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Gamuda–CH worth another look

BY **Joyce Goh**

The potential re-rating of the sector after the recent rally of banking counters has attracted analyst attention to construction stocks. Of particular interests is construction giant Gamuda Bhd, whose share price has been languishing at about RM2.80 over the last three months and has largely under-performed its peers. While there is upside potential in Gamuda's share price according to some analysts, Gamuda-CH, a structured warrant issued by CIMB, offers leverage on the potential gains of the mother share. Gamuda-CH is currently trading at zero-premium to its mother share. But the concern is that the warrant is going to expire in a few months, on Sept 24, 2010. So it is crucial that positive news flow kicks in over the next few months to lift the warrant's price.

Gamuda-CH is exercisable at a three-to-one ratio, at RM1.99 per Gamuda share. It closed at 28 sen last Tuesday, with an implied a total cost of RM2.83 (RM0.28 x 3 + RM1.99), the same as Gamuda's share price that closed at RM2.83 on the same day.

In a surprise move, last Wednesday Gamuda announced that its 40%-owned associate company, Syarikat Pengeluar Air Sungai Selangor Holdings Bhd (SPLASH), had made a RM10.75 billion offer for all the water concessions in Selangor.

Hwang-DBS Vickers Research says in the months ahead, it can see key catalysts for the company. These include a possible resolution to Selangor's water sector deadlock with SPLASH's buyout offer and the successful launch of Gamuda's Yenso Park and Tan Thang development in 2Q to 3QCY2010. The research outfit adds that the tabling of 10th Malaysia Plan in June 2010 will give more clarity on contract flows.

"With improving news flow, we expect Gamuda's valuations to revert to at least the 10-year average mean of 17.7 times PER and 1.8 times P/BV. The stock is currently trading at an attractive CY2011 PER of 12.8 times and P/BV of 1.6 times," notes Hwang-DBS Research. It adds that Gamuda's second quarter results for FY2010 ending July 31 with net profit of RM68 million are the strongest of last five quarters, as construction margins improved to 5.6% compared with 4% in 1QFY2010 and 2.6% in 4QFY2009. "Property [division] pretax profit was also strong, growing 37% q-o-q to RM25 million, while property sales remained robust in the quarter at RM240 million, bringing 1HFY2010 sales to RM490 million. And with prompt payments for the double tracking project, Gamuda's balance sheet continued to strengthen, with net gearing improving to 5% at end 2QFY2010 from 8% a quarter ago," it adds.

Gamuda's share price touched its 52-week low of RM1.95 a year ago, and recovered to its 52-week high of RM3.38 on Aug 3, 2009. As for Gamuda-CH, it dipped to a low of 18.5 sen last April and recovered to a high of 53 sen in August last year. Hwang-DBS has pegged its sum-of-parts derived target price for the mother share at RM4.20. E

Gamuda vs Gamuda–CH