

# A better quarter for Gamuda

**MIDF bullish on builder, sees current correction as opportunity to buy**

**Gamuda Bhd  
(Dec 23, RM2.61)**

**Reiterate trading buy at RM 2.66, target price at RM3.50:** Gamuda's first-quarter (1Q) results came in within expectation. It is a better quarter thanks to higher contribution from the property division. In 1Q, Gamuda's revenue increased by 1.6% year-on-year (y-o-y) to RM624 million, while pre-tax profit grew at a faster pace of 15.9% y-o-y to RM83.5 million. The increase in profit before tax is due to higher contribution from all divisions.

Meanwhile, on a sequential basis, 1Q pre-tax profit grew by 3.9% to RM83.5 million primarily due to higher contribution from the property division driven by strong real estate sales since the middle of the last financial year.

Despite 1Q revenue falling by 33.8% from the preceding fourth quarter, earnings before interest

and tax (Ebit) margin expanded by 4.1% to 8.8% while net profit surged by 40.1% quarter-on-quarter.

We foresee an earnings recovery story for Gamuda in the financial year ending July 2010 (FY10) as we forecast net profit to grow by an annual rate of 71.1% to RM334.2 million on the back of revenue growth of 8.4% to RM2.96 billion.

The estimates are by virtue of a better outlook for all its divisions and better profit margin in anticipation of lower operating costs.

We continue to like Gamuda for its strong order book and leadership in the construction sector in view of the government's pump-priming activities.

In FY11, Gamuda expects equal earnings contribution from its domestic and overseas operations. The company's diversification strategy to venture abroad after the 1997/1998 Asian financial crisis has started to show results.

For the current FY10, a third of its earnings is derived from abroad. But for FY11, it will be 50:50. The infrastructure concession division

would register steady income growth and continue to generate significant cash flow for the group.

This year, the construction division is focusing on executing two big projects namely the Rawang-Ipoh double-tracking project and Yen So Park in Hanoi, Vietnam. The projects are progressing well and is expected to be significant income contributors for FY10 and FY11.

The double-tracking project is slated for completion in 2013. Meanwhile, the company's three projects in the Gulf states, including the Dubai Airport job are also making good progress as they near completion. Gamuda's current RM8.5 billion order book is expected to last for two years.

Going forward, we foresee attractive valuation for shares of Gamuda and positive news flow in the form of award of new contracts for the company. We see the current correction in the share price as an opportunity to accumulate and maintain our target price of RM3.50 based on sum-of-parts valuation. — MIDF Research, Dec 23

**Gamuda Bhd**

FYE 31 July	FY08	FY09	FY10F	FY11F
Revenue (RM m)	2,403.7	2,727.3	2,955.8	3,420.9
Ebit (RM m)	318.1	183.8	336.7	448.1
Net profit (RM m)	325.1	204.2	334.2	412.8
EPS (sen)	16.2	9.7	16.6	20.5
EPS growth (%)	76.0	-40.1	71.1	23.5
PER (x)	16.4	27.4	16.0	13.0
Net dividend (sen)	18.5	8.0	9.0	10.0
Net dividend yield (%)	6.9	3.0	3.4	3.8

Source: Company, Forecasts by MIDFR