

## Investment Idea/IPO Note

# Gagasan Nadi Cergas (0206)

## Moving up its value chain

**BUY**

IPO Price: **RM0.30**

Target price: **RM0.36**

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Gagasan Nadi Cergas Bhd (“GNC”) is making its debut on the Ace Market. It is a Grade G7 contractor which enable the company with unlimited project tendering value capacity. BUY with a target price of RM0.36 based on 8x PER FY19 of Bursa Malaysia Small Cap Index.

GNC has a track record of delivering sizeable and quality projects for over 20 years. Among the notable projects are German-Malaysian Institute (“GMI”), student hostels for Universiti Teknikal Malaysia Melaka (“UTeM”) and International Islamic University Malaysia (“IIUM”). To date, GNC has an orderbook of more than RM600m, which includes the RM290m worth of Cardiology Centre for Serdang Hospital, providing earnings visibility until 2021.

The Group currently holds 4 long term recurring income contracts including two 20-year concession to provide facility management services for IIUM and UTeM until 2034 and 2037 respectively. GNC also operates district cooling system and has a 20-year chilled water supply contract with GMI until 2028. The other upcoming contract will be the 30-year chilled water and electricity supply to Datum Jelatek development scheduled to commence in 1H2019.

Leveraging on its design and build expertise, GNC has made its maiden foray into property development whereby 33.3% of the IPO proceeds is allocated for the funding for Asian Football Federation (“AFF”) mixed development at Putrajaya. All the ongoing and new projects are estimated at a total Gross Development Value of RM464m. Meanwhile, 15.5% of the funds raised will be allocated for the CAPEX of district cooling system and 39.3% is for the working capital for construction projects.

GNC recommends a dividend policy of up to 30% for FY19, translating to an expected yield of 4.5%. Moving forward, we expect stronger cashflow turnaround backed by its stable recurring income as it has passed the period of CAPEX-heavy spending on concessions.

KLCI	1679.17
YTD KLCI change	-0.67%
YTD stock price change	N.A

### Stock Information

Market Cap upon listing (RM'm)	225.9
Enlarged Share Capital (m)	753.0

### IPO proceeds (RM'm)

AFF Mixed Development Funding	14.0
Working capital	16.5
CAPEX for district cooling system of Datum Jelatek Development	6.5
Estimated listing expenses	5.0
<b>Total</b>	<b>42.0</b>

### Major Shareholders

Hj Wan Azman	66.7%
Dato' Sri Subahan	6.8%

### Summary Earnings Table

FY Dec (RM'm)	2016A	2017A	2018F	2019F
Turnover	227.9	212.5	250.8	313.5
EBIT	112.7	83.8	70.2	87.8
PBT	100.8	67.0	45.1	56.4
<b>Net Profit</b>	<b>73.6</b>	<b>49.8</b>	<b>32.6</b>	<b>33.5</b>
Consensus	-	-	-	-
EPS (sen)	9.8	6.6	4.3	4.5
EPS growth (%)	94.9	-32.4	-34.5	3.0
DPS (sen)	-	-	-	1.3
PER (x)	3.1	4.5	6.9	6.7
BV/Share (RM)	0.4	0.5	0.6	0.6
ROE (%)	24.0	14.1	7.3	7.1
Div. Yield (%)	-	-	-	4.5

Sources: Company & Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

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