sen last Wednesday, representing a 3.4% premium to the mother share which ended at RM3.10 that day. The cash-settled structured call warrant, which expires on Sept 24, 2010, is exercisable at a 3:1 ratio and an exercise price of RM1.99 per Gamuda share.

The warrant's current price implies a total exercise cost of RM3.21 (three times 40.5 sen plus RM1.99). At this level, the potential gains are still attractive, given analysts' generous target prices for Gamuda's share price.

According to updated ratings compiled by Bloomberg since last month, analysts have target prices ranging from RM2.90 to RM4.07 for Gamuda, or an average target price of RM3.52.

Four out of six analysts who recently updated their ratings have "buy" recommendations on the construction outfit.

Gamuda's share price has risen nearly 50% year to date from its year low of RM1.86 on March 13, 2009 to a high of RM3.38 on Aug 3, 2009.

While the stock has come off its August high, a potential re-rating of the sector next year amid the award of major government projects may lift the stock again.

Analysts say the current positives for Gamuda include improved construction profits resulting from margin restoration, especially in the New Doha International Airport project — thanks to a decline in construction materials costs as well as a rebound in property sales revenue.

Analysts say Gamuda is on track to meet its targeted property sales revenue of RM600 million for the current financial year ending July 30, 2010, which is 20% higher than FY2009's property sales of RM500 million.

Other near-term catalysts include potential contract wins in the domestic market as well as abroad and the launch of the Yen So Lake property project in Vietnam next year.

Gamuda is eyeing the new Sepang low-cost carrier terminal job, LRT extension work and Pahang-Selangor water transfer upstream construction package. The group is also actively bidding for jobs in Qatar, Bahrain and Oman. The award of any of these new jobs would add to its existing construction order book of RM8 billion.

In terms of delivery, local job awards may start to trickle in later next year, but Gamuda may see the award of new projects from abroad earlier.

"The group has pre-qualified for four government-related projects in the Middle East, with a collective value of RM3 billion to RM4 billion," says Maybank Investment Bank in a recent report.