

Company Results

29 October 2014

Gadang Holdings Berhad

BUY

Steady as she goes

Maintained

Share Price	RM1.49
Target Price	RM2.57

Company Description

Gadang Holdings Bhd, through its subsidiaries, provides earthwork, civil engineering and construction projects. Gadang also develops and invests in properties and manufacture ready-mixed concrete.

Stock Data

Bursa / Bloomberg code	9261 / GADG MK
Board / Sector	Main / Construction & Materials
Syariah Compliant status	Yes
Issued shares (m)	216.4
Par Value (RM)	1.00
Market cap. (RM'm)	337.5
52-week price Range(RM)	0.93-2.04
Beta (against KLCI)	1.46
3-m Average Daily Volume	1.28m
3-m Average Daily Value [^]	RM 2.17m

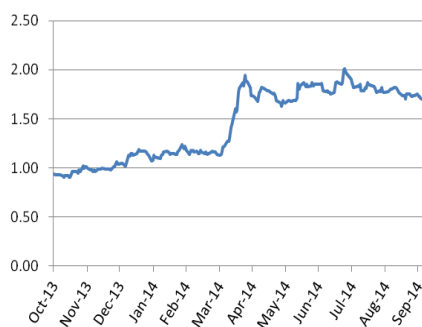
Share Performance

	1m	3m	12m
Absolute (%)	-10.9	-9.8	60.8
Relative (%-pts)	-10.5	-19.1	58.8

Major Shareholders

	%
Meloria Sdn Bhd	16
Sumber Raswira Sdn Bhd	14.9
Kumpulan Wang Persaraan	4.1

Historical Chart



Source: Bloomberg

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Results

- Gadang started off its financial year (1QFY2015), by registering RM133.4m in revenue, and net profit of RM9.5m. Revenue q-o-q declined by 3.9%, while net profit increased by 3.2% q-o-q. On y-o-y basis, it showed an increase in revenue and net profit of 17.5% and 23.4% respectively.
- Broadly in line with expectations** – The Group's 1QFY15 results accounted for 11.8% of our full year estimates and 16.8% of consensus forecasts. Still, we deem the results were within expectations as historical trend indicated that recognition of construction billings in 1H were normally lower and work-in-progress shall start to pick up strongly in 2H. Furthermore, the Group has yet to book in its net gain of JV development in Capital City property project in Johor with our estimation of RM25.1m in FY2015 based on property sales of RM150m.

Comments

- Construction, the main contributor to the stellar y-o-y performance** – On y-o-y basis, PBT in the construction division increased by 87.3% from RM5.5m to RM10.3m. This was on the back of a revenue increase of 21.5% thanks to better contract value & higher progress billing from on-going projects coupled with improved PBT margin of 3.3ppt to 9.4%. However, the Group's net earnings were partly affected by lower PBT in several divisions like property (due to higher marketing costs despite higher revenue achieved), utility (disposal of an Indonesian subsidiary and weakening of Rupiah), and plantation (continuous harvesting activities).
- Brighter horizons** – Gadang's current outstanding order book for its construction division stands at RM1.3b, which could provide the Group's segmental earnings visibility for the next 2-3 years. We expect the Group to easily achieve or even surpass our new order book win assumption of RM400m for FY2015 as, Gadang has bagged a RM350m RAPID 2 project for this financial year. Moving forward, with the group's experience and proven track record we believe it is in better position of securing more infrastructure works, i.e. highway projects such as WCE, SUKE and DASH as well as MRT 2 and LRT 3. Further affirmation by the Malaysian Government in its commitment to carry on with these projects in its recent budget, puts Gadang in a good position for its order book replenishment.

Earnings Outlook/Revision

- We made no changes to our earnings forecast as we envisage stronger result in 2HFY15.**

Valuation/Recommendation

- Maintain BUY with unchanged Target Price (TP) of RM2.57** - We peg our TP at 7.3x FY2015F FD EPS. The assigned valuation is in line with its 3-year mean PE. We advise investors to accumulate the stock as we believe the strong earnings potential of the Group is yet to be fully priced and we see the value of the stock re-emerges following recent across-the-abroad sell down on the small-and-mid cap stocks. Our TP offers 77% upside from the latest closing price.
- Something to look forward to** – We continue to favor the Group for its well-diversified business model as well as its potential and ability to achieve growth across all divisions. Medium term earnings growth for the Group could be derived from the Capital City JV venture which guarantees the Group net gain of c.RM220m or c.RM40m per year over a time span of 5.5 years.

Quarterly Results Summary

Year Ending 31 May	1Q15	4Q14	1Q14	Q-o-Q (%)	Y-o-Y (%)	3MFY2015	3MFY2014	Change (%)
Revenue (RMm)	133.4	138.8	113.5	-3.9%	17.5%	133.4	113.5	17.5%
PBT (RMm)	12.7	12.9	9.9	-1.6%	28.3%	12.7	9.9	28.3%
Net Profit (RMm)	9.5	9.3	7.7	2.2%	23.4%	9.6	7.7	24.7%
EPS (RM'sen)	4.0	3.9	3.3	2.2%	23.4%	4.1	3.3	24.7%
PBT Margin (%)	9.5%	9.3%	8.7%	0.2%	0.8%	9.5%	8.7%	0.8%
Net Margin (%)	7.1%	6.7%	2.9%	0.4%	4.2%	3.0%	2.9%	0.2%

Source: Company, JF Apex

Segmental Results

Construction								
Year Ending 31 May	1Q15	4Q14	1Q14	Q-o-Q (%)	Y-o-Y (%)	3MFY2015	3MFY2014	Change (%)
Revenue	109.1	119.4	89.8	-8.6%	21.5%	109.1	89.8	21.5%
PBT (Construction)	10.3	10.1	5.5	2.0%	87.3%	10.3	5.5	87.3%
PBT Margin (%)	9.4%	8.5%	6.1%	1.0%	3.3%	9.4%	6.1%	3.3%

Property								
Year Ending 31 May	1Q15	4Q14	1Q14	Q-o-Q (%)	Y-o-Y (%)	3MFY2015	3MFY2014	Change (%)
Revenue	20.5	15	19.3	36.7%	6.2%	20.5	19.3	6.2%
PBT (Property)	3.7	3.9	4.3	-5.1%	-14.0%	3.7	4.3	-14.0%
PBT Margin (%)	18.0%	26.0%	22.3%	-8.0%	-4.2%	18.0%	22.3%	-4.2%

Utility								
Year Ending 31 May	1Q15	4Q14	1Q14	Q-o-Q (%)	Y-o-Y (%)	3MFY2015	3MFY2014	Change (%)
Revenue	3.5	3.9	4.3	10.3%	-18.6%	3.5	4.3	-18.6%
PBT (Utility)	0.5	0.7	1.1	28.6%	-54.5%	0.5	1.1	-54.5%
PBT Margin (%)	14.3%	17.9%	25.6%	-3.7%	-11.3%	14.3%	25.6%	-11.3%

Source: Company, JF Apex

Financial Summary

FYE 31 May	FY2012	FY2013	FY2014	FY2015F	FY2016F
Revenue	246.3	356.5	540.7	762.2	723.5
Gross profit	42.6	58.4	90.5	143.4	191.9
EBIT/Operating profit	21.4	34.1	65.6	112.3	154.9
PBT	17.9	32.5	63.5	109.5	151.8
PATAMI	14.5	20.5	43.9	81.7	113.9
Earnings growth	NA	41.4%	114.1%	86.2%	39.3%
FD EPS (RM)	0.06	0.08	0.17	0.32	0.45
PER(x)	26.3	18.6	8.6	4.6	3.3
Gross DPS (RM)	0.02	0.03	0.04	0.09	0.12
Gross dividend yield	1.3%	2.0%	3.0%	5.8%	8.1%
ROE	5.8%	7.7%	14.6%	24.7%	31.3%
BV/share (RM)	1.06	1.13	1.28	1.40	1.54
P/B (x)	1.41	1.32	1.17	1.06	0.97

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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