

# Gamuda shares hit by uncertain outlook

Stock at 6-month low despite improved first-quarter results

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**PETALING JAYA:** Shares of Gamuda Bhd hit a six-month low yesterday as investors cast a wary eye on the group's prospects despite an improved performance in the first quarter ended Oct 31 and its rosy outlook for the construction sector in 2010.

The lack of big projects secured by Gamuda since the start of its fiscal year ending July 31, 2010 (FY10) remained a key concern, analysts said.

The counter fell as much as 3% yesterday, but recovered somewhat to close at RM2.61 – down 5 sen, or 1.9%, for the day.

On Tuesday, Gamuda announced it made a net profit of RM63mil for the three months ended Oct 31, up 14.5% from the RM49mil recorded in the same quarter last year.

Revenue was up 1.6% at RM624mil.

The company also announced a surprise 50% jump in interim dividend payout to 6 sen per share, which prompted analysts to upgrade Gamuda's full-year dividend forecast to 12 sen per share.

At the current market price, the stock's potential dividend yield stood at 4.6%.

"I don't think people see Gamuda as a high dividend-paying stock, but the increased cash payout will probably limit the stock's downside risk, going forward," a fund manager with a local asset management firm said.

Despite the improved year-on-year results, Gamuda's net profit in its first three months made up 18% of Kenanga Research FY10 target of

RM340mil and consensus estimates of RM337mil for the company.

Kenanga remains "neutral" on Gamuda, and has kept its FY10 and FY11 profit predictions intact based on Gamuda's strong unbilled property book and better operating margins ahead.

But RHB Research Institute believes the consensus estimates are too high.

"The full-year consensus number can only be achieved if there are sharp increases in construction margins over the remaining quarters," it said yesterday.

Gamuda's construction pre-tax margin was 2.6% in the first quarter, which was far below the market's projection of 6% for FY10.

RHB Research also believes that the market has "under appreciated" the possibility of delays in project implementation and sub-par margins due to stiff competition.

Other negative developments affecting Gamuda and many local construction players include reduced gross development expenditure in 2010 by the Government, Vietnam's currency devaluation and the Dubai credit crisis.

RHB Research reckons that Gamuda's current "rich valuations" have priced in the group's earnings from its RM7.5bil outstanding construction orderbook.

At a briefing for analysts on Tuesday, Gamuda said it expected new contract awards to gather pace in the first half of next year.

Gamuda is vying for projects under the planned RM7bil Light

Rapid Transport extension programme and the runway portion of the new low-cost carrier terminal at KL International Airport complex.

Gamuda also told analysts that it has emerged as the top two finalists for the Ulu Terengganu Dam project, and is currently bidding for RM4bil worth of jobs in Qatar, Oman and Bahrain.

On the property side, Gamuda is sticking to its planned May 2010 launching date for its residential units at Yenso Park in Vietnam.

On the local front, the company is reviewing its FY10 RM600mil sales target after a strong first quarter.

Meanwhile, Gamuda plans to sell as many as 268 million new warrants at 10 sen each on the basis of one warrant for every eight shares held.

Assuming a full conversion at a strike price of RM2.67, the exercise will raise RM715mil in fresh capital, but may dilute its earnings by about 5%.

