

HLIB Research

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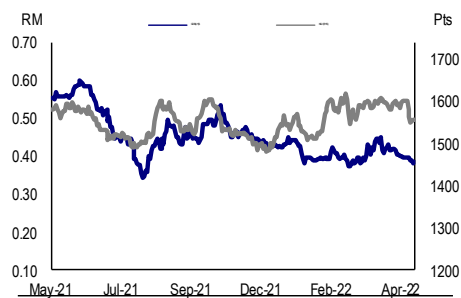
HOLD (Maintain)

Target Price: **RM0.41**
Previously: **RM0.48**
Current Price: **RM0.38**

Capital upside	7.9%
Dividend yield	3.8%
Expected total return	11.7%

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	-7.3	-6.2	-33.7
Relative	-3.7	-3.6	-31.7

Stock information

Bloomberg ticker	GDB MK
Bursa code	0198
Issued shares (m)	937
Market capitalisation (RM m)	356
3-mth average volume ('000)	3460
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)	FY21	FY22f	FY23f
PATMI - core (RM m)	31.0	37.7	39.9
EPS - core (sen)	3.1	4.0	4.3
P/E (x)	12.4	9.5	8.9

GDB Holdings

Margin squeeze sets in

GDB's 1QFY22 PATAMI of RM7.8m (-20.2% QoQ, -18.1% YoY) fell below our expectations at 17% of forecasts mainly due to margin squeeze offsetting higher billings. GDB's orderbook stands at RM1.37bn translating to a healthy 3.2x cover on FY21 revenue. We think there could be award delays due to volatility of various costs. The weaker margin print could remain considering the persistent nature of the cost increase. Cut FY22-23 forecasts by -18%. Maintain HOLD with lower TP of RM0.41. Key risks include replenishment, execution, volatile material prices and worker shortage.

Below expectations. GDB reported 1QFY22 results with revenue of RM169.0m (16.7% QoQ, 52.1% YoY) and core PATAMI of RM7.8m (-20.2% QoQ, -18.1% YoY). The results fell below our expectations at 17.0% of full year forecasts. No adjustments due to one-offs were made for the quarter under review.

Deviations. Earnings shortfall was mainly due to margin squeeze as revenue came in inline at 22.8% of forecasts.

Dividends. No dividends were declared as they are normally declared in 2Q and 4Q.

QoQ. Core PATAMI fell by -20.2% bucking stronger revenue performance (+16.7%) as GP margin deteriorated by -2.5ppts. While construction activity normalised smoothly in 1QFY22, margins fell from higher materials and labour costs. In our view, labour costs have continued to increase due to shortages while various materials prices spiked from higher energy costs. Both trends are persistent over the past year.

YoY. Core PATAMI decreased by -18.1% despite stronger revenue growing by 52.1% as GP margin fell by -6.1ppts. The steep collapse in margins was brought by increase in materials, labour, preliminaries and SOP compliance costs. Mitigating the decline were recognition of additional profit from a completed project in the current quarter. We reckon there was a blanket downward recalibration of project margins done during the quarter given the persistently high material prices.

Outlook. GDB's orderbook stands at RM1.37bn translating to a healthy 3.2x cover on FY21 revenue to be executed over the next 2-3 years. Management is gradually seeing more tender opportunities over the past few months. Nonetheless, we believe the sharp increase in various costs could lead to award delays from the private sector especially if prices remain volatile. As for margins, we expect the weaker print to remain considering the persistent nature of the cost increase and 1QFY22 was already mitigated by profit from completed project.

Forecast. Slash FY22-23 forecasts by -17.8% and -17.6. Introduce FY24 earnings forecast of RM47.0m.

Maintain HOLD, TP: RM0.41. Maintain HOLD with lower TP of RM0.41 (from RM0.48) post earnings cut. Our TP is based on FY22 EPS of 4.0 sen pegged to an ex-cash PE multiple of 8.0x plus net cash per share of 9 sen which we believe is fair for a small cap contractor. Key risks include replenishment, execution, rising material prices and worker shortage.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Revenue	111.1	144.8	169.0	16.7	52.1
EBIT	12.5	12.8	10.6	(17.3)	(15.5)
Finance cost	-	-	-	NA	NA
PBT	12.5	12.8	10.6	(17.3)	(15.5)
PAT	9.3	9.6	7.6	(20.4)	(17.6)
Core PATMI	9.5	9.8	7.8	(20.2)	(18.1)
Reported PATMI	8.8	8.5	7.8	(8.2)	(11.3)
Core EPS (sen)	1.0	1.0	0.8	(20.2)	(18.1)
EBIT margin (%)	11.2	8.8	6.2		
PBT margin (%)	11.2	8.8	6.2		
PATMI margin (%)	8.6	6.8	4.6		

Bursa

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash	82	87	90	123	154
Receivables	43	81	192	129	113
PPE	25	26	52	54	52
Others	114	144	144	144	144
Assets	265	338	478	451	463
Debts	-	-	-	-	-
Payables	120	176	292	239	219
Others	9	11	11	11	11
Liabilities	129	187	303	250	230
Shareholder's equity	134	150	173	199	232
Minority interest	1	1	1	1	1
Total	135	151	175	201	233
Cash Flow Statement					
FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
EBIT	34	37	48	51	61
Depreciation & amortisation	6	7	7	7	7
Changes in working capital	(15)	(13)	5	10	(5)
Taxation	(9)	(10)	(12)	(12)	(15)
Others	3	-	-	-	-
CFO	19	21	49	56	48
Net capex	(4)	(7)	(33)	(9)	(4)
Others	5	(1)	-	-	-
CFI	1	(8)	(33)	(9)	(4)
Changes in borrowings	-	-	-	-	-
Dividends paid	(13)	(13)	(13)	(13)	(13)
Others	1	1	-	-	-
CFF	(12)	(12)	(13)	(13)	(13)
Net cash flow	7	1	3	34	31
Others	(2)	4	-	-	-
Beginning cash	77	82	87	90	123
Ending cash	82	87	90	123	154

Income Statement

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	363	425	742	776	739
EBITDA	40	44	55	58	68
EBIT	34	37	48	51	61
Finance cost	-	-	-	-	-
PBT	34	37	48	51	61
Tax	(9)	(10)	(12)	(12)	(15)
Net profit	25	28	37	39	46
Minority interest	1	1	1	1	1
PATMI (core)	26	31	38	40	47
Exceptionals	-	-	-	-	-
PATMI (reported)	26	29	38	40	47
FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Core EPS (sen)	2.7	3.1	4.0	4.3	5.0
P/E (x)	13.9	12.4	9.5	8.9	7.6
EV/EBITDA (x)	6.7	6.1	4.9	4.6	4.0
DPS (sen)	1.3	1.4	1.4	1.4	1.4
Dividend yield	3.5%	3.7%	3.7%	3.7%	3.7%
BVPS (RM)	0.14	0.16	0.19	0.21	0.25
P/B (x)	2.6	2.4	2.0	1.8	1.5
EBITDA margin	11.1%	10.4%	7.4%	7.5%	9.1%
EBIT margin	9.3%	8.8%	6.5%	6.6%	8.2%
PBT margin	9.3%	8.8%	6.5%	6.6%	8.2%
Net margin	7.1%	7.3%	5.1%	5.1%	6.4%
ROE	19.2%	19.1%	21.7%	20.0%	20.3%
ROA	9.3%	8.2%	7.7%	8.6%	9.9%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Contracts secured	1,250	-	300	500	500

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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.
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