

12 March 2014 | Corporate Update

## Gamuda Berhad

*Losing SPLASH*

**Downgrade to NEUTRAL**

**Reduce Target Price (TP): RM4.88  
(previously RM5.24)**

### INVESTMENT HIGHLIGHTS

- **The Federal and Selangor State Governments finally invoked Section 114 of the Water Services Industry Act 2006 (WASIA).**
- **SPLASH takeover is now considered completed.**
- **Gamuda to lose about 17% and 19% of earnings contribution from SPLASH in FY14 and FY15 respectively.**
- **Downgrade to Neutral.**

**WASIA invoked.** The media today reported that the Federal and Selangor State Governments yesterday said they are invoking Section 114 of the WASIA to facilitate the implementation of the Selangor water restructuring as set out in the terms of the memorandum of understanding (MoU) signed on Feb 26. There has yet to be a formal announcement from Gamuda in this regard.

**SPLASH takeover completed.** We are negative on this invocation as a “forced acceptance” is unlikely to go down well with investors. However, this move will not stop SPLASH shareholders’ to proceed with arbitration. This exercise will see a huge loss in the shareholders’ investment in SPLASH water assets. Based on RM250.6m offered by the Selangor State for SPLASH’s water assets, Gamuda will only realize RM100.2m net and incur divestment loss of RM920m on its 40% stake in SPLASH. At the end of FY13 SPLASH net asset value was RM2.54b. However, we opine that Gamuda will probably be compensated by the next MRT contracts award involving Line 2 and 3, as well as the Southern Electrified Double Track

**Earnings revised.** We understand the takeover is completed under the Act. Therefore, we revise FY14 and FY15 earnings forecast downwards by 17% and 19% as SPLASH contributes approximately RM132.5m and RM140m to Gamuda’s bottomline.

**Downgrade to NEUTRAL.** We downgrade our BUY recommendation to NEUTRAL on Gamuda with a revised TP of RM4.88 as losses from its SPLASH divestment will negatively impact its FY14 earnings. This is a temporary hiccup as going forward, we expect Gamuda’s earnings to normalize given that its main earnings come from strong unbilled property sales of RM1.7b and construction segments particularly MRT 1.

RETURN STATS	
Price (11 <sup>th</sup> Mar 2014)	4.70
Target Price	4.88
Expected Share Price Return	3.8%
Expected Dividend Yield	3.0%
<b>Expected Total Return</b>	<b>6.8%</b>

STOCK INFO	
KLCI	1,828.6
Bursa / Bloomberg	5398 / GAM MK
Board / Sector	Main/ Construction
Syariah Compliant	Yes
Issued shares (mil)	2,300.9
Par Value (RM)	1.00
Market cap. (RM'm)	10,814.2
Price over NTA	2.1x
52-wk price Range	RM3.85–RM5.05
Beta (against KLCI)	1.2x
3-mth Avg Daily Vol	5.7m
3-mth Avg Daily Value	RM25.2m
Major Shareholders	
ASB	9.68%
EPF	6.64%
Generasi Setia M S/B	5.79%



## INVESTMENT STATISTICS

FYE Jul	FY11	FY12	FY13	FY14F*	FY15F*
Revenue (RM'm)	2,673.2	3,087.0	3,883.1	2,030.0	2,395.9
EBIT (RM'm)	380.9	584.5	463.8	420.3	496.1
Pre-tax Profit (RM'm)	544.5	728.2	692.6	618.6	746.5
Net Profit (RM'm)	425.4	547.3	541.4	533.4	643.7
EPS (sen)	19.8	26.3	25.0	23.2	28.0
EPS growth (%)	26.4	32.6	(0.0)	-7.2	20.7
PER(x)	22.3	16.8	17.7	15.6	13.2
Net Dividend (sen)	11.3	12.0	12.0	14.0	14.0
Net Dividend Yield (%)	2.6	2.7	2.7	3.0	3.0

\* After FRS 11

Source: Company data, forecasts by MIDFR

## SUM-OF-PARTS VALUATION

Segments	Stake	Basis	Value (RM)
<b>Construction</b>	Various	FY15 PER of 17x	2,529.1
<b>Property</b>	Various	FY15 PER of 15x	6,942.6
<b><u>Concessions Assets</u></b>			
Litrak	46%	MIDFR Target Price of RM4.56	947.7
Kesas	30%	DCF (WACC: 10%)	475.5
	20%	Price Tag for Amcorp's stake	280.0
Smart Tunnel	50%	DCF (WACC: 12%)	140.1
Indian Tolls	70%	DCF (WACC: 7.5%)	316.5
Splash	40%	Selangor's takeover offer	100.2
<b><u>Other</u></b>			
PDP Fees	50%	DCF (10%, 5 years)	479.3
<b>Net Assets Value</b>			<b>12,211.0</b>
Net debt			(993.6)
<b>Total RNAV</b>			<b>11,217.4</b>
No. of shares			2,300.9
<b>RNAV per share</b>			<b>4.88</b>

Source: Forecasts by MIDFR

## DAILY PRICE CHART



Zulkifli Hamzah | Hafiz Hassan  
mohd.hafiz@midf.com.my  
03-2772 1668

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.