

Gamuda

(RM2.79 GAM MK)

Buy

Target Price: RM3.18

Second Vietnam property venture

CONSTRUCTION

• **Acquiring a 60% stake in a Vietnamese property venture**

Gamuda announced yesterday that it is acquiring a 60% stake in Tan Thang Company from Sai Gon Thuong Tin Real Estate Joint Stock Company (Sacomreal) for a cash consideration of USD82.8m (RM275.3m @ RM3.3245/USD). Gamuda will finance the acquisition from internally generated funds and borrowings. As of 1QFY10, Gamuda has cash balance of RM1.3bn and net debt/equity of 0.05x. Tan Thang Company has the rights for the investment and construction of a parcel of land located at Son Ky Ward, Tan Phu District, Ho Chi Minh City, Vietnam measuring approximately 825,216.5 square metres (203.9 acres) into a mixed development project.

• **A fast-track RM6bn project**

The acquisition is quite a coup for Gamuda as it is reportedly the largest piece of development land left within such close proximity to Ho Chi Minh City (9km to the CBD).

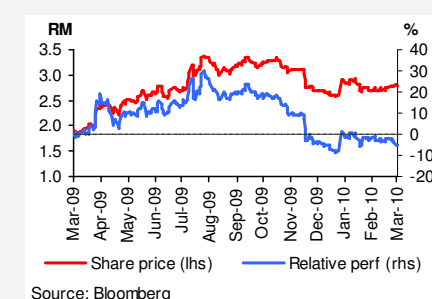
The project will be undertaken on a fast track basis as most approvals have already been procured and the land is free from encumbrances. This project will generate a gross development value (GDV) of RM6bn and the first sales launch is expected to commence in 2HCY2010 and over a 7-year period. The first phase has a GDV of USD100m (RM332.5m) The project comprises of medium-end and premium residential apartments, a sports complex and an educational complex.

We view this project positively given its prime location and focus on the mid-end segment which has relatively firm demand as compared to the more speculative luxury segment. The project also enhanced Gamuda's remaining property GDV to RM20bn, of which RM14bn comes from Vietnamese projects. At pre-tax margin of 20% to 25%, Gamuda will earn about RM540m to RM675m over the development period of the project. On an annualised basis over a 7-year period, the project will add between 3.9 sen and 4.8 sen to EPS per annum.

• **Reiterate BUY call, TP unchanged at RM3.18**

We revise our earnings estimate for FY2011 and FY2012 by +0.9% and +5.9% respectively. We reiterate our BUY call and maintain our P/E-based target price at RM3.18, based on historical average 20x multiples to CY10 earnings. Post-issuance of warrants on 1-for-8 rights basis, TP will be reduced to RM3.12. Our SOP valuation has however been increased from RM3.01 to RM3.43 on cum-rights basis and RM3.32 on ex-rights basis (previously RM2.97).

Share Price Chart



Source: Bloomberg

Price Performance

Price (RM) 2.79
52-week Range (RM) 1.85 – 3.38
Avg Daily Volume ('000) 6,476

	1M	3M	6M
Absolute (%)	3.0	3.3	-12.8
Relative (%)	-4.3	-2.0	-21.1

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

Bernard Ching

hyching@ecmlibra.com
+603 2178 1204

Financial summary

FYE 31 July	2008	2009	2010F	2011F	2012F
Revenue (RM m)	2,403.7	2,727.3	2,978.7	3,582.5	3,855.4
EBITDA (RM m)	316.5	177.2	312.1	429.8	496.5
Net profit (RM m)	325.1	193.7	293.6	359.7	396.8
EPS (sen)	16.2	9.6	14.4	17.5	19.3
ECM / Consensus (%)			94.3	92.3	86.0
EPS growth (%)	50.5	-40.5	49.3	21.9	10.3
P/E (x)	17.3	29.0	19.4	15.9	14.4
Net 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	1.87
P/BV (x)	1.8	1.8	1.7	1.6	1.5

Acquiring a 60% stake in a Vietnamese property venture

Gamuda announced yesterday that it is acquiring a 60% stake in Tan Thang Company from Sai Gon Thuong Tin Real Estate Joint Stock Company (Sacomreal) for a cash consideration of USD82.8m (RM275.3m @ RM3.3245/USD). Gamuda will finance the acquisition from internally generated funds and borrowings. As of 1QFY10, Gamuda has cash balance of RM1.3bn and net debt/equity of 0.05x.

Acquire 60% stake in Tan Thang Company for USD82.8m or RM275.3m

Tan Thang Company has the rights for the investment and construction of a parcel of land located at Son Ky Ward, Tan Phu District, Ho Chi Minh City, Vietnam measuring approximately 825,216.5 square metres (203.9 acres) into a project known as “Tan Thang residential, sports and educational complex at Son Ky Ward, Tan Phu District”. The project land is valued at USD138m (RM458.8m) or USD168/sqm. Sacomreal will retain a 30% interest in the project while another 10% is being held by Ms Chau Kim Yen, a Vietnamese individual who is not related to any directors of Gamuda.

203.9 acres valued at USD138m or RM458.8m

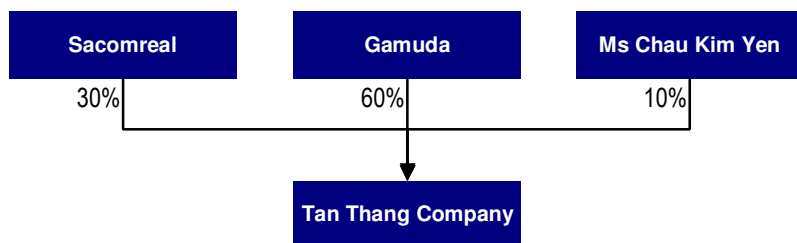
Figure 1 : Background information of Sacomreal

Sacomreal was incorporated in Ho Chi Minh City, Vietnam on 29 March 2004 as a joint stock company. Its present charter capital is VND1,000bn. Sacomreal was previously involved in providing real estate services but has since expanded to developing and marketing of high quality apartments. Its projects in Ho Chi Minh City included the Sao Mai Deluxe Apartment Building, District 5, The EverRich Business Centre, Apartment and Complex, District 11, Sacomreal-584 Deluxe Apartment Building, Tan Thu District and Sealinks Golf Resort Villas in Phan Thiet, An Phu-An Khanh Apartments, District 2.

Sacomreal has common shareholders with Sacombank, the largest private commercial bank listed in Vietnam with a market capitalisation of almost USD1bn and 200 branches nationwide.

Source: Company

Figure 2 : Shareholding structure of Tan Thang Company



Source: Company, ECM Libra

A fast-track RM6bn project

The acquisition is quite a coup for Gamuda as it is reportedly the largest piece of development land left within such close proximity to Ho Chi Minh City. It is located at the Tan Phu District which is about 9km from the central business district (CBD) of Ho Chi Minh City and about 3km from the international airport. It has a large population catchment of 4.5m within a 10km radius as compared to 4m within a 30km radius in the Klang Valley. For comparison, other Malaysian developers which have projects on sizeable landbank in Ho Chi Minh City include SP Setia (EcoLakes My Phuoc, 558.4 acres, 42km from CBD), and Berjaya Land (International University Township, 2,285 acres, 22km from CBD).

Largest piece of development land within close proximity to HCMC

The project will be undertaken on a fast track basis as most approvals have already been procured. The land is currently free from encumbrances as well as squatters. Management will submit the basic infrastructure plan to the authority within one month before the construction permit can be procured. This project will generate a gross development value (GDV) of RM6bn and the first sales launch is expected to commence in 2HCY2010 and over a 7-year period. The first phase has a GDV of USD100m (RM332.5m) The project comprises of medium-end and premium residential apartments, a sports complex and an educational complex.

Project will be fast track as most approvals are in place

GDV RM6bn over 7 years

Sacomreal has agreed to grant a shareholders loan of an amount in VND equivalent to USD66.2m to Tan Thang Company. The interest payable on the said loan is 13% per annum which was mutually agreed upon after taking into consideration the current prevailing interest rate of between 12% to 15% for VND denominated loans. The said loan shall be repaid to Sacomreal upon Tan Thang Company having secured and drawdown from the project's lender. Gamuda estimated that the project will require financing of USD150m which will be drawdown over the next 2 years.

USD150m project financing will be required

JV partner lending USD66.2m in the interim period

We view this project positively given its prime location and focus on the mid-end segment which has relatively firm demand as compared to the more speculative luxury segment. The project also enhanced Gamuda's remaining property GDV to RM20bn, of which RM14bn comes from Vietnamese projects. At pre-tax margin of 20% to 25%, Gamuda will earn about RM540m to RM675m over the development period of the project. On an annualised basis over a 7-year period, the project will add between 3.9 sen and 4.8 sen to EPS per annum.

Expect 3.9 sen to 4.8 sen addition to EPS per annum

Earnings revision

As the project is still at infancy stage, impact to earnings will be negligible at the moment. We revise our earnings estimate for FY2011 and FY2012 by +0.9% and +5.9% respectively to account for the earnings contribution from the new project.

FY11 and FY12 earnings revised +0.9% and +5.9% respectively

Figure 3 : Earnings revision

	Previous EPS Sen	Revised EPS Sen	Change %
2010F	14.4	14.4	-
2011F	17.4	17.5	0.9
2012F	18.3	19.3	5.9

Source: ECM Libra

Reiterate BUY call

We reiterate 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 however increased from RM3.01 to RM3.43 on cum-rights basis and RM3.32 on ex-rights basis (previously RM2.97).

TP maintained at RM3.18

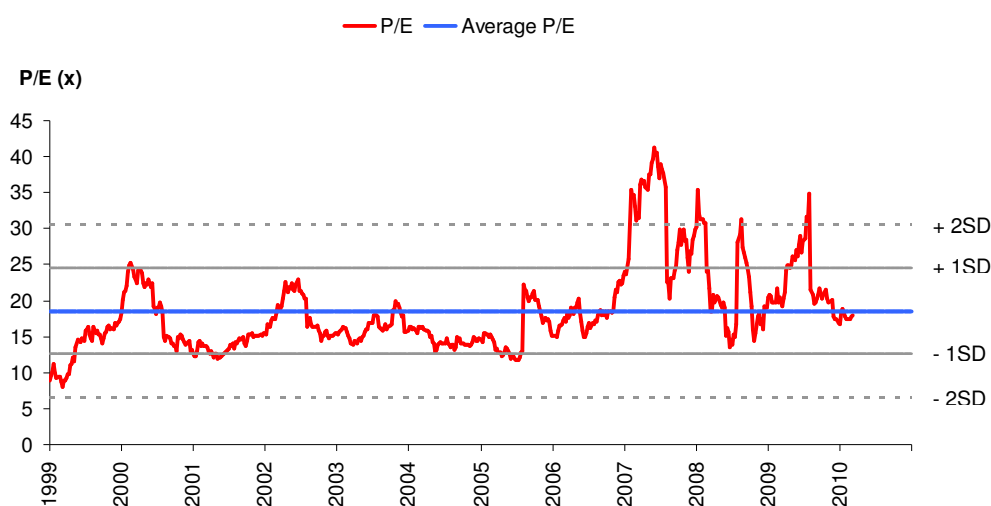
RNAV upgraded to RM3.43

Figure 4 : Sum-of-parts valuation

Division	Valuation Method	RM m	RM / share
Infrastructure concessions	DCF	2,852	1.42
Property development	DCF	2,287	1.14
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
		6,608	3.30
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
		6,869	3.43
Proceeds from exercise of ESOS		217	
Proceeds from exercise of warrants		715	
Fair value		7,801	
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)		3.43	
Sum-of-parts valuation per share (RM) - fully diluted		3.32	

Source: ECM Libra

Figure 5 : Forward P/E trend



Source: Bloomberg, ECM Libra

Gamuda Bhd
Financial Summary
Price Date: 10 March 2010
Balance Sheet

FYE 31 July (RM m)	2008A	2009A	2010F	2011F	2012F
PPE	295.4	371.1	400.0	419.0	428.1
Other assets	437.8	543.3	539.7	536.2	532.6
Associate companies	1,510.8	1,286.7	1,272.0	1,258.7	1,243.1
Property development costs	907.8	922.9	1,811.7	2,189.1	2,052.3
Inventories	110.1	101.1	103.4	148.5	188.0
Receivables	1,666.8	1,499.4	1,722.9	1,946.1	2,024.2
Cash & bank balance	845.6	1,154.0	1,249.8	839.7	1,053.5
Total assets	5,774.3	5,878.5	7,099.5	7,337.3	7,521.8
Payables	807.2	1,088.3	1,320.6	1,495.9	1,548.3
LT borrowings	1,036.5	1,210.5	1,683.8	1,789.4	1,240.0
ST borrowings	782.3	328.2	629.9	397.5	852.5
Other liabilities	50.8	43.7	43.7	43.7	43.7
Liabilities	2,676.8	2,670.7	3,678.0	3,726.5	3,684.6
Share capital	2,005.0	2,009.3	2,009.3	2,009.3	2,009.3
Reserves	1,046.6	1,151.8	1,355.0	1,533.8	1,749.8
Shareholders' equity	3,051.6	3,161.0	3,364.2	3,543.0	3,759.0
Minority interest	45.9	46.8	57.2	67.7	78.2
Total equity	3,097.5	3,207.8	3,421.4	3,610.7	3,837.2
Total equity and liabilities	5,774.3	5,878.5	7,099.5	7,337.3	7,521.8

Cash Flow Statement

FYE 31 July (RM m)	2008A	2009A	2010F	2011F	2012F
Pretax profit	470.8	282.2	416.6	525.8	589.2
Depreciation & amortisation	18.8	17.9	20.2	22.5	24.8
Change in working cap	(753.9)	379.2	141.1	92.3	189.8
Dividend from associates	226.6	172.4	150.0	150.0	150.0
Net interest received / (paid)	(0.3)	(20.3)	(54.3)	(69.1)	(65.3)
Tax paid	(99.8)	(106.2)	(112.5)	(155.7)	(181.9)
Others	(158.8)	(92.0)	(124.7)	(118.5)	(117.5)
Operating cash flow	(296.5)	633.2	436.5	447.4	589.1
Capex	(95.1)	(97.4)	(1,025.3)	(550.0)	(100.0)
Investment	(66.1)	(101.2)	-	-	-
Others	14.1	226.9	-	-	-
Investing cash flow	(147.2)	28.3	(1,025.3)	(550.0)	(100.0)
Issuance of shares	89.1	7.7	-	-	-
Net change in borrowings	602.4	(297.1)	775.0	(126.7)	(94.4)
Dividend paid	(370.3)	(60.2)	(90.4)	(180.8)	(180.8)
Others	(7.5)	(8.6)	-	-	-
Financing cash flow	313.7	(358.2)	684.6	(307.6)	(275.2)
Net cash flow	(130.0)	303.3	95.8	(410.1)	213.8
Forex difference	(4.6)	5.1	-	-	-
Beginning cash	980.3	845.6	1,154.0	1,249.8	839.7
Ending cash	845.6	1,154.0	1,249.8	839.7	1,053.5

Income Statement

FYE 31 July (RM m)	2008A	2009A	2010F	2011F	2012F
Revenue	2,403.7	2,727.3	2,978.7	3,582.5	3,855.4
EBITDA	316.5	177.2	312.1	429.8	496.5
Depreciation & amortisation	(18.8)	(17.9)	(20.2)	(22.5)	(24.8)
EBIT	297.7	159.2	291.9	407.3	471.7
Net interest income/(expense)	(0.3)	(20.3)	(10.7)	(18.2)	(16.9)
Share of associates' profits	173.5	143.2	135.4	136.6	134.5
Pretax profit	470.8	282.2	416.6	525.8	589.2
Taxation	(131.9)	(78.0)	(112.5)	(155.7)	(181.9)
Minority interest	(13.9)	(10.5)	(10.5)	(10.5)	(10.5)
Net profit	325.1	193.7	293.6	359.7	396.8

Key Statistics & Ratios

FYE 31 July	2008A	2009A	2010F	2011F	2012F
Growth					
Revenue	58.5%	13.5%	9.2%	20.3%	7.6%
EBITDA	95.8%	-44.0%	76.2%	37.7%	15.5%
Pretax profit	70.2%	-40.1%	47.6%	26.2%	12.1%
Net profit	75.3%	-40.4%	51.6%	22.5%	10.3%
FD EPS	50.5%	-40.5%	49.3%	21.9%	10.3%

Profitability

EBITDA margin	13.2%	6.5%	10.5%	12.0%	12.9%
Pretax profit margin	19.6%	10.3%	14.0%	14.7%	15.3%
Net profit margin	13.5%	7.1%	9.9%	10.0%	10.3%
Effective tax rate	44.4%	56.1%	40.0%	40.0%	40.0%
Return on assets	5.6%	3.3%	4.1%	4.9%	5.3%
Return on equity	10.7%	6.1%	8.7%	10.2%	10.6%

Leverage

Total debt / total assets (x)	0.31	0.26	0.33	0.30	0.28
Total debt / equity (x)	0.60	0.49	0.69	0.62	0.56
Net debt / equity (x)	0.32	0.12	0.32	0.38	0.28

Valuation

FYE 31 July	2008A	2009A	2010F	2011F	2012F
EPS (sen)	16.3	9.7	14.6	17.9	19.7
FD EPS (Sen)	16.2	9.6	14.4	17.5	19.3
FD P/E (x)	17.3	29.0	19.4	15.9	14.4
EV/EBITDA (x)	20.9	34.1	21.6	16.3	13.5
Net DPS (sen)	18.5	6.0	9.0	9.0	9.0
Net dividend yield	6.6%	2.2%	3.2%	3.2%	3.2%
BV per share (RM)	1.52	1.57	1.67	1.76	1.87
P/BV (x)	1.8	1.8	1.7	1.6	1.5

Key to stock recommendations:

Buy = Share price is expected to appreciate by >10% over the next 12 months

Hold = Share price is expected to move by less than +/-10% over the next 12 months

Sell = Share price is expected to decline by >10% over the next 12 months

Key to sector recommendations:

Overweight = Industry expected to outperform the market over the next 12 months

Neutral = Industry expected to perform in-line with the market over the next 12 months

Underweight = Industry expected to underperform the market over the next 12 months

This report is for information purposes only and general in nature. The information contained in this report is based on data and obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this report. Accordingly, neither we nor any of our related companies and associates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use of or reliance on the information or opinions in this publication. Any information, opinions or recommendations contained herein are subject to change at any time without prior notice.

It is not possible to have regard to the specific investment objectives, the financial situation and the particular needs of each person who may receive or read this report. As such, investors should seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

Under no circumstances should this report be considered as an offer to sell or a solicitation of an offer to buy any securities referred to herein. This company and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further deal with such securities and provide advisory, investment or other services for any company or entity mentioned in this report. In reviewing this report, investors should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflict of interests.

For ECM Libra Capital Sdn Bhd (579116-A) (PP 13693/04/2010/023879)

Published & printed by:

ECM Libra Capital Sdn Bhd (579116-A)

8A Floor, Wisma Genting
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: (603) 2178 1888
Fax: (603) 2161 8818