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21 August 2023

## Malaysia

### Financial services

<b>Gamuda</b>	<b>GAM MK</b>
Rec	BUY
Market cap	US\$2.6bn
3M ADV	US\$5.0m
Price	RM4.48
Target	RM4.95
Up/downside	+10.5%

<b>IJM</b>	<b>IJM MK</b>
Rec	BUY
Market cap	US\$1.3bn
3M ADV	US\$1.8m
Price	RM1.68
Target	RM1.90
Up/downside	+13.1%

<b>SunCon</b>	<b>SCGB MK</b>
Rec	O-PF
Market cap	US\$0.5bn
3M ADV	US\$0.2m
Price	RM1.78
Target	RM1.92
Up/downside	+7.9%



## Going beyond the surface

### Penang LRT may incorporate underground and future undersea link

News a proposal emerged ([link](#)) for the Penang LRT to have underground sections and incorporate a future undersea train link from the island to mainland. This idea, being mooted by MRT Corp, is not surprising as the project is now federally-funded. Near term positives will be in higher contracting values for underground work. Feasibility studies will have to be conducted, and at risk would be if it delays the start of the Penang LRT. In our view, it is too early to be bullish on an undersea train link, or potential LRT connectivity to the mainland as these are sequenced for a later stage. We also await more clarity on Gamuda's role in Penang LRT.

### Plans to connect to the mainland comes from the federal government

- From the top federal brass. Recently, MRT Corp presented its latest alignment to Penang state. This follows what Transport Minister, Anthony Loke, had earlier in July said the federal government could approve an LRT project that connects island of Penang with the mainland, a view which also has the prime minister's backing ([link](#)). Recall even earlier in May, the federal government was agreeable to fund, in principle, the project, quoted often at RM10bn, which we deemed a sector positive, where we also looked at potential interested contractors (see *Malaysia infrastructure (Off the backburner)*). An undersea train link would ease congestion on existing bridges and helps connectivity with the mainland.

### Some underground stretches now in play; longer-term potential for the mainland

- Some stretches underground.** MRT presented its latest alignment to the state with few changes to the 29.9 KM line. With 27 stations originally, MRT Corp proposed for some stations at the city centre (George Town) to be built underground (instead of elevated). One of these stations will be a major interchange and a future undersea link connection. We estimate the per KM cost for Penang LRT to be RM280m. Assuming roughly RM970m per KM for underground (risk of overestimating with MRT pricing), a 3-5km stretch for George Town vicinity (Figure 1) adds c.RM2bn-RM3.5bn opportunity.
- Seeing double?** The LRT network on the island will be linked from Komtar to the mainland. LRT infrastructure on the mainland is not clear, but the Penang chief minister quoted ([link](#)) a future line from from Kepala Batas to Simpang Ampat (see Figure 1). This stretch is approximately 26 KM, versus Penang Island's 29.9 KM LRT. In the state-crafted transport master plan, the LRT was designed only at the island, while the mainland was to feature a monorail (Raja Uda-Bukit Mertajam, Figure 2). We await more clarity, and justification via traffic studies. We would note here are more people on the Penang mainland now, versus Penang Island, at c.54% of the total population ([link](#)).

### Watching out for timeline; undersea link may require foreign expertise

- To be studied.** Penang LRT was slated to be fast-tracked to later this year, and usher in a 5 year construction phase. We would monitor if the start date will be pushed back as MRT Corp will have to conduct feasibility studies on the underground/undersea elements. HSS Engineers (N-R) has been the preliminary design consultant for the Bayan Lepas LRT.
- Needs help.** Local firms lack track records in undersea tunnelling and may have to rope in foreign expertise. Of note, Penang awarded a 7.2 km tunnel project (for cars not trains), linking Gurney drive and Bagan Ajam (Figure 2), though it has not commenced (and no start date). This job, under ECK Development was awarded much earlier for RM6.3bn (RM880m per KM), serving as a reference for potential costs. ECK Development took over from Consortium Zenith Construction, which back then was the winner amid eight groups that qualified for the request proposal stage of the Penang tunnel and main roads project (others included Gamuda as well as IJM-CRGL JV). This earlier tunnel's overall feasibility study and design cost was RM96.2m ([news](#)).

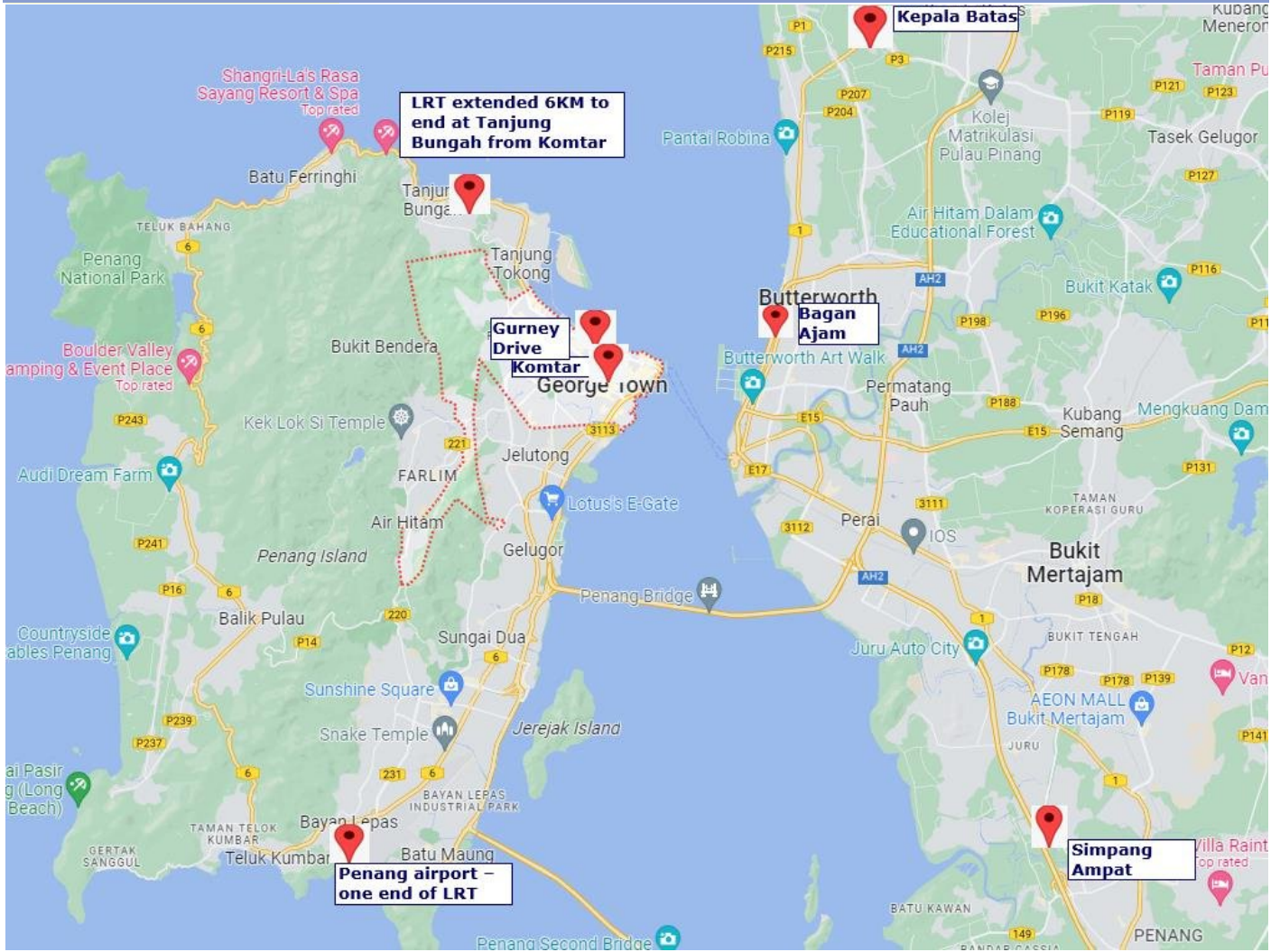
### Should benefit underground experts though we await clarity on Gamuda's role

- With the alignment not much changed, the beneficiaries will be contractors with underground expertise, such as Gamuda. Other local firms may also form joint ventures with foreign firms. However, we await a clearer picture on Gamuda as Penang, in July, said is seeking clarity on SRS Consortium's role ([link](#)) after MRT Corp is funding the LRT.

# Going beyond the surface

Figure 1

Key places related to the Penang LRT showing Penang island and mainland



Source: CLSA, penang.gov.my. Also shown above is Gurney Drive to Bagam Ajam, which is the section of the RM6.3 bn undersea tunnel (shown for comparison although not part of the undersea train link).

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**Valuation details - Gamuda Bhd GAM MK**

We value Gamuda's construction division based on 13.5x sustainable earnings and apply 12x sustainable earnings for its local property project, with a 40% discount. We use DCF to value expressway and water supply operations and maintenance concessions. Our target price for Gamuda is based on an estimated fully diluted RNAV/share.

**Investment risks - Gamuda Bhd GAM MK**

Execution risk on construction projects could lead to cost overruns while a slowdown of the Vietnam economy could dampen demand for property launches in Hanoi and Ho Chi Minh City. We are concerned about EPS dilution from a potential increase in the employee share option scheme and warrants; we include these concerns in our valuation. Given its job concentration in large projects, Gamuda is exposed to policy risk. The ability to replenish jobs before the MRT2 civil works are complete is also a concern. A prolonged Covid-19 outbreak could reduce work efficiency.

**Valuation details - IJM Corp Bhd IJM MK**

Our valuation reflects PE-based valuations for IJM's construction and industrial divisions and an RNAV-based valuation for its property segment, with an 8.8% WACC and DCF for its concessionaire stakes as well as a discount of 20%.

**Investment risks - IJM Corp Bhd IJM MK**

With a near-record-high order book, the key risk is execution of projects to ensure profitability and completion according to schedule. Slower property demand due to weaker consumer sentiment has affected IJM's property sales, and the risks are a sustained slowdown or further margin pressure. Rising labour costs could put pressure on construction profit margins. Regulatory risks related to toll-road and port concessions are not uncommon. Prolonged Covid-19 could also hinder operating efficiency.

**Valuation details - Sunway Construction Group Bhd SCGB MK**

Our target price is derived from 14.0x 24CL earnings, one standard deviation above the 10-year mean PE for the KL Construction index. We accord an above-sector average PE, given the company's flow of internal jobs and strong balance sheet.

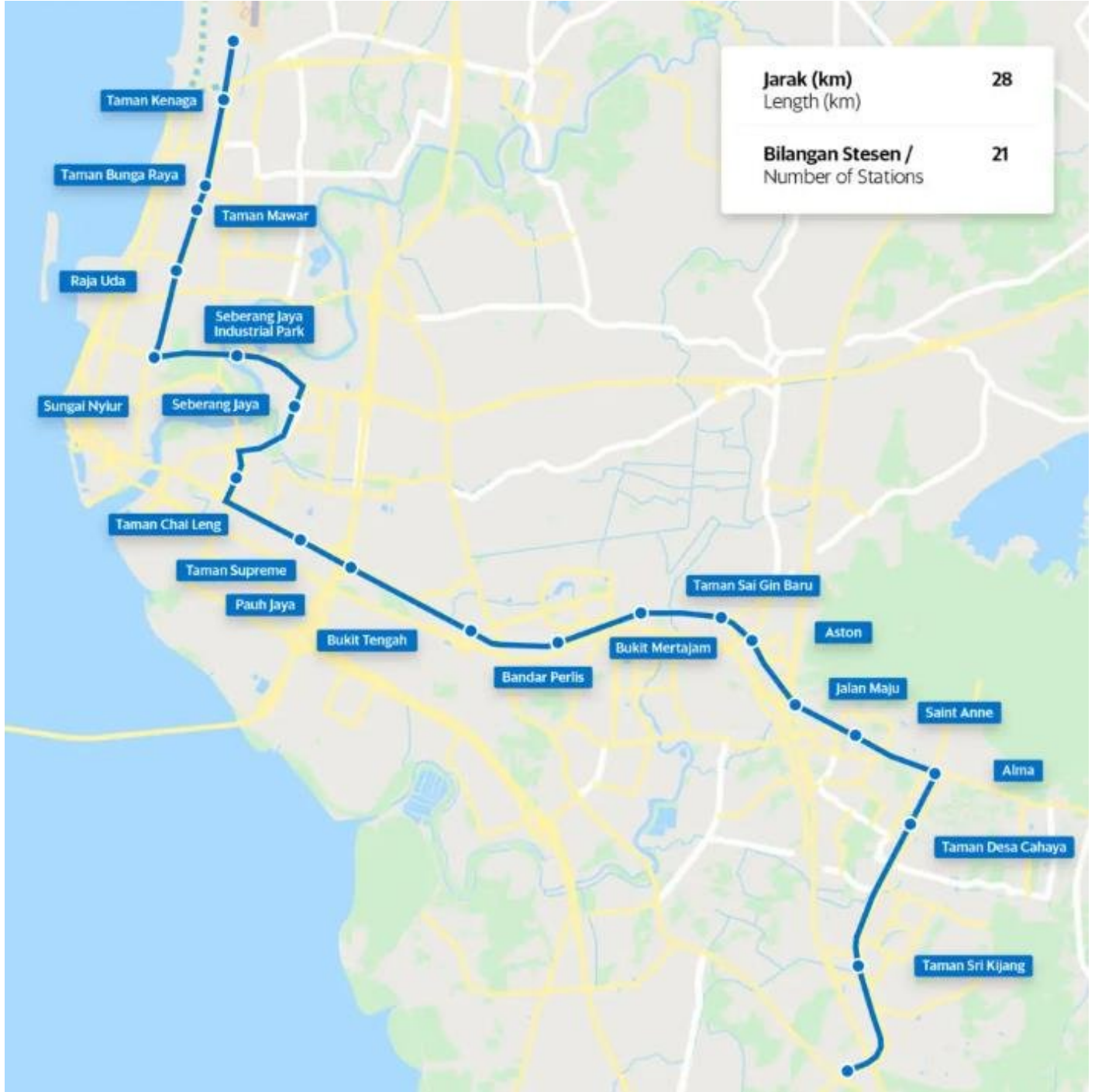
**Investment risks - Sunway Construction Group Bhd SCGB MK**

The main concern is construction risk. Specific risks include lower-than-expected margins (below 5-8%) or if the amount of projects secured falls below our expectation, either due to an inability to secure projects or project rollout delays. Higher-than-expected steel price increases could cut into margins as SunCon hedges steel needs for a future six-month period. On the precast segment, another risk is margin recovery timing, currently in the doldrums due to competition. Prolonged Covid-19 could also reduce operating efficiency.



Figure 2

Raja Uda - Bukit Mertajam line (at the mainland)



Source: CLSA, Penang Infrastructure Corporation



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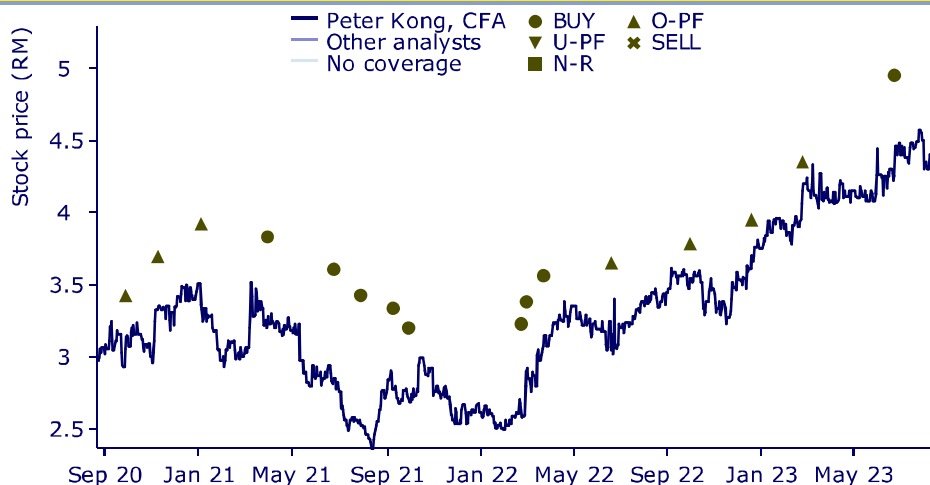
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- CRGL (N-R)
- ECK Development (N-R)
- Gamuda (GAM MK - RM4.48 - BUY)
- HSS (N-R)
- IJM (IJM MK - RM1.68 - BUY)
- IJM-CRGL (N-R)
- MRT Corp (N-R)
- SunCon (SCGB MK - RM1.78 - O-PF)

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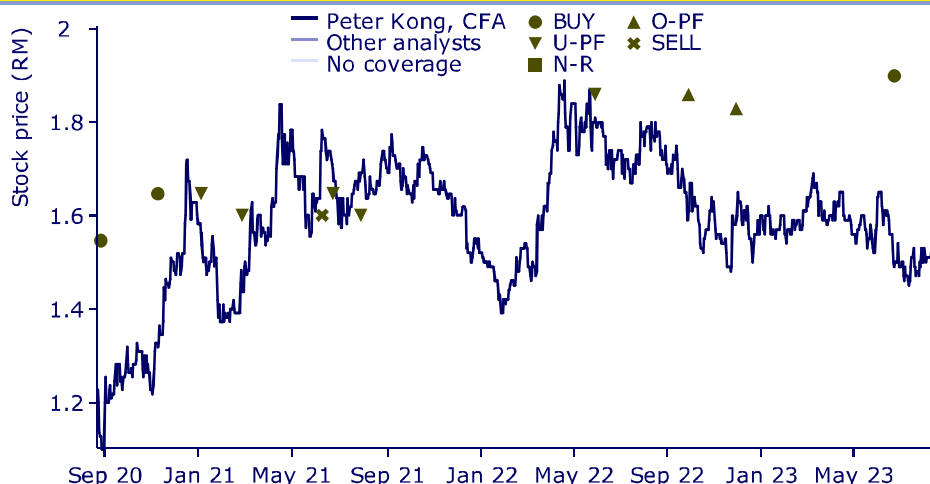
Date	Rec	Target	Date	Rec	Target
22 Jun 2023	BUY	4.95	30 Sep 2021	BUY	3.20*
23 Feb 2023	O-PF	4.35	10 Sep 2021	BUY	3.33*
19 Dec 2022	O-PF	3.95	30 Jul 2021	BUY	3.42*
30 Sep 2022	O-PF	3.79*	25 Jun 2021	BUY	3.61*
20 Jun 2022	O-PF	3.65*	31 Mar 2021	BUY	3.83*
24 Mar 2022	BUY	3.56*	04 Jan 2021	O-PF	3.92*
02 Mar 2022	BUY	3.38*	09 Nov 2020	O-PF	3.70*
23 Feb 2022	BUY	3.23*	28 Sep 2020	O-PF	3.42*

Source: CLSA; \* Adjusted for corporate action

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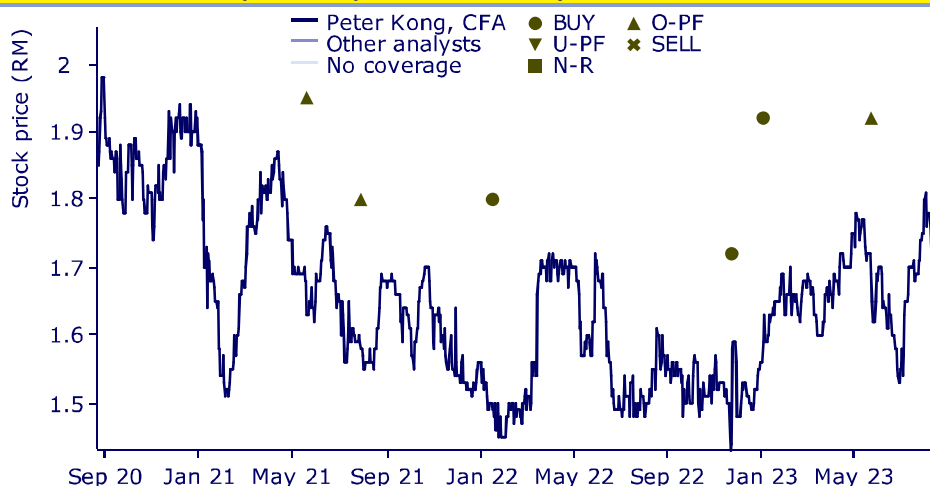
**Recommendation history of IJM Corp Bhd IJM MK**



Date	Rec	Target	Date	Rec	Target
22 Jun 2023	BUY	1.90	10 Jun 2021	SELL	1.60*
29 Nov 2022	O-PF	1.83	26 Feb 2021	U-PF	1.60*
28 Sep 2022	O-PF	1.86	04 Jan 2021	U-PF	1.65*
30 May 2022	U-PF	1.86	09 Nov 2020	BUY	1.65*
30 Jul 2021	U-PF	1.60*	27 Aug 2020	BUY	1.55*
24 Jun 2021	U-PF	1.65*			

Source: CLSA; \* Adjusted for corporate action

**Recommendation history of Sunway Construction Group Bhd SCGB MK**



Date	Rec	Target	Date	Rec	Target
23 May 2023	O-PF	1.92	17 Jan 2022	BUY	1.80
03 Jan 2023	BUY	1.92	30 Jul 2021	O-PF	1.80
23 Nov 2022	BUY	1.72	21 May 2021	O-PF	1.95

Source: CLSA

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