ecmlibra INVESTMENT RESEARCH

Quick Bits **10 March 2010**

Gamuda **Buy**

(RM2.79 GAM MK) ***Target Price: RM3.18***

Dukhan highway dispute **CONSTRUCTION**

- ### Dispute with sub-contractor in Bahrain

Gamuda announced yesterday that Bahrain Asphalt Establishment B.S.C. (BAE) had on 4 March 2010 served a request for arbitration against Gamuda, WCT and Gamuda-WCT Joint Venture to refer certain alleged disputes to arbitration in Qatar. Gamuda's and WCT's interests in the JV are in the proportions of 51% and 49% respectively. BAE is a closed Bahraini shareholding company incorporated in the Kingdom of Bahrain. By a sub-contract dated 21 February 2006 made between the JV and BAE, BAE was appointed as the sub-contractor for the works known as the granular sub-base and flexible pavement works for the JV's project known as "Dukhan Highway From Shahaniya to Zekreet" which involves the construction of a 43 km new highway from Shahaniya to Zekreet in Qatar.

BAE is claiming a total quantified sum of QAR 109.3m (approximately RM101.1m) comprising:- (1) QAR 94.9m for alleged prolongation, escalation, collateral and associated costs for 728 days' delay in completion of the sub-contract works; (2) QAR 13.4m for alleged Gabbro Aggregate overcharge/wrongful deductions; (3) QAR 1.0m for alleged wrongful deduction for supply of bitumen; and (4) further unquantified sums for legal costs, arbitration costs and interest.

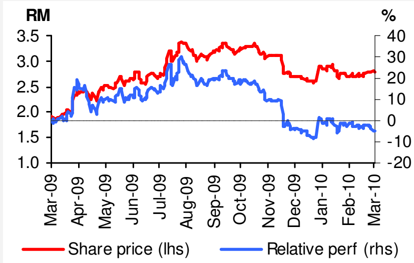
- ### Comments

The QAR750m Dukhan Highway job, which was awarded to the Gamuda-WCT JV on 3 July 2005, has been completed in FY2009. Gamuda's share of the claim under dispute amounts to RM50.6m or about 17% of FY10 earnings. While this is a major concern, Gamuda is of the opinion that the request for arbitration by BAE is pre-mature as the preconditions stipulated in the arbitration clause have not been met. In addition, Gamuda is also of the view that they have a good defence against the claims.

Gamuda will be announcing its 2QFY10 results later today. Pending further information from the management at an analyst briefing today, we maintain our BUY call. Our P/E-based target price is unchanged at RM3.18, based on 20x multiples to CY10 earnings. Post-issuance of warrants on 1-for-8 rights basis, target price will be reduced to RM3.12. Our sum-of-parts valuation is RM3.01 on cum-rights basis and RM2.97 on ex-rights basis.

Financial summary FYE 31 July	**2008**	**2009**	**2010F**	**2011F**	**2012F**
Net profit (RM m)	325.1	193.7	293.6	356.4	374.9
EPS (sen)	16.2	9.6	14.4	17.4	18.3
P/E (x)	17.3	29.0	19.4	16.1	15.3
DPS (sen)	18.5	6.0	9.0	9.0	9.0
Dividend yield (%)	6.6	2.2	3.2	3.2	3.2
BVPS (RM)	1.52	1.57	1.67	1.76	1.86
P/BV (x)	1.8	1.8	1.7	1.6	1.5

Share Price Chart



Source: Bloomberg

Price Performance

Price (RM)			2.79
52-week Range (RM)			1.85 – 3.38
Avg Daily Volume ('000)			6,414
	1M	3M	6M
Absolute (%)	3.3	3.3	-12.3
Relative (%)	-2.2	-1.2	-20.4

Key Data

Market Cap (RM m)	5,629
Issued Shares (m)	2,018

Major Shareholders	**%**
Employees Provident Fund	10.4
Generasi Setia (M) Sdn Bhd	7.4
Platinum Investment Management	6.2
Skim Amanah Saham Bumiputra	5.6

Balance Sheet Highlights (RM m)
(@ 31.07.2010) (performance indicator's annualised)

Total Assets	7,100
Total Liabilities	3,678
Total Debt (Gross)	2,314
Shareholders' Equity	3,364
Return on Assets (%)	4.1
Return on Equity (%)	8.7
Net Cash / Share (RM)	-
Debt/Equity (x)	0.7
Interest Cover (x)	3.4

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Figure 1 : Sum-of-parts valuation

Division	Valuation Method	RM m	RM / share
Infrastructure concessions	DCF	2,852	1.42
Property development	DCF	1,459	0.73
Construction	DCF on existing order book	308	0.15
	DCF on future order book of RM2bn p.a.	1,138	0.57
Manufacturing & trading	10x FY2010 earnings	22	0.01
		5,780	2.88
Net current assets (excluding property development costs)		1,478	0.74
Long term debt		(1,243)	(0.62)
Proceeds from warrant issue		27	0.01
		6,042	3.01
Proceeds from exercise of ESOS		217	
Proceeds from exercise of warrants		715	
Fair value		6,973	
No. of existing equity shares (m)		2,005	
Exercise of ESOS		75	
Exercise of warrants		268	
Fully diluted number of shares		2,348	
Sum-of-parts valuation per share (RM)		**3.01**	
Sum-of-parts valuation per share (RM) - fully diluted		2.97	

Source: ECM Libra

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Key to stock recommendations:	Key to sector recommendations:
Buy = Share price is expected to appreciate by >10% over the next 12 months	**Overweight** = Industry expected to outperform the market over the next 12 months
Hold = Share price is expected to move by less than +/-10% over the next 12 months	**Neutral** = Industry expected to perform in-line with the market over the next 12 months
Sell = Share price is expected to decline by >10% over the next 12 months	**Underweight** = Industry expected to underperform the market over the next 12 months

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