# Govt reduces development expenditure

**Construction sector**

**Maintain overweight:** The government has reduced development expenditure by RM4.5 billion to RM5 billion under the recalibrated Budget 2016.

The implementation of non-physical projects and those that are still under study will be rescheduled.

Physical projects that will be prioritised include the construction of affordable houses, hospitals, schools, roads and public transport, as well as security.

In terms of investment, the government remains committed to achieving the targeted private investment totalling RM215 billion this year.

For example, the implementation of major projects such as the mass rapid transit (MRT) and light rail transit (LRT), the Pan-Borneo Highway (PBH), the Malaysian Vision Valley (MVV), Cyber City Centre (CCC), the refinery and petrochemical integrated development (Rapid) project in Pengerang and the high-speed rail (HSR) will be continued.

The cut in development expenditure under the recalibrated Budget 2016 is slightly negative for the construction sector as the implementation of some construction projects could be deferred.

But we believe the impact is not substantial as large-scale infrastructure projects such as the MRT, LRT, PBH and HSR will proceed.

The MVV (Sime Darby Bhd-Employees' Provident Fund), the CCC (Malaysian Resources Corp Bhd) and the HSR will be implemented on a public-private partnership basis, hence private investments will reduce the burden on the government's finances.

Meanwhile, Rapid will continue to be developed by Petroliam Nasional Bhd due to committed investments in building the refinery and oil storage facilities.

The MRT, LRT and PBH will be funded by government-guaranteed bonds raised by DanaInfra Nasional Bhd, the government's special-purpose vehicle to finance infrastructure projects.

Hence, it is not affected by the cut in development expenditure since DanaInfra's government-guaranteed bonds are just a contingent liability, of which repayment and debt servicing will come from operating expenditure in the future.

However, the government indicated that new projects in the planning stage could be deferred. It is uncertain which projects will be deferred at this stage.

We maintain our "overweight" call on the construction sector as the MRT Line 2, LRT Line 3, PBH and Rapid projects will provide sufficient civil works to replenish or grow the order books of listed Malaysian construction companies.

Our top buys are Gamuda Bhd, Sunway Construction Group Bhd and WCT Holdings Bhd. — *Affin Hwang Capital, Jan 29.*

Filepic of an MRT station under construction. The impact is not substantial as large-scale infrastructure projects such as the MRT, LRT, PBH and HSR will proceed. Photo by Patrick Goh

**Construction sector**

| STOCK | RATING | SH PR (RM) | TP (RM) | MKT CAP (RM BIL) | CORE PER (X) CY15E | CORE PER (X) CY16E | CORE EPS GR (%) CY15E | CORE EPS GR (%) CY16E | EV/EBITDA (X) CY16E | P/BV (X) CY16E | ROE (%) CY16E | DY (%) CY16E | YEAR END |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| IJM Corp | Buy | 3.40 | 3.76 | 12.2 | 22.6 | 19.1 | (13.5) | 18.2 | 9.0 | 1.0 | 5.8 | 2.7 | March |
| Gamuda | Buy | 4.49 | 5.84 | 10.8 | 16.1 | 15.8 | (7.4) | 1.9 | 19.5 | 1.6 | 10.1 | 2.3 | July |
| MRCB | Buy | 1.11 | 1.60 | 2.0 | 31.4 | 23.9 | 136.7 | 31.4 | 21.5 | 0.8 | 3.2 | 3.8 | Dec |
| WCT Holdings | Buy | 1.60 | 2.16 | 1.9 | 49.0 | 14.4 | (59.2) | 240.4 | 13.7 | 0.7 | 6.3 | 4.0 | Dec |
| Sunway Construction | Buy | 1.38 | 1.76 | 1.8 | 13.3 | 12.6 | (0.7) | 5.8 | 7.2 | 3.4 | 28.7 | 5.9 | Dec |
| Eversendai | Buy | 0.68 | 1.18 | 0.5 | 7.6 | 6.9 | 931.4 | 10.7 | 6.2 | 0.5 | 7.9 | 4.9 | Dec |
| Benalec | Hold | 0.52 | 0.51 | 0.4 | 15.9 | 7.6 | 118.4 | 108.4 | 5.3 | 0.7 | 9.4 | 1.8 | June |
| Gabungan AQRS | Sell | 0.84 | 0.70 | 0.3 | (29.9) | 10.8 | (120.8) | (377.9) | 6.0 | 0.9 | 9.1 | 0.0 | Dec |
| **Malaysian wgt avg** | | | | | **20.2** | **16.1** | **(2.3)** | **25.3** | **13.3** | **1.1** | **7.0** | **2.8** | |

*Note: Pricing as of close on 28 January 2016*

Source: Affin