

HLIB Research

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BUY (Maintain)

Target Price: **RM0.63**
Previously: **RM0.66**
Current Price: **RM0.405**

Capital upside	55.6%
Dividend yield	4.9%
Expected total return	60.5%

Sector coverage: Construction

Company description: GDB provides construction services specialising in high rise residential, mixed and commercial developments solutions.

Share price


Historical return (%)	1M	3M	12M
Absolute	-6.0	-4.4	47.9
Relative	-4.4	-2.9	35.1

Stock information

Bloomberg ticker	GDB MK
Bursa code	0198
Issued shares (m)	625
Market capitalisation (RM m)	375
3-mth average volume ('000)	4223
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Cheah Ham Cheia	48.9%
Alexander Lo	21.1%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	25.7	31.1	49.0
EPS - core (sen)	2.7	3.0	5.2
P/E (x)	14.8	12.2	7.7

GDB Holdings

Within expectations

GDB's 1H21 earnings of RM14.8m (+53% YoY) were within our expectations at 48% of forecasts. We anticipate pick-up in billings in 4QFY21 as vaccination progress is on track for 80% by end Aug (excluding Sabah) which would enable full capacity operations. Orderbook stands at RM1.8bn translating to a sizable 5.0x cover. Cut FY22-23 forecasts by -4% and -8% given the slower pace of replenishment. Maintain BUY with lower TP of RM0.63 pegged to an unchanged 11x P/E multiple ex-cash. We believe this is justified given GDB's sizable orderbook and high ROEs.

Met expectations. GDB reported 2QFY21 results with revenue of RM80.7m (-27% QoQ, 108% YoY) and core earnings of RM5.2m (-45% QoQ, 33% YoY). The results were within our expectations at 48% of our FY21 full year forecasts. While we anticipate a weak 3Q, a stronger finish to the year is likely with loosening restrictions. Note that quarterly earnings are adjusted for RM0.3m of unrealised investment losses.

Dividends. First interim DPS of 0.7 sen was declared going ex. on 7 Sept-21 (1H20 DPS: 0.67).

QoQ. Core earnings fell by -45% dragged by revenue decline of -27% as construction works were disrupted by enforcement of Phase 1 of FMCO (effective in June). We estimate that only 15-20% of its order book was active during Phase 1 as restrictions imposed by the authorities were fairly strict hitting private building projects the hardest, in our view.

YoY. Core earnings staged a 33% growth aided by higher billings (revenue: +108%) due to: (1) low base effect with 2QFY20 reflecting roughly 4 weeks of hard lockdown and (2) contribution from its 8 Conlay project. The earnings impact from its topline growth was partly diluted by the persistent rise in rebar prices in FY21 resulting in lower PBT margin (-4.9 ppts).

YTD. Core earnings grew by 53% to RM14.8m, achieved through higher revenue of 38%. Drivers of revenue were: (1) low base effect with 2QFY20 reflecting roughly 4 weeks of hard lockdown (2) contribution from its 8 Conlay project and (3) advance phases of construction for some project sites.

Outlook. GDB's orderbook stands at RM1.8bn translating to a sizable 5.0x cover on FY20 revenue to be executed over the next 2-3 years. Replenishment has been difficult this year after: (1) dialling back on tenders after a bumper FY20 and (2) restrictions from Covid-19 steeply reducing tender opportunities in FY21. We believe the award conversion period has lengthened given current restrictions. As such, we have written off replenishment for FY21 but maintain assumptions for FY22 & FY23. As for execution, management is working on vaccinating its workers which should enable for a pick-up in billings in 4QFY21. Two of its major sites have been allowed to resume recently and management targets 80% vaccinated rate (excluding Sabah) by end August which would enable full capacity operations for 90% of orderbook.

Forecast. Cut FY22 and FY23 earnings by -4.4% and -8.0% after revising our replenishment assumption for FY21.

Maintain BUY, TP: RM0.63. Maintain BUY with lower TP of RM0.63 (from RM0.66) post earnings adjustment. Our TP is based on FY22 EPS of 5.2sen pegged to an ex-cash PE multiple of 11.0x. We believe this is justified given GDB's high orderbook cover as well as high ROEs. Key risks include execution, rising material prices and Covid-19 setbacks.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1H FY20	1H FY21	YoY (%)
Revenue	38.9	111.1	80.7	(27.3)	107.5	138.8	191.8	38.2
EBIT	5.1	12.5	6.5	(47.6)	29.3	12.4	19.0	53.0
Finance cost	-	-	-	NA	NA	-	-	NA
PBT	5.1	12.5	6.5	(47.6)	29.3	12.4	19.0	53.0
PAT	3.7	9.3	5.0	(45.6)	38.1	9.1	14.3	57.5
Core PATMI	3.9	9.5	5.2	(45.0)	33.1	9.7	14.8	52.9
Reported PATMI	3.9	8.8	4.9	(44.0)	25.0	9.7	13.7	42.0
Core EPS (sen)	0.4	0.9	0.5	(44.0)	25.0	1.0	1.5	42.0
EBIT margin (%)	13.0	11.2	8.1			9.0	9.9	
PBT margin (%)	13.0	11.2	8.1			9.0	9.9	
PATMI margin (%)	10.1	8.6	6.5			7.0	7.7	

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY19	FY20F	FY21F	FY22F	FY23F
Cash	77	61	96	99	128
Receivables	34	115	118	137	126
PPE	28	29	21	37	39
Others	92	92	92	92	92
Assets	231	297	327	366	384
Debts	-	-	-	-	-
Payables	96	150	169	181	171
Others	12	12	12	12	12
Liabilities	107	161	180	193	183
Shareholder's equity	121	133	144	170	199
Minority interest	3	3	3	3	3

Cash Flow Statement

FYE Dec (RM m)	FY19	FY20F	FY21F	FY22F	FY23F
EBIT	38	34	40	63	66
Depreciation & amortisation	4	2	7	7	7
Changes in working capital	17	(27)	15	(6)	2
Taxation	(9)	(9)	(9)	(15)	(16)
Others	(32)	-	-	-	-
CFO	17	0	52	49	59
Net capex	(11)	(3)	1	(23)	(8)
Others	(6)	-	-	-	-
CFI	(17)	(3)	1	(23)	(8)
Changes in borrowings	-	-	-	-	-
Dividends paid	(13)	(13)	(19)	(22)	(22)
Others	2	-	-	-	-
CFF	(11)	(13)	(19)	(22)	(22)
Net cash flow	(10)	(16)	35	3	29
Others	-	-	-	-	-
Beginning cash	83	77	61	96	99
Ending cash	77	61	96	99	128

Income Statement

FYE Dec (RM m)	FY19	FY20F	FY21F	FY22F	FY23F
Revenue	323	363	520	746	774
EBITDA	41	36	47	70	73
EBIT	38	34	40	63	66
Finance cost	(0)	-	-	-	-
PBT	38	34	40	63	66
Tax	(9)	(9)	(9)	(15)	(16)
Net profit	29	25	30	48	50
Minority interest	0	1	1	1	1
PATMI (core)	29	26	31	49	51
Exceptionals	-	-	-	-	-
PATMI (reported)	29	25.7	31.1	49.0	51.2

FYE Dec (RM m)	FY19	FY20F	FY21F	FY22F	FY23F
Core EPS (sen)	3.1	2.7	3.3	5.2	5.5
P/E (x)	13.0	14.8	12.2	7.7	7.4
EV/EBITDA (x)	7.7	8.8	6.8	4.5	4.4
DPS (sen)	1.3	1.3	2.0	2.3	2.3
Dividend yield	3.3%	3.3%	4.9%	5.8%	5.8%
BVPS (RM)	0.13	0.14	0.16	0.18	0.21
P/B (x)	3.1	2.8	2.6	2.2	1.9
EBITDA margin	12.8%	10.0%	9.0%	9.4%	9.4%
EBIT margin	11.7%	9.3%	7.6%	8.5%	8.5%
PBT margin	11.7%	9.3%	7.6%	8.5%	8.5%
Net margin	9.0%	7.1%	6.0%	6.6%	6.6%
ROE	24.1%	19.3%	21.6%	28.8%	25.8%
ROA	12.5%	8.3%	9.2%	13.1%	13.1%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY19	FY20F	FY21F	FY22F	FY23F
Contracts secured	954	1,250	-	500	700

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next -12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next -12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next -12 months.