

Gamuda's outlook brightens up in 2021

23 DEC 2020

Company is frontrunner for the MRT3 project

CONSTRUCTION

PETALING JAYA: Bright prospects are ahead for Gamuda Bhd, as it stands to benefit from potential pump-priming by the government in 2021.

RHB Investment Bank Bhd Research said construction prospects are set to brighten up, with more local projects making a comeback.

"For starters, unbilled order book stood at RM6.1bil as at October 2020, offering visibility into 2023.

"The prospects of future orders look healthy as Gamuda's bids on Australian tunnelling jobs stay active. It is worth pointing out that the Mass Rapid Transit (MRT) 3 project has been given the green light by the government, which puts the group back in the spotlight as a potential frontrunner.

"It also targets to start land reclamation works of Island A of the Penang Transport Master Plan in early 2021, which should further strengthen construction earnings' near term outlook."

The research house said it is making no changes to its earnings forecasts, as year-to-date earnings came in broadly in line.

"Nonetheless, we have adjusted our target price higher to RM4.25 to reflect the upbeat narrative of key infrastructure projects in 2021.

"We ascribe 18-times price-to-earning ratio to its RM160mil construction earnings, which we deem as sustainable in the long run. Positive development on the Kuala Lumpur-Singapore High Speed Railway decision could also act as another long-term catalyst to the sector," said RHB.

"There will also be news flow for the Penang South reclamation and high-speed rail projects, both likely to lift excitement in the sector should it crystallise sooner-than-expected."

PublicInvest Research

PublicInvest Research also said Gamuda's prospects have brightened up significantly, particularly after the Budget 2021 announcement, with MRT 3 possibly ready for implementation next year.

"The said project puts Gamuda in the limelight, given it being a direct proxy to the earlier MRT projects. There will also be news flow for the Penang South reclamation and high-speed rail projects, both likely to lift excitement in the sector should it crystallise sooner-than-expected.

"Management indicates that it aims to be heavily involved in the three projects. Order book target for 2021 is RM10bil, with the group also in line to grab some jobs in Australia."

Additionally, PublicInvest Research said traffic volume for Gamuda's highways had recovered to near pre-Covid 19 levels in recent months.

"Nevertheless, the re-imposition of the con-

ditional movement control order has reduced traffic volumes by between 25% and 40%, affecting the group's first quarter 2021 earnings performance with the segment reporting pre-tax profit of RM63mil, a decline of 22.9% year-on-year."

Separately, Kenanga Research said it is reducing Gamuda's 2021 earnings forecast by 20% to RM534mil, adding that it is keeping the company's 2022 earnings unchanged.

"Post results, we dial back our billing progression and margin assumption for the property division, while also trimming out traffic assumptions for the tolled highways in 2021.

"We anticipate property and concessionary earnings to gradually revert back to normalcy in the quarters ahead, showcasing quarter-on-quarter improvement in profitability."

Kenanga Research said it is maintaining its "outperform call on the stock, with a higher sum-of-parts-based target price of RM4.20.