

Gamuda's margin expansion to continue, says HwangDBS

Gamuda Bhd
(March 23, RM2.83)

Maintain buy at RM2.74, with target price of RM4.20: Gamuda's results for 2QFY10 are due tomorrow. We expect 5%-10% growth in net profit quarter-on-quarter underpinned by gradual improvement in construction margin and higher recognition of property billings.

1QFY10 construction margin of 4% should show continuous improvement for the next eight quarters before stabilising at 10%-11% in FY11. 2QFY10 property earnings should remain robust driven by unbilled sales of about RM700 million. We understand 1HFY10 property sales have already reached RM490 million with full-year sales likely to reach RM800 million (versus FY09 of RM500 million and FY10 earlier target of RM600 million).

The stock may become an eventual Malaysian-Vietnam proxy. In our view, Gamuda is making the right move in entrenching its exposure in Vietnam, diversifying country and sector exposure out of construction.

With RM16 billion in gross development value and 12% of sum-of-parts (SOP) valuation (including Tan Thang) coming from Vietnam,

Gamuda will be re-rated with improving incremental news flow in Vietnam. Next catalyst is a land sale in Yenso Park to a reputable foreign developer.

The company's large order book provides buffer. Gamuda's near-term prospects for new jobs may prove challenging if there are further delays in the rollout of mega projects, its main focus for now.

Gamuda's CY11 price-to-earnings ratio (PER) of 12.3 times and price-to-book value ratio of 1.6 times are below its 10-year average mean of 17.7 times and 1.8 times, implying limited downside. While construction jobs may be slow, we think incremental news flow on Vietnam and expectations of more transportation-related contracts (Gamuda's forte) during the 10th Malaysia Plan will be key catalysts to watch for. Buy with an SOP-derived target price of RM4.20.

We think the recent arbitration by Bahrain Asphalt Establishment (BAE), one of its asphalt subcontractors for the completed Durkan Highway project done jointly with WCT Bhd is a non-event. The total subcontract amount was RM200 million while BAE is claiming for RM101 million. — *HwangDBS Vickers Research, March 23*
