

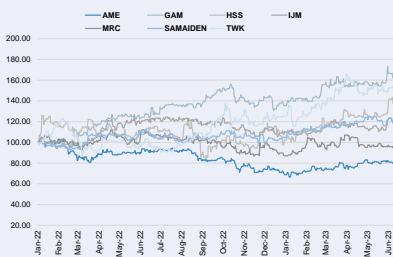
Sector Update

"Bayan Lepas LRT could kick off by end-2023"

Absolute performance (%)

	1M	3M	12M
AME	-4.3	5.5	-16.2
GAM	2.4	3.2	38.2
HSS	4.9	13.7	16.1
IJM	0.0	-3.0	-7.0
MRC	-1.6	0.0	-15.3
SCGB	-9.6	0.0	1.9
SAMAIDEN	-3.2	4.0	49.2
TWK	-0.6	-4.6	-7.8

Relative performance (%)



Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics
Full ESG commentary inside

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Construction

OVERWEIGHT (maintain)

Rising infrastructure spending in Penang

- We recently visited the Penang State Government (PSG) and construction/property sites to gain some insights into the Penang Transport Master Plan (PTMP) and the Penang South Islands (PSI) projects
- The federal government's agreement to finance the RM10-13bn Bayan Lepas Light Rail Transit (BLLRT) project will accelerate the implementation of the project possibly by end-2023
- We reiterate our OVERWEIGHT call on the Construction Sector as we expect the acceleration in infrastructure spending in 2H23 to provide a positive re-rating catalyst. Top BUYs are Gamuda, SunCon and HSS

PTMP implementation to be accelerated

We met with YB Tuan Zairil Khir Johari, the PSG Executive Council (EXCO) for Infrastructure and Transportation and Tanjung Bunga Member of the Penang State Legislative Assembly. The state-owned MRT Corporation will finance the BLLRT and be the asset owner of the project. The BLLRT will be extended, linking Tanjung Bungah to Bayan Lepas, to increase the ridership by passing through high population density areas. The total estimated cost of the project is RM10-13bn including land acquisition cost. The civil works portion is estimated to cost RM7bn, while the system works cost is RM2.0-2.5bn. Construction period is about 6-7 years. Detailed alignment studies are ready for the George Town-Bayan Lepas stretch but only preliminary studies have been done for the Tanjung Bungah-George Town stretch. The government expects to call for tenders for the BLLRT project by end-2023.

Construction companies to benefit

There are uncertainties on whether the government will retain SRS Consortium (Gamuda holds a 60% stake) as the Project Delivery Partner (PDP) for the BLLRT. SRS was appointed as PDP by the PSG for the PTMP (excluding the Undersea Tunnel and 3 paired roads) on 1 July 2020. However, MRT Corp has been appointed to finance and develop the BLLRT and the project implementation scheme could change. We gather that some of the options being considered include retaining SRS as the PDP, changing SRS's role to become the turnkey contractor or reimbursing SRS for expenses incurred (less than RM100m) for the BLLRT project and terminating its PDP role. We expect HSS Engineers to retain its role as the engineering consultant for the BLLRT project as it worked on the preliminary design for the project previously. We believe some of the contractors that will likely bid for work packages for the BLLRT include IJM Corporation, Malaysian Resources Corporation, Sunway Construction (SunCon) and WCT Holdings (WCTHG MK – Not Rated).

Improvement in public transport connectivity will benefit property developers

Property developers with land banks in Penang island will benefit in the long run with the improvement in road and public transport connectivity under the PTMP. Some of the property developers we visited that are potential beneficiaries of the BLLRT are Eastern & Oriental (EAST MK – Not Rated), IJM, Ivory Properties Group (IVORY MK – Not Rated) and Mah Sing Group (MSGB MK – Not Rated). EAST has reclaimed 253 acres of Andaman Island and the maiden launch of The Meg condominium is fully taken up. The Light City, a 32.8-acre integrated waterfront project, being developed by the IJM-Perennial joint venture, is located along the alignment of BLLRT.

Maintain OVERWEIGHT call; Top BUYs are Gamuda, SunCon and HSS

We remain OVERWEIGHT on the Construction Sector, given improved prospects to expand order books as the government infrastructure spending and domestic industrial property development accelerates in 2H23. Potential positive re-rating catalysts include the acceleration in the implementation of the PTMP and Klang Valley MRT Line 3 (MRT3) projects. Our top BUYs are Gamuda, SunCon and HSS. Key downside risks for the sector are delays in the implementation of infrastructure projects and political uncertainties due to upcoming state government elections.

Peer comparison for construction companies

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMb)	Core PE (x)		Core EPS growth (%)		EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)	RNAV/share (RM)	Sh Pr disc to RNAV (%)	TP disc to RNAV (RM)
						CY23E	CY24E	CY23E	CY24E							
AME ELITE	AME MK	BUY	1.34	1.66	0.9	12.8	12.3	(10.2)	4.6	6.0	1.0	8.0	3.0	2.28	41	27
GAMUDA	GAM MK	BUY	4.17	4.60	11.1	14.0	12.3	(3.7)	13.8	9.1	1.3	7.4	8.2	5.27	21	13
HSS ENGINEERING	HSS MK	BUY	0.54	0.80	0.3	10.6	9.5	16.5	11.8	5.7	1.0	9.6	1.5	NA	NA	NA
UM CORP	UM MK	HOLD	1.61	1.66	5.7	16.8	14.2	11.6	18.1	7.1	0.6	3.2	4.0	2.77	42	40
MRCB	MRC MK	HOLD	0.30	0.33	1.3	24.3	17.4	(15.1)	39.7	10.5	0.3	1.2	3.3	0.82	63	60
SAMAIDEN GROUP	SAMAIDEN MK	BUY	0.92	1.05	0.4	19.2	14.0	41.9	37.7	11.6	3.2	16.8	0.0	NA	NA	NA
SUNWAY CONSTRUCTION	SCGB MK	BUY	1.61	2.00	2.1	15.2	14.9	(4.9)	2.2	10.7	2.6	17.0	3.4	2.22	28	10
TALIWORKS	TWK MK	HOLD	0.83	0.85	1.7	27.1	21.3	30.8	27.0	12.8	2.3	8.6	8.0	1.06	22	20
Average					23.3	15.7	13.6	1.7	15.7	8.7	1.5	4.6	3.9		36	28

Source: Bloomberg, Affin Hwang forecasts. Note: Closing prices as at 13 June 2023

Reclamation works would lift Gamuda's order book by RM5bn

PSI to boost Gamuda's order book

SRS and PSG formed a 70:30 joint venture (JV) to undertake the project development of the 2,300-acre Island A of PSI, which has been named Silicon Island, on 6 March 2023. PSG announced on 11 May 2023 that the PSI reclamation project will be reduced to only 1 island instead of the initial plan to reclaim 3 islands with a total land area of 4,500 acres. Gamuda will be appointed as the reclamation contractor for Silicon Island Phase 1 to reclaim 1,200 acres, which will include the 700-acre Green Tech Park for industrial and global business services facilities. We have assumed Gamuda will undertake the RM5bn reclamation project in our FY24-25E earnings. The award of the reclamation contract will lift Gamuda's order book of RM20.5bn as of January 2023. The other work packages for Phase 1 will be tendered out in the future. These will include Phase 2 reclamation, common infrastructure including the Smart City (costing about RM2.0-2.5bn) and Pan-Island Link Phase 2A in the future.

Fig 1: Map of Silicon Island reclamation project, south of Penang Island



Source: SRS Consortium, Malay Mail

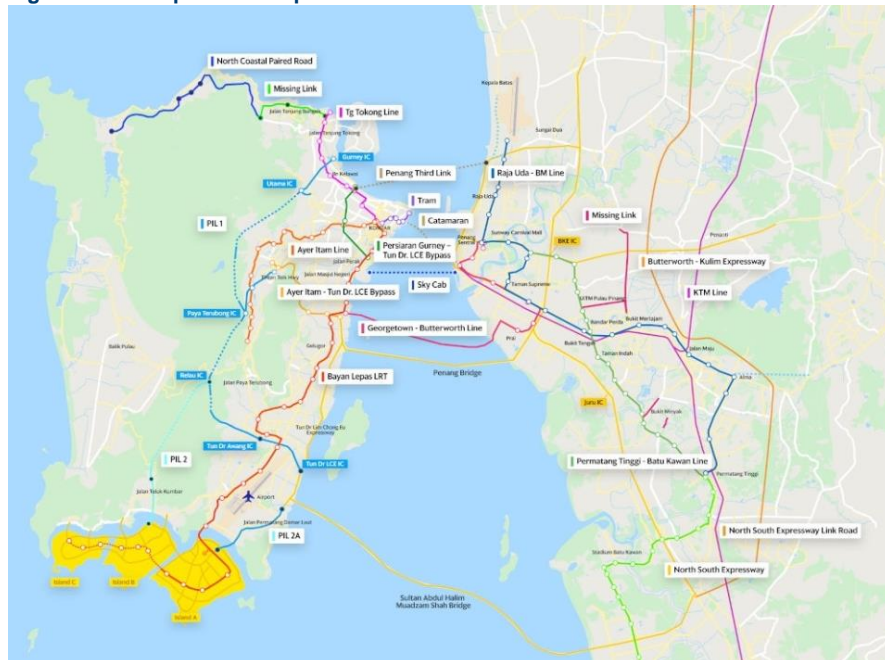
Public display of extension and depot relocation required

Depot for the BLLRT could be relocated

The location of the BLLRT depot has not been finalised. The initial plan was to build the depot in Silicon Island but it could be relocated to the south of Penang island with the construction of the BLLRT being expedited due to the federal government funding for the project. There will be a requirement for a public display if the location of the depot is changed. The extension of the BLLRT to Tanjung Bungah from Komtar in George Town will also require a public display, which is typically for 3 months, before the proposed alignment is approved. We gather that the BLLRT alignment is mostly along the existing roads/highways and the elevated viaducts and stations can be built

on the road reserves, which reduces the compulsory acquisition of private lands. The total length of BLLRT is 29 km with 27 planned stations.

Fig 2: Planned public transport and road network under PTMP



Source: Penang Infrastructure Corporation

Gamuda is likely to be appointed the turnkey contractor of BLLRT

Uncertainties in the implementation structure for BLLRT

We have not factored in earnings contribution from the BLLRT project in our earnings forecasts for **Gamuda**, given the uncertainties on the project previously. But given its familiarity with the project as the proponent for the PTMP, we believe Gamuda could be appointed as the turnkey contractor for the BLLRT as the federal government appears to be not in favour of appointing PDP for infrastructure projects. The key risk for Gamuda is the government scrapping the PDP role of SRS for the BLLRT and appointing an engineering consultant company as a Project Management Consultant (PMC) for the project to reduce the professional fees for the project. MRT Corp appointed HSS as the PMC for the MRT3 project last year, breaking away from the PDP implementation structure for MRT1 and turnkey contractor for MRT2.

HSS, IJM, SunCon, MRC and WCT are potential beneficiaries of BLLRT

Work package contractors will likely be appointed for BLLRT

Given **HSS'** role as the preliminary design consultant for the BLLRT and its extensive experience in providing engineering services for railway projects, we believe it will likely win engineering contracts for the BLLRT. Engineering consultant fees are typically 2-4% of project cost, indicating a potential contract size of RM200-400m. Regardless of the implementation structure for the BLLRT project, we believe the estimated RM9.5bn worth of construction works for the project will likely be awarded to several work package contractors to reduce the execution risks. Contractors with extensive experience in undertaking LRT works and have track records of undertaken projects in Penang previously include **IJM, SunCon, MRC** and **WCT**.

Potential new road projects in Penang

Rising infrastructure spending in Penang

PSG has also requested federal government funding to build and upgrade roads and highways in Penang. The 10 projects identified, costing about RM3-4bn, are expected to ease traffic congestion in Penang, especially in Prai. If approved, the construction companies with an established track record in undertaking Penang projects will be in a good position to bid for the new projects.

Eastern & Oriental has the largest land bank in Penang island

Property developers in Penang will benefit from BLLRT in the long run

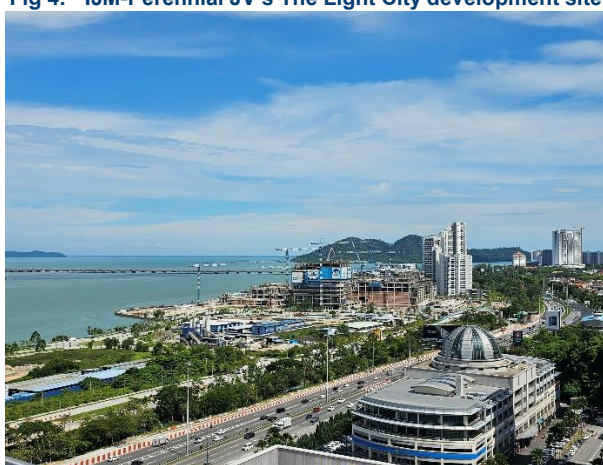
Property developers will benefit from the higher demand and price appreciation for properties near BLLRT stations due to improved public transport connectivity. Some property developers with land bank or property development projects in Penang island are **EAST** (its 253-acre Andaman Island Phase 1 will likely have closer proximity to a station with the extension of the BLLRT to Tanjung Bungah), **IJM-Perennial JV** (37.8-acre The Light City, Gelugor), **Mah Sing** (17-acre land remaining in Southbay City, Batu Maung) and **Ivory's** collaboration with **Chin Hin Group** (CHIN MK – Not Rated, 2-acre Crown Penang, Seri Tanjung Pinang), and **Ideal Capital** (IDEAL MK – Not Rated). **Kerjaya Prospek Group** (KPG MK – Not Rated) is the turnkey contractor for most of the reclamation, infrastructure and building works for the Andaman Island and will likely benefit from the development of the island by EAST.

Fig 3: Mah Sing's Southbay City development site



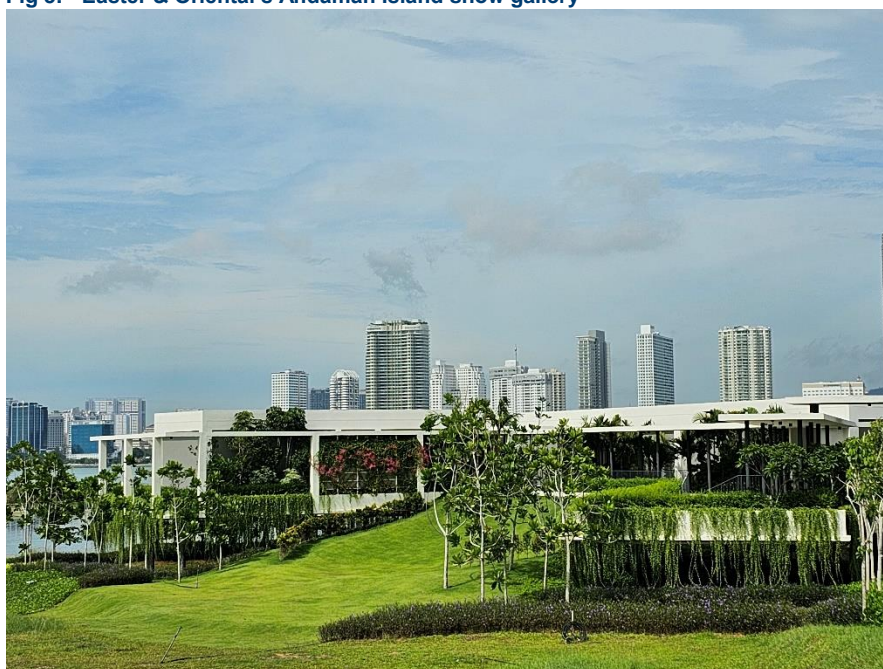
Source: Affin Hwang

Fig 4: IJM-Perennial JV's The Light City development site



Source: Affin Hwang

Fig 5: Easter & Oriental's Andaman Island show gallery



Source: Affin Hwang

Gamuda, SunCon and HSS are potential beneficiaries of MRT3 and BLLRT projects

Maintain OVERWEIGHT call; Top BUYs are Gamuda, SunCon and HSS

We reiterate our **OVERWEIGHT** call on the Construction Sector, given improved prospects to expand order books as the government infrastructure spending and

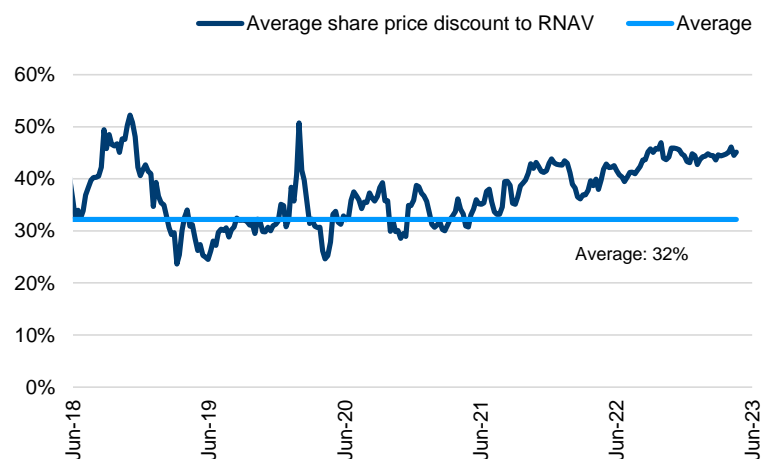
industrial property development accelerate in 2H23. A potential positive re-rating catalyst for the sector is the acceleration in the implementation of the MRT3 and BLLRT projects. For our coverage universe of construction stocks, weighted-average sector 2024E PER of 13.6x looks reasonable, considering 2024E core EPS growth of 15.7%. Our top BUYs are **Gamuda** (new addition), **SunCon** and **HSS**. Other BUYs are **AME** and **Samaiden**, which benefit from rising demand for industrial properties and the development of new renewable energy resources respectively. We maintain our **HOLD** calls on **IJM Corp** and **MRC** given the uncertainties in winning the tenders for MRT3 and BLLRT civil work packages.

Fig 6: Global peer comparison for construction companies

Company	BBG code	Rating	Sh Pr (local)	Mkt Cap (US\$m)	PER (x)		EPS gr (%)		EV/EBITDA		P/B		ROE (%)		Yield (%)	
					CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
BALFOUR BEATTY PLC	BBY LN	NR	361.60	2,625	11.0	10.6	(26.0)	4.2	4.2	4.0	1.7	1.5	13.5	12.9	3.1	3.2
CHINA COMMUNICATIONS CONST-H	1800 HK	NR	4.73	23,096	3.4	3.1	6.1	10.7	13.8	12.8	0.2	0.2	7.4	7.4	5.6	6.2
FERROVIAL SA	FER SM	NR	28.72	20,644	66.5	44.0	86.2	51.1	31.0	23.3	5.2	6.3	11.2	11.2	2.5	2.7
SAMSUNG ENGINEERING CO LTD	028050	NR	28150.0	4,464	9.3	9.0	(4.7)	3.4	3.9	3.3	1.8	1.5	20.9	18.1	2.0	2.0
VINCI SA	DG FP E	NR	106.74	66,815	13.4	12.3	14.7	8.8	7.4	6.9	2.3	2.2	17.2	17.9	4.1	4.5
ACS SM EQUITY	ACS SM	NR	156.47	8,587	15.3	14.5	(5.7)	5.3	5.3	5.1	1.6	1.6	9.9	10.8	6.5	6.4
ACCIONA SA	ANA SM	NR	161.55	10,266	17.4	17.3	24.8	0.2	8.7	9.1	1.7	1.7	10.1	9.8	2.9	3.0
DOWNER EDI LTD	DOW AU	NR	3.62	1,508	13.4	10.3	6.0	29.8	5.4	4.7	0.9	0.9	6.4	8.2	4.7	6.4
GAMUDA	GAM MK	BUY	4.17	2,493	14.0	12.3	(3.7)	13.8	9.1	7.8	1.3	1.3	7.4	8.1	8.2	1.7
IJM CORP	IJM MK	HOLD	1.61	1,281	16.8	14.2	11.6	18.1	7.1	5.9	0.6	0.6	3.2	4.0	4.0	0.9
SUNWAY CONSTRUCTION	SCGB MK	BUY	1.61	473	15.2	14.9	(4.9)	2.2	10.7	10.6	2.6	2.6	17.0	16.0	3.4	3.4
Average					19.8	15.8	21.3	14.5	11.7	10.1	2.2	2.3	13.4	13.7	4.2	4.4
Average (excl Ferrovial & China Communication Construction)					13.8	12.9	11.3	7.8	7.2	6.7	2.1	2.0	15.3	15.8	4.2	4.3

Source: Bloomberg, Affin Hwang forecasts. Note: Closing prices as at 13 June 2023

Fig 7: Average share price discount to RNAV for construction companies covered



Source: Affin Hwang



ESG Analysis

ESG Risk Rating					(Risk) Exposure			(Risk) Management			ESG Risk Ranking	
Negl.	Low	Med.	High	Severe	Low	Med.	High	Strong	Average	Weak	1st being lowest risk in Sustainalytics' universe	
0-10	10-20	20-30	30-40	40+	0-35	35-55	55+	100-50	50-25	25-0		
Company	ESG Risk Rating	yoy chg	Date Updated	Exposure			Management			Industry	Universe Rank	
AME Elite	21.6	-1.7	07-Sep-22	31.4			33.3			Homebuilders	5,156	
Gamuda	31.0	-4.3	01-Jun-23	58.2			50.7			Construction & Engineering	11,092	
HSS Engineering	32.4	-3.1	20-Apr-23	55.9			45.1			Construction & Engineering	11,815	
IJM Corp	31.1	na	21-Apr-23	55.0			47.7			Construction & Engineering	11,129	
MRCB	29.8	-3.8	20-Apr-23	59.9			54.0			Construction & Engineering	10,388	
Samaiden	42.0	na	12-Sep-22	55.9			26.7			Construction & Engineering	14,456	
Sunway Construction	26.3	0.0	13-Oct-21	49.3			50.1			Construction & Engineering	8,025	
Taliworks	36.2	-1.0	28-Nov-22	51.0			31.2			Utilities	13,317	

	F4GBM Index Constituent	F4GBM Shariah Index Constituent	ESG Grading Band amongst PLCs in FBM EMAS assessed by FTSE Russell
AME Elite Consortium	No	No	Bottom 25%
Gamuda	No	No	Top 26-50%
HSS Engineers	No	No	Top 51%- 75%
IJM Corporation	No	No	Top 26-50%
Malaysian Resources Corp	Yes	Yes	Top 26-50%
Sunway Construction Group	No	No	-
Taliworks Corporation	No	No	-
Samaiden Group	No	No	-

Construction companies have high inter-sectoral linkages and are important in supporting economic growth, given the high multiplier effect of public investment in infrastructure. The eight companies in our Construction Sector universe are classified by Sustainalytics as being in the Homebuilding (AME), Non-Residential Construction (Gamdua, HSS, IJM, MRCB, Samaiden and SunCon) or Utilities (Taliworks) industries. This contributed to the disparity in exposure to material risk ratings. Relatively low-risk exposure for AME (31.4), which is in the Homebuilding industry, compared to companies in Non-Residential Construction industry, which range from 49.3 (SunCon) to 57.2 (Gamuda) and Utilities industry for Taliworks (51.0).

Consequently, the construction and infrastructure companies under our coverage are characterised as having moderate amount of exposure with the sector average at 51.9. This coupled with mediocre management of material ESG risk with the sector average at 40.5, ranging from 31.2 (Taliworks) to 51.1 (MRCB) contributed to the relatively medium ESG Risk Ratings derived for the sector with the sector average at 32.2, ranging from 21.6 (AME) to 42.0 (Samaiden). It is positive to note that most of the companies under our coverage have seen an improvement in ESG risk ratings compared to the previous year.

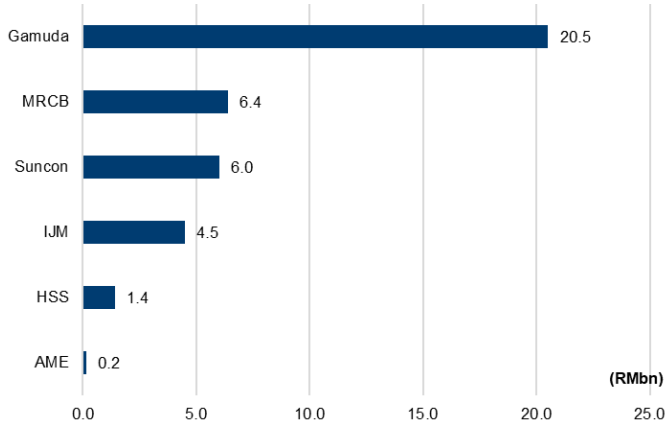
Sector-wide ESG risk factors. Companies in the construction industry are particularly vulnerable to material ESG issues, particularly in the governance and social dimensions. This is due to the sector's reliance on labour, inherently hazardous work sites, potential for widespread community impact, and duration depending on project complexity. Without adequate and effective ESG programs, practices and policies to address and manage the ESG issues, these companies may face higher risk of (1) increased barriers, costs and delays to project completion; (2) labour shortages; (3) community opposition; (4) remediation and litigation, e.g., resulting from ineffective workforce health and safety initiatives and risk controls. Besides that, environmental risk is also relevant to the industry because construction companies typically crush rocks, move earth and utilise building materials, such as cement, to produce their end-products. The works done often require the use of a significant amount of fuel for transport and running machinery and equipment, which frequently results in greenhouse gas (GHG) emissions, waste, and pollution.

Best management practices include: (1) a detailed and vigorous group-wide anti-corruption and bribery program; (2) robust social supply chain management strategies; (3) an international standards compliant occupational health and safety management system; (4) a commitment to research and innovation towards using cleaner technology and materials (i.e. utilising renewable energy to reduce emission); (5) the certification of "green credentials" of buildings, as well as the inclusion of community benefits in construction contracts, are essential components of maximizing social, economic and environmental benefits from construction; and (6) it is important to maintain transparency and to disclose necessary information.



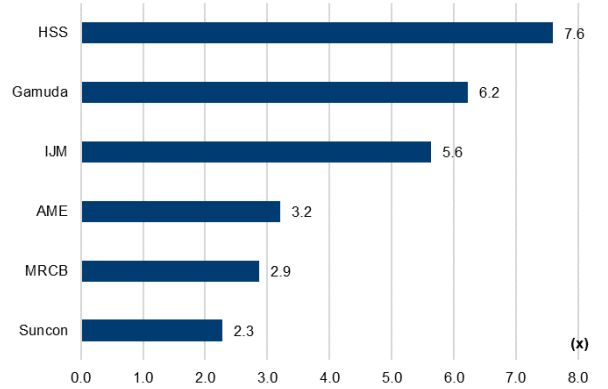
Key focus charts

Fig 8: Construction order book as at 31 March 2023



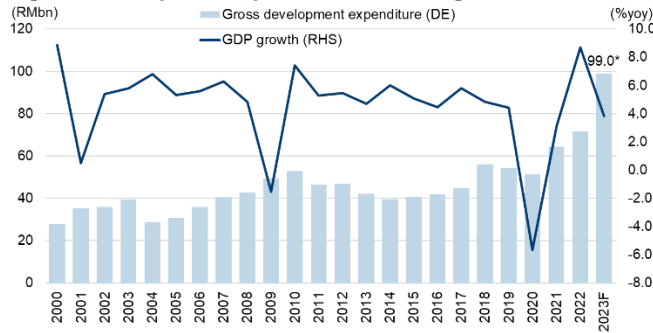
* Excludes Bukit Jalil Sentral project that has not started.
Source: Company, Affin Hwang

Fig 9: Order book/revenue as at 31 March 2023



* Excludes Bukit Jalil Sentral project that has not started.
Source: Company, Affin Hwang

Fig 10: Development expenditure and GDP growth



Source: Ministry of Finance

Fig 11: Klang Valley MRT Line 3 proposed alignment

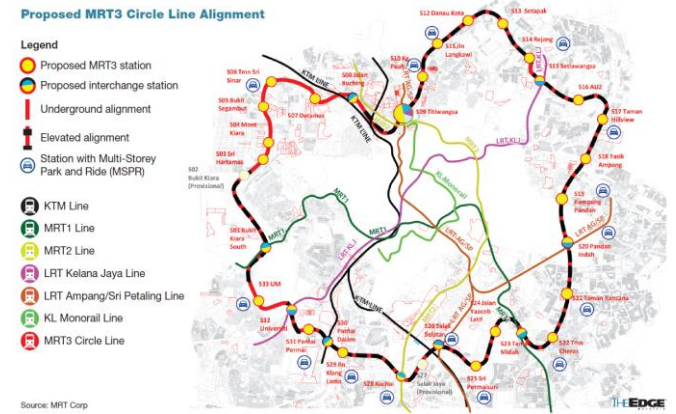
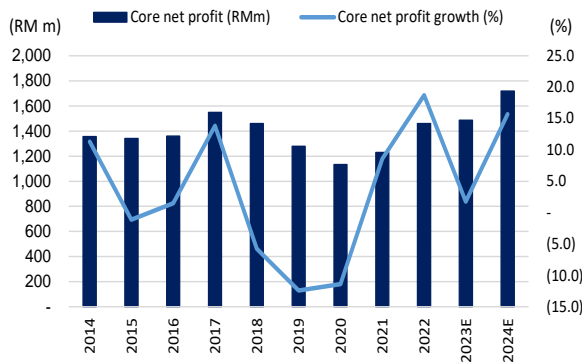
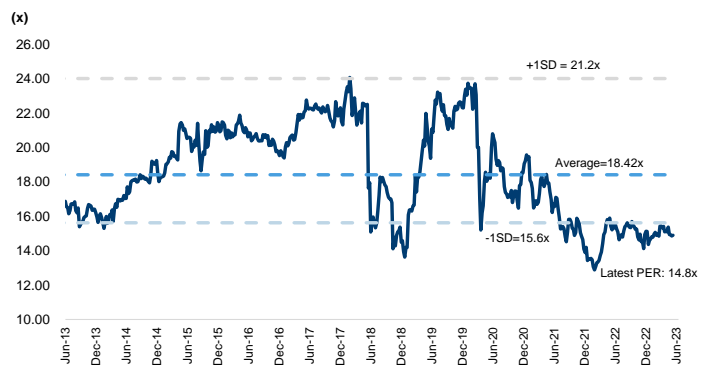


Fig 13: Construction core net profit and yoy change



Source: Company, Affin Hwang estimates

Fig 14: Construction sector coverage 12-month forward PER



Source: Affin Hwang estimates, Bloomberg

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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