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GDB Holdings

Sweet spot for growth

We initiate coverage on GDB Holdings with a BUY rating and a TP of RM1.37. Our call is premised on a stronger earnings cycle in FY21-22 underpinned by quadrupling of outstanding orderbook since FY18 to RM2.2bn, translating to sector high cover ratio of 6.8x (ex. MRCB). As such, we expect earnings to more than double in FY21 to RM61m. Building on its short but impressive execution track record, we see job flows continuing supported by sizable development projects undertaken by its repeat clientele. Our TP of RM1.37 is derived from pegging FY21 EPS to ex-cash P/E multiple of 13.0x which implies a 13% discount to our valuation for SunCon. We believe this is justified given GDB's sector high orderbook cover and sector leading ROEs.

Company background. GDB operates as a main contractor/principal works contractor specialising in high rise residential, mixed and commercial developments. Since its inception in 2013, GDB has delivered a cumulative RM1.4bn worth of projects. The company was listed on the ACE market in 2018 and transferred to the main board in 2020.

Poised for positive earnings inflection. GDB has managed to grow its annual job wins from average RM396m (pre-listing) to RM736m (post-listing) culminating in RM1.25bn secured in FY20. Outstanding orderbook has quadrupled since FY18 to RM2.2bn, translating into a sector high cover ratio of 6.8x (ex. MRCB) to be executed over the next 3 years. Earnings growth seems anchored even in the unlikely case of zero replenishment of orderbook this year.

Early completion record bodes well for job prospects. Management prides themselves on an unblemished track record of early project completion leading to substantial savings on running costs as well as establishing a widening clientele base. Some its existing recurring clients like TRC and Hap Seng Land are in the midst of embarking on sizable development projects which augurs well for GDB's future job prospects.

Enviable balance sheet. GDB possesses a debt free balance sheet and pairing this with healthy turnover ratios makes for a burgeoning cash pile. We expect GDB's cash pile to grow in FY21-22 in tandem with stronger earnings forecast buoyed by normalising collection post-pandemic.

Forecast. We forecast FY20 earnings to come in at RM27.7m (-5% YoY), significantly better than the c.20-80% estimated decline for other construction players. GDB is on course to record a commendable 3% revenue growth in FY20 despite various operational halts (from Covid-19 headwinds) just by executing larger contracts it won in FY19. We expect FY21 and FY22 earnings to more than double to RM60.7m and RM62.4m in tandem with its enlarged orderbook.

Decent dividend yields. We expect GDB to stick to its dividend policy of paying min.30% of net earnings yearly. We are forecasting yields of 2.0%/3.0%/3.6% for FY20-22f. Yields for FY21-22f are boosted by our expectations of stronger earnings moving ahead.

Initiate with a BUY, TP: RM1.37. Our TP is based on FY21 EPS of 9.7sen pegged to an ex-cash PE multiple of 13.0x. Our target P/E multiple implies a 13% discount to our 15x ex-cash target P/E multiple for SunCon to account for its small cap discount. Our TP implies an upside of 39.1% with 3.0% dividend yield. We believe this is justified give GDB's sector high orderbook cover as well as boasting near sector leading ROEs. Key risks include execution, rising material prices, political fluidity and Covid-19 setbacks.

BUY (Initiate)

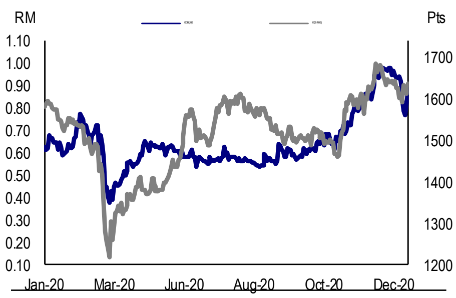
Target Price:	**RM1.37**
Previously:	**N.A.**
Current Price:	**RM0.985**

Capital upside	39.1%
Dividend yield	3.0%
Expected total return	42.1%

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	-0.5	43.8	49.6
Relative	1.0	33.9	44.4

Stock information

Bloomberg ticker	GDB MK
Bursa code	0198
Issued shares (m)	625
Market capitalisation (RM m)	616
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%
HL Asset	4.0%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	29.1	27.7	60.7
EPS - core (sen)	4.7	4.4	9.7
P/E (x)	21.1	22.2	10.1

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Cash	83	77	64	121	137
Receivables	55	34	104	216	111
PPE	11	28	26	32	41
Others	63	92	92	92	92
Assets	**213**	**231**	**286**	**461**	**381**
Debts	-	-	-	-	-
Payables	91	96	137	271	151
Others	17	12	12	12	12
Liabilities	**109**	**107**	**149**	**283**	**163**
Shareholder's equity	104	121	135	176	215
Minority interest	-	3	3	3	3
Equity	**104**	**123**	**138**	**179**	**218**

Cash Flow Statement

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
EBIT	37	38	35	79	81
Depreciation & amortisation	5	4	5	7	7
Changes in working capital	42	17	(28)	21	(15)
Taxation	(9)	(9)	(8)	(19)	(19)
Others	(58)	(32)	-	-	-
CFO	**17**	**17**	**3**	**88**	**54**
Net capex	(3)	(11)	(3)	(13)	(16)
Others	1	(6)	-	-	-
CFI	**(3)**	**(17)**	**(3)**	**(13)**	**(16)**
Changes in borrowings	-	-	-	-	-
Dividends paid	(6)	(13)	(13)	(19)	(22)
Others	42	2	-	-	-
CFF	**36**	**(11)**	**(13)**	**(19)**	**(22)**
Net cash flow	**50**	**(10)**	**(13)**	**57**	**16**
Others	-	-	-	-	-
Beginning cash	31	83	77	64	121
Ending cash	83	77	64	121	137

Income Statement

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	**275**	**323**	**332**	**797**	**816**
EBITDA	42	41	40	86	88
EBIT	37	38	35	79	81
Finance cost	-	(0)	-	-	-
PBT	**37**	**38**	**35**	**79**	**81**
Tax	(9)	(9)	(8)	(19)	(19)
Net profit	**28**	**29**	**27**	**60**	**61**
Minority interest	-	0	1	1	1
PATMI (core)	**29**	**29**	**28**	**61**	**62**
Exceptionals	(1)	-	-	-	-
PATMI (reported)	28	29	28	61	62

Valuation & Ratios

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Core EPS (sen)	4.5	4.7	4.4	9.7	10.0
P/E (x)	22.1	21.1	22.2	10.1	9.9
EV/EBITDA (x)	13.2	13.3	13.8	6.4	6.3
DPS (sen)	2.0	2.0	2.0	3.0	3.5
Dividend yield	2.0%	2.0%	2.0%	3.0%	3.6%
BVPS (RM)	0.17	0.20	0.22	0.29	0.35
P/B (x)	5.9	5.0	4.5	3.4	2.8
EBITDA margin	15.2%	12.8%	12.0%	10.7%	10.8%
EBIT margin	13.5%	11.7%	10.6%	9.9%	9.9%
PBT margin	13.5%	11.7%	10.6%	9.9%	9.9%
Net margin	10.4%	9.0%	8.3%	7.6%	7.6%
ROE	26.8%	24.1%	20.5%	34.5%	29.0%
ROA	13.1%	12.5%	9.3%	13.0%	16.1%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Contracts secured	3	954	1,250	400	700

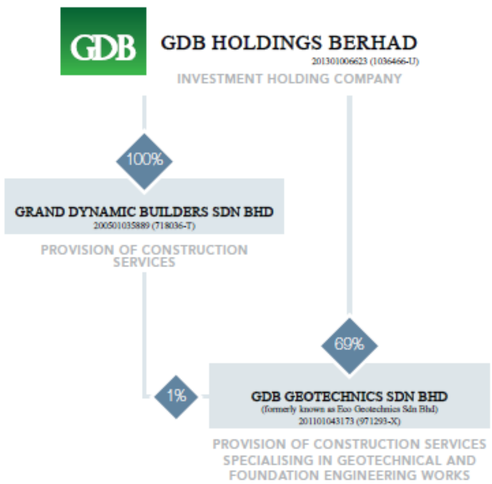
Company Background

History

Relatively young. Established in 2013, GDB has grown from strength to strength with uninterrupted earnings growth (ex. FY20 due to pandemic) since its inception. The pure play construction company was listed on the ACE market in 2018 and subsequently transferred to the Main board in 2020. GDB through its wholly owned subsidiary, Grand Dynamic Builders Sdn. Bhd. (GDBSB) is principally engaged in the provision of construction services in the roles of main contractor and principal works contractor specialising in high rise residential, mixed and commercial developments.

Acquiring substructure capabilities. In 2019, GDB acquired a 70% stake in Eco Geotechnics Sdn. Bhd. (now known as GDB Geotechnics Sdn. Bhd.). This expands the company's expertise into piling and substructure works to complement its in-house superstructure capabilities. GDB's expanded range of capabilities unlocks a new market for jobs and creates a launch-pad to participate in projects where tenders for superstructure and substructure are called separately. We believe this should improve its superstructure job conversion rate.

Figure #1 GDB's corporate structure



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Multiple licenses and certifications. GDB is a licensed CIDB G7 contractor which qualifies them to tender for projects up to an unlimited value in the areas of general construction, mechanical works as well as piling and substructure works. On top of this, in tandem with its eventual goal of diversifying into infrastructure construction, GDB holds a Sijil Perolehan Kerja Kerajaan (SPKK) license as a G7 contractor enabling its participation in government jobs valued above RM10m. As evidenced in the table below**,** GDB is accredited with multiple certifications, serving as a testament to its excellent operational standards.

Figure #2 GDB's selected certifications

Certifications	Description
SIRIM ISO 9001: 2015 Quality Management System	Creating and implementing quality management systems across all our project sites.
SIRIM ISO 14001: 2015 Environmental Management System	Implemention of prudent and ethical environmental management practices
SIRIM ISO 45001 : 2018	International standard to reduce risks associated with occupational health and safety within the workplace.
OHSAS 18001: 2007	Standards in relation to occupational health and safety
SHASSIC	Safety standards set by CIDB
Green 5-S program	Effective implementation of the 5S standards
QLASSIC	CIDB's benchmarks quality of workmanship on construction projects
CONQUAS	Quality assesment system by BCA (SG)
BuildQUAS	Quality assesment system by BCA (SG)

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Key Management

Figure #3 Key management personnel

Name	Age	Position	Description
Cheah Ham Cheia	64	Founder & Managing Director	Manages the overall strategic direction of the group 38 years of experience in construction with various stints inluding CEO at Putrajaya Perdana Berhad Holds a Bachelor of Science in Engineering, University of Aberdeen, UK Notable projects: Pasir Panjang Wharf project, SG; The Intermark, KL; LRT (Putrajaya); Batu Niah WTP
Alexander Lo Tzone Leong	48	Executive Director	Overseeing overall operations of construction projects More than 25 years in construction with various stints including COO at Putra Perdana and Past experience includes COO at Putra Perdana Construction Sdn Bhd Holds a Certificate in Technology (Building), KTAR; Fellow of the Chartered Institute of Building Notable projects: Menara Felda Platinum, Menara PJH, The Intermark, Pavillion KL & Residence
Cheah Jun Kai	33	Executive Director	Oversees finance, risk management and business development functions Past experience at WorleyParsons Business Service Sdn Bhd Chartered accountant, MIA; FCCA
Toh Fong Eng	57	Chief Financial Officer	More than 35 years in acounting and finance Oversees overall accounting, taxation and treasury functions Past experience include General Manager for Finance & Accounts at
Wong Chin Tee	54	GM - Tender/Contracts	Asists in managing tender and contracts department Past experience at Kwan Yong Construction Pte Ltd, SBM Engineering Sdn Bhd and Putra Perdana Construction Sdn Bhd Holds a Bachelor of Science majoring in Quantity Surveying, Robert Gordon University, United Kingdom – 1993
Yap Wei Tiong	45	AGM - Projects	Assists in managing the construction division Past experience at Putra Perdana Construction Sdn Bhd and Gamuda Land Berhad Holds a Bachelor of Civil Engineering (Hons), Universiti Sains Malaysia, Malaysia

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Investment Thesis

Poised for a positive earnings inflection

On the growth path. Over the years, GDB has moved from strength to strength with jobs secured ballooning to RM1.25bn in FY20. This is in sharp contrast to RM100-500m range achieved prior to FY17. As depicted below, this has resulted in orderbook swelling to the >RM2bn range. Remarkably, despite its relatively short track record, GDB has been able to garner strong contract flows from repeat and reputable clients such as TRC, Park City and Hap Seng Land. FY20 marks a new milestone for the company having secured its largest contract to date, 8 Conlay worth RM1.25bn which carries a further RM15.5m incentive fee (payable based on stages of completion). The job marks its first contract from KSK Land which in our view is a testament to GDB still young but impressive track record. We understand that the project has already completed the piling stage with minimal portions of superstructure works done. Hence, earnings contribution from the project should be rather immediate.

Figure #4 **Annual contract wins (RM m)**

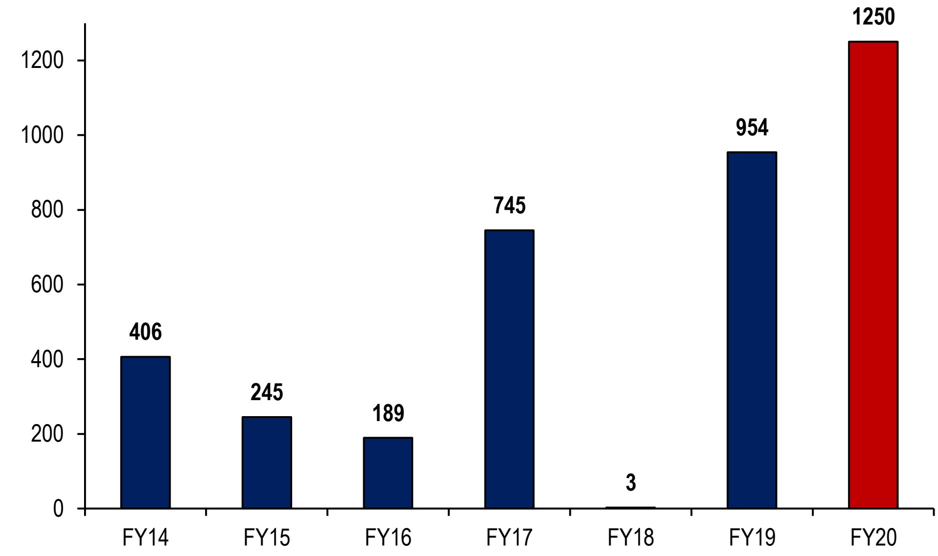

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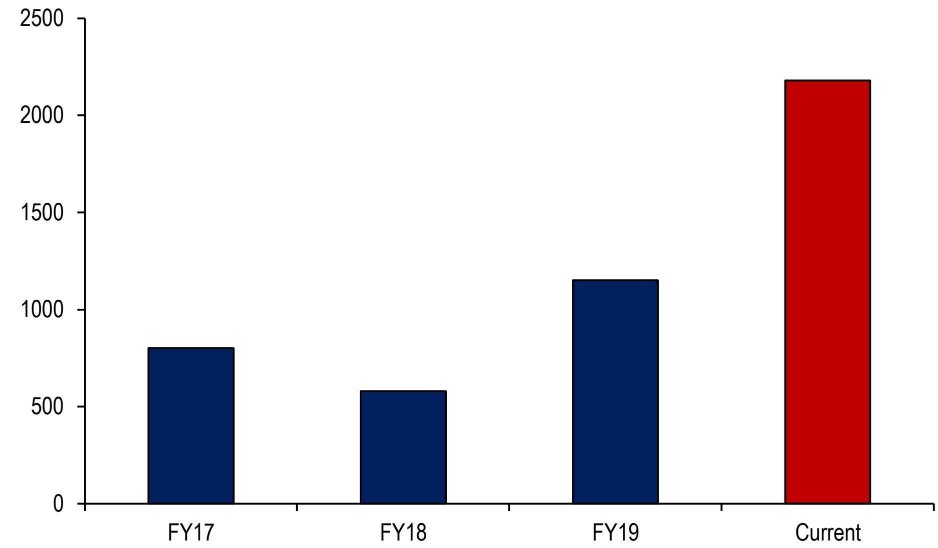
Figure #5 **Annual orderbook trend (RM m)**



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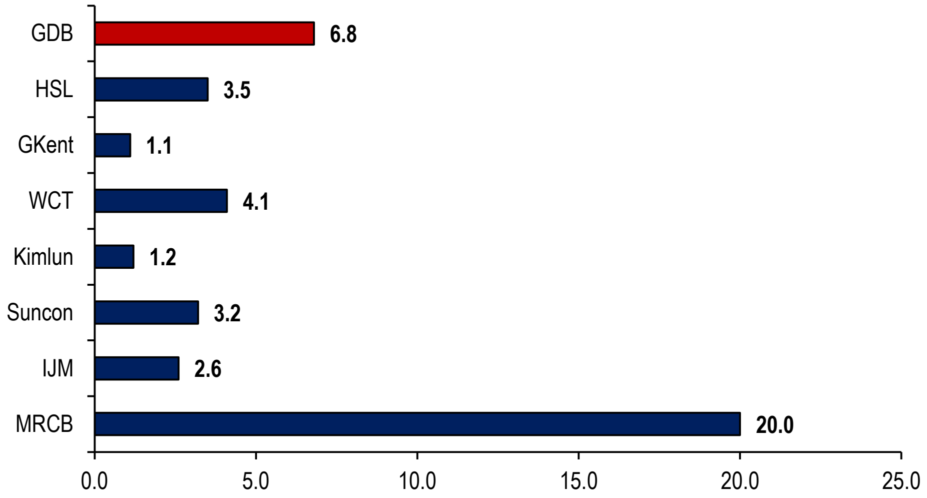
Enviable orderbook cover. GDB boasts an orderbook of RM2.2bn, which translates into a superior cover of 6.8x on FY19 revenue. Excluding MRCB, GDB's orderbook cover ratio is the highest in our sector coverage and perhaps even the highest among listed contractors. Point to note, MRCB's orderbook consists of long dated projects which do not translate to near term earnings whereas GDB's portfolio of jobs is to be executed over the next 2-3 years. In essence, assuming a bear case scenario of zero contract replenishment coupled with mild margin contraction, GDB's earnings growth is quite visible from purely executing its existing jobs. Going forward, we have pencilled in annual contract replenishment of RM400-700m for FY21-22f. We consider this conservative since it falls below GDB annual replenishment post-listing. To illustrate, GDB's average annual replenishment has gone up from RM396m (pre-listing) to RM736m (post-listing) as extra capital and stronger reputation unlocked bigger contract opportunities. Over the long term, increasing land scarcity will drive the need for high rise buildings which we believe would benefit high rise specialists like GDB.

Figure #6 **Sector orderbook cover comparison (x)**



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Early completion record bolsters confidence. So far, GDB has been able to execute its jobs with minimal hiccups with early handover in each of its major projects (6-100 days early). Completion ahead of schedule normally leads to savings on running costs such as preliminaries, site management as well as rental costs resulting in better margin profile. By our estimation, preliminaries alone usually forms c.12-15% of costs incurred during building construction. We believe consistent early finishes not only keeps a lid on costs but builds on reputation and invites repeat clientele as evidenced by recurring customers. We reckon acquisition of the geotechnics arm strengthens its propensity for early completion as substructure capabilities would give GDB a more holistic control over a project. This could negate improper planning stemming from poor site handover process.

Figure #7 **Consistent record of early completion**

Project	Commencement	Contractual Completion	Actual	Days Ahead
One Central Park	16-Dec-13	15-Feb-17	31-Oct-16	107
Westside III	21-Dec-15	20-Dec-18	20-Oct-18	61
Menara Hap Seng 3	1-Nov-17	17-Dec-19	24-Dec-19	7
KL Eco City Phase 1	7-Apr-14	26-Jun-17	17-May-17	40
KL Eco City Phase 2	16-Feb-16	8-Dec-17	2-Oct-17	67

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Potential pipeline looks healthy anchored by recurring clients

Building relationships through solid delivery. Since its inception in 2013, GDB has been unblemished in its project delivery resulting in it garnering jobs from repeat clients such as TRC (RM541m), Hap Seng Land (RM526m) and numerous projects at Desa Park City (RM1bn). In our view, GDB is primed to secure more jobs from pipeline of possible launches from TRC and Hap Seng Land with regards to Ara Sentral and upcoming development of KL Midtown.

Figure #8 **List of jobs from repeat clients**

Project	Client	Contract value (RM m)
Completed		
One Central Park	Perdana Park City	236.8
Westside III	Perdana Park City	245.0
Menara Hap Seng 3	Hap Seng Land	312.9
KL Eco City Phase 1	TRC	217.9
KL Eco City Phase 2	TRC	188.5
Ongoing		
Perla Ara Sentral	TRC	135.0
Hyatt Centric Hotel, KK	Hap Seng Land	213.3
Park Regent	Cloudvest	517.0

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Ara Sentral. This TOD development is being jointly developed by Prasarana and TRC Synergy and will sit on 15 acres of freehold land near the Ara Damansara LRT station. The overall development essentially hinges on its connectivity to the Ara Damansara LRT station and constitutes one of eight TOD projects under development by Prasarana. Phase 1 (Perla Ara Sentral) is a mixed development consisting two blocks of serviced apartments and was awarded to GDB for a contract sum of RM135m in 2019 slated for completion by end 2021. We gather that the future developments consist of office, hotel, retail and residential components. We believe having been awarded RM541m worth of projects from TRC places the company in good stead to secure more from this development.

Figure #9 Ara Sentral

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KL Midtown. In 2016, Hap Seng Land entered into a JV with Naza TTDI to develop 8.9 acres of land near MITEC. At an estimated GDV of RM3.8bn, KL Midtown will see the development of a Hyatt centric hotel, luxury residences and retail podium. KL Midtown is part of the grander KL Metropolis masterplan which covers a sprawling 76 acres and a GDV of RM20bn. We believe GDB's successful execution of its ongoing Hyatt Centric hotel, Sabah project coupled with earlier delivery of Menara Hap Seng 3 bodes well for future prospects at KL Midtown. Additionally, the development KL Metropolis could mean higher demand for building contractors, GDB included.

Figure #10 Overview of KL Metropolis

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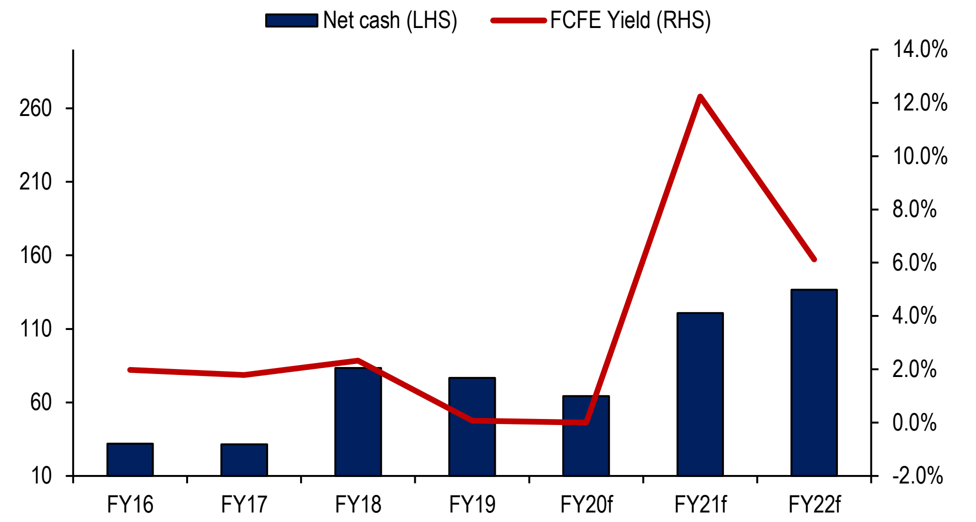
Healthy and clean balance sheet

Healthy cash management. GDB possesses a debt free balance sheet and pairing this with a healthy receivables turnover makes for a burgeoning cash pile. We expect its FY20 cash balance to decline on the back of lower FCFE due to slower receipts while we project GDB to largely maintain its payments to suppliers. This is possible due to its healthy cash and debt free position. GDB prioritises payments to suppliers which management believes in turn enables access to better credit terms and pricing, ultimately resulting in stronger profitability. Its net cash balance should grow in FY21 and FY22 as receivables collection normalises backed by stronger earnings cycle.

Figure #11 Net cash position and FCFE yield (based on current M.Cap)



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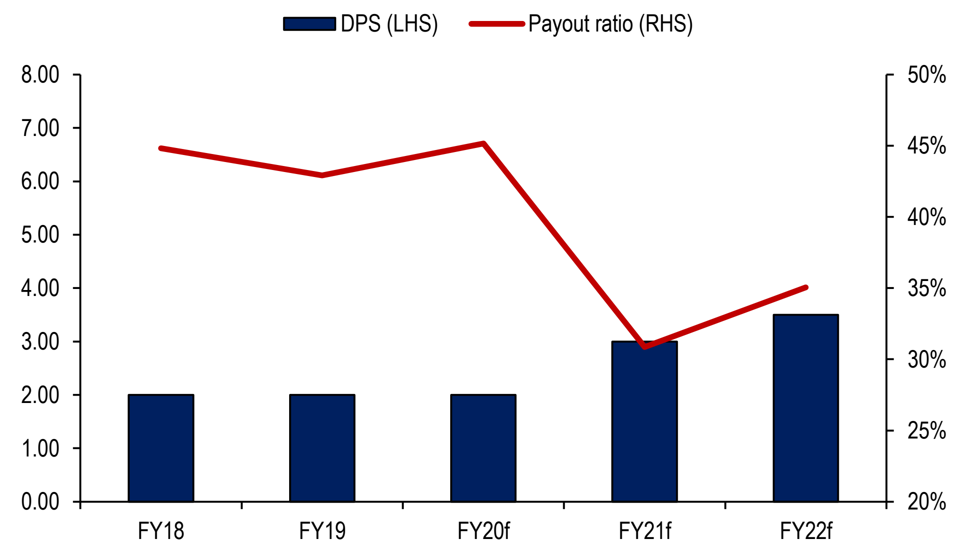
Dividend policy

Generous payout. GDB has outlined a dividend policy of a minimum payout of 30% of PAT. Historically, since listing the company has been able to payout dividends at a rate above their committed payout ratio (43-45%). Based on the 1.0 sen already distributed in FY20, we foresee GDB maintaining its 2.0 sen DPS (equal to FY19: 2.0 sen) implying a payout of 45%. Nonetheless, given its stronger earnings cycle in FY21-22, we are forecasting FY21-22 DPS of 3.0 and 3.5 sen based on 31-35% payout ratios respectively. This translates to FY21-22 dividend yields of 3.0-3.6% supported by strong FCFE yields of 12% and 6% respectively.

Figure #12 Dividend per share and implied payout ratio (sen)



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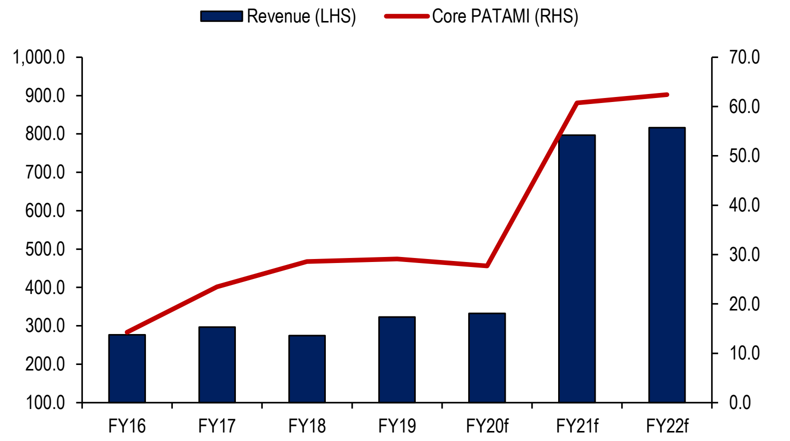
Financials

Earnings forecast. We are forecasting GDB's earnings to inflect upwards in FY21 increasing by 2.2x (+120%) to RM60.7m and thereafter to RM62.4m by FY22. We believe this still errs on the conservative side given our orderbook replenishment assumptions of RM400m/RM700m for FY21-22 falls below average annual replenishment post-listing of RM736m and also well below jobs achieved in FY19 (RM954m) and FY20 (RM1.25bn). Underpinning our earnings growth assumptions for FY21-22 are the execution ramp up for Park Regent, Hyatt-centric hotel in KK as well as recently awarded 8 Conlay.

Figure #13 **Revenue and profit (RM m)**



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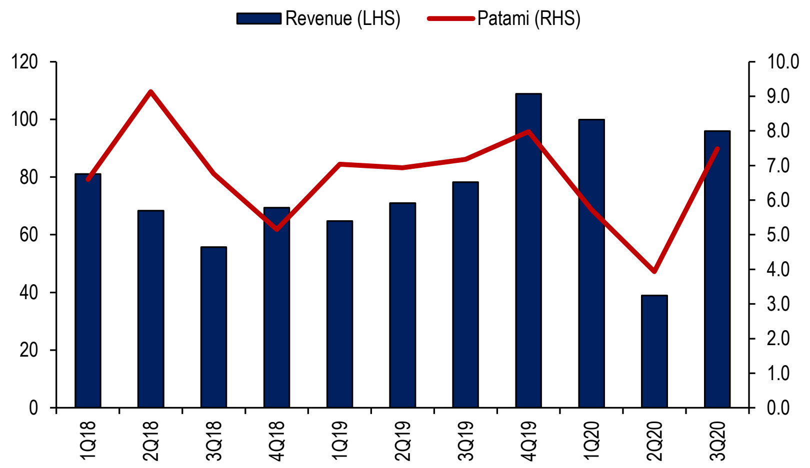
Topline growth despite pandemic. While the pandemic and ensuing forms of MCO have decimated sector corporate earnings, we note that GDB has emerged relatively better. We estimate GDB's core earnings are on track for a c.5% YoY decline in FY20, significantly better than the c.20-80% estimated decline for other construction players. GDB's execution of larger contracts won in years prior means that the company is on course for a 3% revenue growth even with operational difficulties from various lockdowns imposed. However, Covid-19 has resulted in higher amount of compliance costs (i.e. Testing /idle time etc.) resulting in margins declining during this period.

Figure #14 **Quarterly revenue and PATAMI (RM m)**



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Valuation & Recommendation

Initiate with a BUY, TP: RM1.37. Our TP is based on FY21 EPS of 9.7sen pegged to an ex-cash PE multiple of 13.0x. Our target P/E multiple implies a 13% discount to our 15x ex-cash target multiple for SunCon to account for its small cap discount. Our TP implies an upside of 39.1% with 3.0% dividend yield. We believe this is justified give GDB's sector high orderbook cover as well as boasting we believe to be sector leading ROEs. In selecting companies for peer comparison, we have chosen contractors with building exposure, net cash position and consistent record of dividend payments.

Figure #15 **Peer comparison**

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E (x)		P/B (x)		Yield (%)	
						FY20	FY21	FY20	FY21	FY20	FY21
GDB	**616**	**0.985**	**1.37**	**BUY**	**DEC**	**22.2**	**10.1**	**4.5**	**3.4**	**2.0**	**3.0**
SunCon	2,172	1.68	2.11	BUY	DEC	24.8	13.9	3.2	2.9	1.4	4.3
HSL	565	0.97	1.27	BUY	DEC	15.5	8.6	0.6	0.6	1.0	2.7
K.Prospek	1,242	1.00	NR	NR	DEC	12.9	8.7	1.1	1.0	2.9	3.4
Inta Bina	155	0.29	NR	NR	DEC	14.5	6.0	1.1	1.0	1.0	2.8
Peer average						**16.9**	**9.3**	**1.5**	**1.4**	**1.6**	**3.3**

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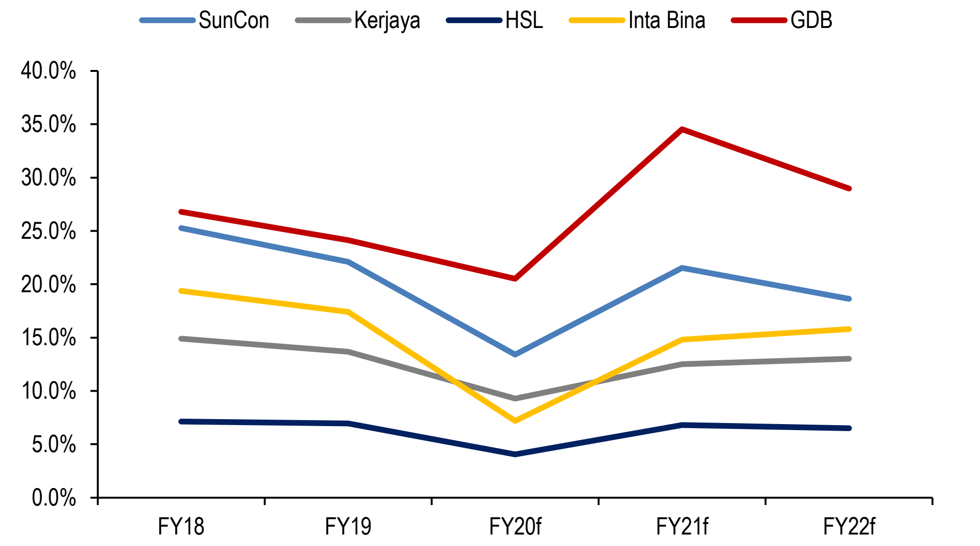
Figure #16 **Superior ROE profile among similar peers**



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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.