

Gamuda 2017's biggest rail proxy, ties in with construction play

KUCHING: Gamuda Bhd's (Gamuda) outlook for 2017 ties in with the overall rail theme for the construction sector, analysts say.

In a outlook report for 2017, CIMB Investment Bank Bhd's research arm (CIMB Research) said Gamuda remained its top big-cap sector pick and the biggest proxy for the rail theme.

"Major projects, which are MRT 3 (Estimated at RM40 billion), LRT 3 (RM9 billion), Gemas-Johor Bahru doubling-tracking (RM8 billion), the East Coast Rail Link (RM55 billion) and KL-Singapore HSR (RM50 billion), constitute the bulk of the RM223 billion overall jobs in the pipeline and could emerge as new bid prospects for Gamuda.

"The group is also vying for MRT tunneling jobs in Singapore over the longer term," it explained.

The research team also pointed out that new profits from MRT 2's tunneling and project development partner (PDP) portions should begin contribution from the second quarter of the financial year 2017 (2QFY17) onwards given the current progress of less than two per cent.

"Tunnelling works are scheduled to commence in November 2017 for one of the 12 tunnel-boring machines," it added.

Aside from that, CIMB Research said, Gamuda's outstanding order

book of RM8.9 billion comprises the RM7.7 billion (50 per cent share) MRT tunneling job and RM1 billion portion of the Pan Borneo Sarawak contract.

Meanwhile, it noted, Gamuda's FY17 total property sales target of RM2.1 billion remained intact, which is three per cent higher than FY16 as it is optimistic about the launch of new townships Gamuda Gardens (RM150 million target sales; RM6.9 billion gross development value) and Kundang Estates in Rawang (RM50 million target sales; RM600 million gross development value) given MRT accessibility and its venture in Ho Chi Minh City.

It added, Gamuda's overseas property sales make up 63 per cent of the total targeted sales in FY17.

Besides that, CIMB Research pointed out that Gamuda's RM3 billion to RM4 billion contract wins target is higher than its RM2 billion estimate for FY17.

"This is because the group aims to secure the biggest package from Gemas-Johor Bahru double-tracking and it is fairly confident of securing LRT 3 and Pan Borneo Sabah," it said, adding that Gamuda is also bidding for ECRL and HSR (potentially RM30 billion to RM40 billion for local players).

"The group is also keen to

participate in new MRT tunnelling jobs in Singapore, which underscores its massive capabilities in rail underground projects," it said.

On Gamuda's intention to sale of its stake in Syarikat Pengeluar Air Selangor Holdings Bhd (Splash), CIMB Research noted that the group now aims to sale its stake in Splash by 2Q17.

"Management confirmed that a final independent valuation was underway while price negotiations were based on the RM2.8 billion to RM3.2 billion book value of Splash.

"If the likely 15 per cent discount to book value (highlighted by Edge Weekly) materialises, Gamuda's cash proceeds could amount to as much as RM1.1 billion (40 per cent stake, 45 sen per share).

"We believe there is a fair chance of a partial special dividend as major capital expenditure is manageable even without the sale," it explained.

Overall, the research team maintained an 'add' call on the stock. It said, though cash enhancing, it estimated the sale of Splash could lower its FY18 to FY19F earnings per share to 15 to 18 per cent as Splash would no longer contribute to its profits. In the medium term, it noted, early election plays, job flows and Splash's sale are key catalysts.

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