

The changing fortunes of Gamuda

Construction firm capitalising on govt projects; valuations remain undemanding

Gamuda Bhd (Jan 20, RM2.93)

Maintain buy at RM2.88, target price at RM4.20: We hosted Gamuda at our recent Pulse of Asia conference in Singapore with a good turnout. Below are the key takeaways:

Gamuda is hopeful of clinching 10% to 15% of the RM16 billion to RM17 billion worth of mega projects in the pipeline, within our assumed FY10 order book win of RM1.6 billion. The most immediate win could be the RM700 million Hulu Terengganu dam project, where Gamuda is among two shortlisted contractors. The official award will likely be in February.

Other potential wins are the runway portion of the LCCT worth

RM400 million to RM500 million, which tender will open in February, RM7 billion-RM8 billion LRT extension works, RM2 billion-RM3 billion Klau dam which tender will close in March and the RM3 billion-RM4 billion Langat 2 water treatment plant.

We think Gamuda is a strong contender for the LRT extension works as a third of the two 34-kilometre stretch will run through its highway concessions.

The turning point for Yenso Park in Hanoi Vietnam, will be the planned land sale in mid-2010 to a reputable international property developer. The land size is small at circa three acres (1.21 hectares), but the gains will be sizeable given its commercial content. Gamuda will form a joint venture to build a retail mall, but will take a minority stake and more passive role.

More importantly, the sale will aid its maiden residential property launch in mid-2010 with initial sales estimated at RM150 million-RM200

million, and have a cascading effect on further land sales (Gamuda is targeting one a year). Gamuda appears to have revised up total gross development value for Yenso Park to RM10 billion versus RM8 billion previously. Imputing this, our sum-of-parts (SOP) valuation would rise by 2% to RM4.27.

Valuations are undemanding at 15 times CY10 price earnings (PE) and two times price/net tangible asset (P/NTA), below its one standard 10-year average of 24 times and 2.4 times. This is despite the expected strong earnings recovery (two-year compound annual growth rate of 50%) led by two key projects — double-tracking rail and Yenso Park infrastructure.

Construction pre-tax margins for FY10 will continue to improve quarter-on-quarter and peak at 4%-5% in 4QFY10, and normalise to 10%-11% in FY11. — *HwangDBS Vickers Research, Jan 20*

Property sector comparison

Company	Price	Target	Rating	Diluted P/E (x)		Mkt cap (RM b)	Est. order bk (RM b)	Mkt cap/ ord bk (x)	Net tangible asset (RM)	P/NTA (x)
	(RM)	(RM)		CY09	CY10					
Gamuda	2.88	4.20	Buy	23.2	15.0	5.8	5.7	1.0	1.44	2.0
IJM	4.66	6.00	Buy	19.2	15.1	6.1	3.8	1.6	3.78	1.2
WCT	2.75	2.25	Fully valued	17.7	17.7	2.1	2.2	1.0	1.62	1.7
MRCB	1.57	1.80	Buy	49.1	26.2	1.4	2.0	0.7	0.79	2.0
Sunway Holdings	1.48	1.95	Buy	16.0	10.5	0.9	2.7	0.3	1.10	1.3
TRC Synergy	1.40	2.05	Buy	7.3	6.8	0.2	0.4	0.6	1.50	0.9
Average				22.1	15.2			0.9		1.5

Sources: Bloomberg, DBS Vickers, Company

MRCB's TP is on an ex-basis post its rights issue