CONSTRUCTION

Maintain POSITIVE

Prime time to turn focus onto the construction sector

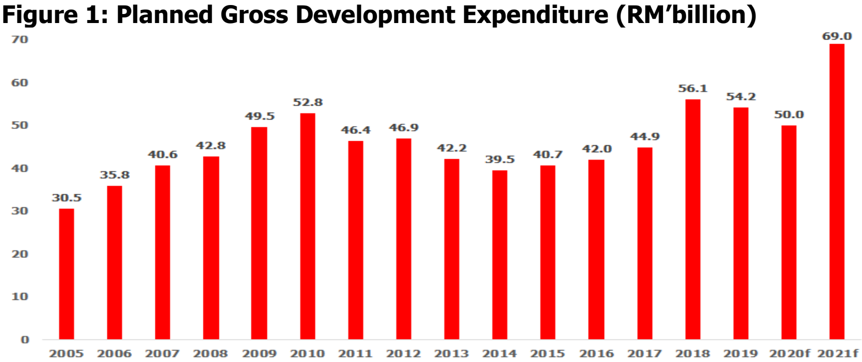
KEY INVESTMENT HIGHLIGHTS

- **In line with our 2021 outlook thesis, MRT3 Circle Line has been given the green light and is expected to commence in the 2HCY21 as announced by the Malaysia's Transport Minister last week**
- **We opine that this much anticipated revival of domestic MRT3 project and its potential roll-out will boost the positive sentiments on the sector and order book replenishment prospects moving forward**
- **With an improving fiscal ability and expansionary Budget 2021, we posit that the government might expedite major infrastructure projects to pump prime the economy that bodes well to the sector**
- **Current sizeable outstanding order book to support earnings recovery momentum and continuous overseas expansion by local contractors to boost order book are key catalysts for construction upcycle**
- **Re-affirm our POSITIVE stance on the sector with our top picks: Gamuda (BUY,TP:RM4.20), SunCon (BUY,TP:RM2.14), AQRS (BUY,TP:RM0.85), CMSB (BUY,TP:RM2.80), Malayan Cement (BUY,TP:RM3.00)**

Revival of MRT3 to rejuvenate the sector. Transport Minister Datuk Seri Dr Wee Ka Siong announced over the weekend that the cabinet has given the approval for MRT3, one of the key mega public infrastructure projects for the domestic construction sector. We believe that the project could potentially start construction in 2HCY21 which is in line with our 2021 outlook thesis. MRT3 is planned to provide a loop link to the integrated public transport system in the Klang Valley by 2025 *(Figure 2)*. This is a positive development for the sector. MRT Corp has also been given three months to update the studies including the cost of the project which we estimate at about RM23.0b from an earlier project value of RM45.0b. The cost savings could be possibly achieved by reducing the number of stations and the length of the underground alignment. To recall, MRT2's construction cost was slashed by 22.4% to RM30.5b and it was changed into a turnkey model from PDP model.

Potential boost in order book for the major beneficiaries of MRT3. We expect the impending roll-out of MRT3 in 2HCY21 is expected to catalyse the sector by lifting market sentiments positively in terms of higher order book replenishment prospects and earnings recovery momentum for the construction players under our coverage. We opine the major early beneficiary to be Gamuda, premised on MMC-Gamuda to be the frontrunner in clinching the MRT3 deal as turnkey contractor or PDP as well as contractor for the tunnel works (we estimate to be worth almost half of the contract value) given their experience in both MRT1 and MRT2. Other beneficiaries who previously involved in MRT2 are potential winners for MRT3's job awards as well *(Table 1)* such as IJM Corp, SunCon, WCT, Gabungan AQRS, MRCB and Malayan Cement.

Figure 1: Planned Gross Development Expenditure (RM'billion)



Source: CEIC, MIDFR

COMPANY IN FOCUS

Gamuda Bhd
Maintain BUY | Unchanged target price: **RM4.20**
Price @ 5th April 2021: RM3.66

- Expecting a major Australian job win in 2QCY21 worth about AUD2.6b (about RM8.2b)
- Frontrunner in clinching the impending roll-out of mega projects such as MRT3
- Strong outstanding order book of RM10.5b following the PSI's Island A reclamation works worth RM5.0b
- Construction margin is set to improve due to award of higher-yielding contracts

Share price chart

Sunway Construction (SunCon) Bhd
Maintain BUY | Unchanged target price: **RM2.14**
Price @ 5th April 2021: RM1.83

- Order book replenishment rate to remain robust in FY21 with a target of RM2.0b
- Beneficiary of impending revival of mega public transport projects such as MRT3 and PTMP
- Solid outstanding order book of about RM5.1b which translates into earnings visibility for the next 3-4 years
- We like the group's defensive nature underpinned by well-balanced job portfolio

Share price chart

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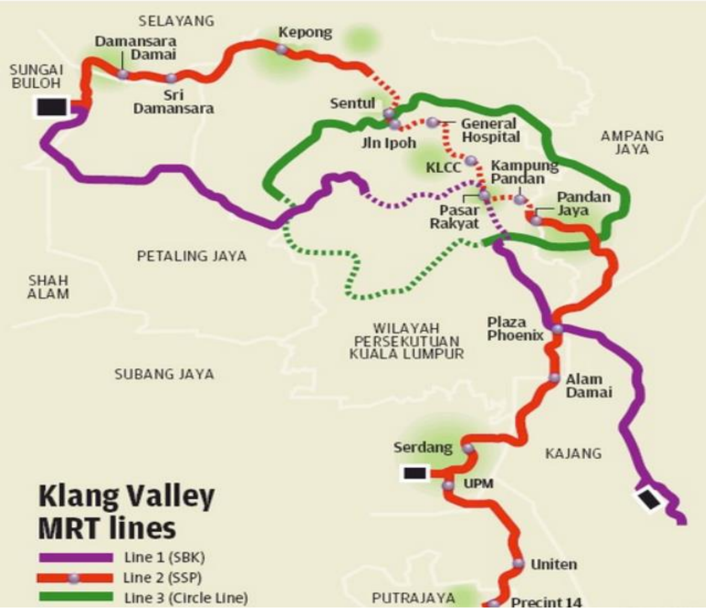
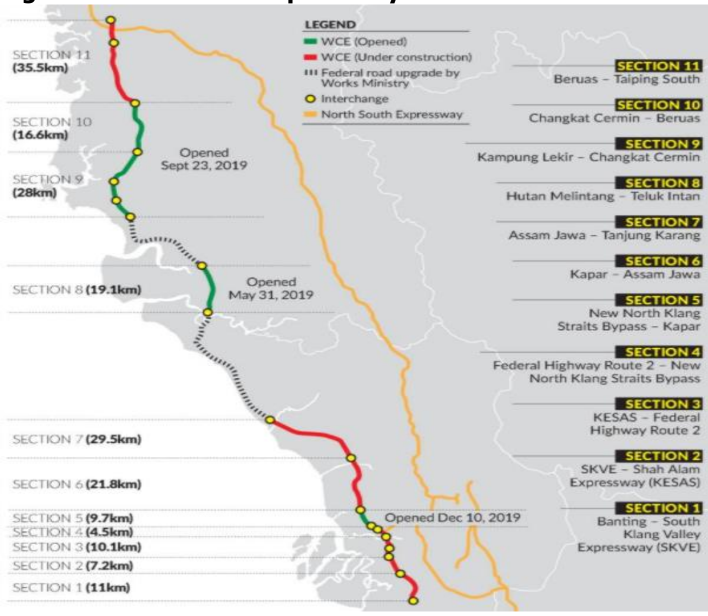
Figure 2: Klang Valley MRT Line Map



Source: TunnelTalk, MIDFR

Figure 3: West Coast Expressway

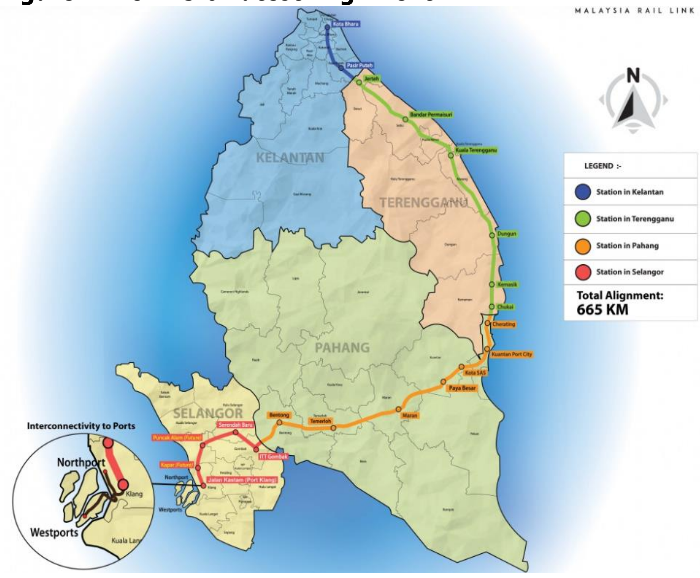


Source: The Star, MIDFR

An expansionary Budget 2021 to put the construction sector on a steady path of recovery. A total of RM69.0b is allocated for Development Expenditure (DE) in Budget 2021, representing a considerable increase of 38.0% from 2020 and it is also the highest ever DE *(Figure 1)*. The Government will be prioritizing DE on high impact projects with more than half to be earmarked for economic development (56.4% of total DE), in which construction sector would be a major beneficiary, in our view. Our economics team forecasts a double-digit growth of +14.9%yoy for the construction sector GDP in 2021, signalling a strong rebound from 2020 which experienced a -19.7%yoy decline as the sector was adversely impacted by MCO1.0, particularly in 2QCY20. In fact, the latest data on the value of construction work done in 3QCY20 and 4QCY20 released by the Department of Statistics Malaysia (DOSM) saw an increase of +58.6%qoq and +1.0%qoq to RM31.4b and RM31.7b *(Figure 8)* respectively despite the extended movement restrictions as construction activities are deemed as essential services and allowed to operate as usual as long as they adhere to the standard operating procedure in place. This indicates a promising recovery in construction work progress upon resumption of economic activities which will continue in coming quarters given the progressive vaccination programme and abating Covid-19 cases. This is mainly premised on potential implementation of catch-up strategies to make up for the time loss, resulting in higher progress billings. For instance, despite the imposition of MCO2.0, the progress of East Coast Rail Link (ECRL) project has attained 20.37% completion which surpassed its original schedule of 19.39% in January 2021. Coupled with a focus on development spending in CY21, we opine that the outlook on the construction sector to be bright.

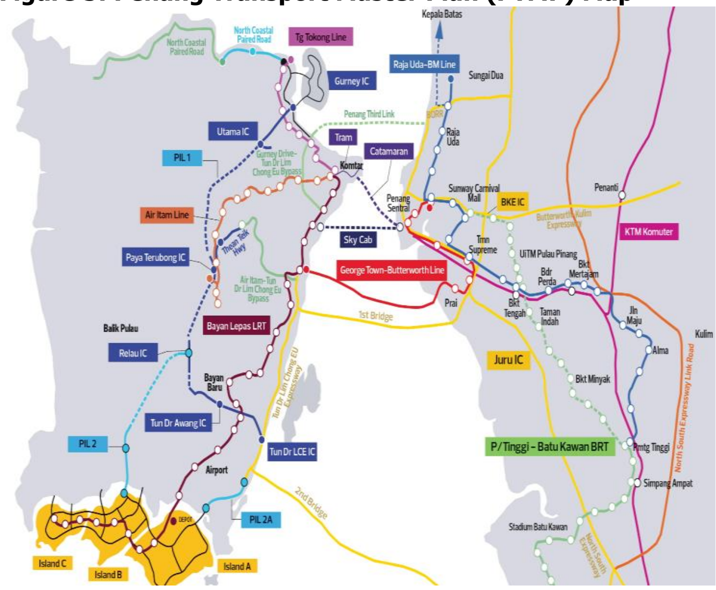
Clearer direction and extension of ECRL a positive. The Transport Minister Datuk Seri Dr Wee Ka Siong has confirmed on 5 April 2021 that ECRL's section C (i.e. Mentakab to Port Klang via Bentong, Gombak and Serendah) *(Figure 4)* will revert to its original alignment with the incorporation of the Serendah Bypass infrastructure (project cost estimated at RM5.0b) and added another 25 kilometres (km) to link Port Klang with West and North Port, bringing to a total of 665km for the whole project, in a bid to increase the efficiency of ECRL cargo services and connectivity with a targeted revenue ratio of 70% freight and 30% passengers. There will also be dual tracks between Serendah and Port Klang, a standard gauge track (1.435metres) for the ECRL and a metre gauge track (1.0metre) for Keretapi Tanah Melayu Bhd (KTMB). The minister also declared that the alignment issue with the Selangor state government has been resolved as well. As such, the total project value of ECRL has been revised upward to about RM50.0b, an increase of about 14% or RM6.0b. We believe this much needed clarity on the ECRL project and upward cost revision would potentially lead to a quicker roll-out of contract awards and more jobs for the local contractors as well as signalling the government's commitment in making steadfast progress in its pump priming efforts through infra developments. In addition, the local participation of the civil works for ECRL also rose to at least 40% *(previously 30%)*, totalling worth an estimated RM10.0b of jobs. Therefore, we are of the view that these developments could bode well with the experienced local rail contractors, particularly **Gabungan AQRS, IJM Corp (BUY, TP:RM1.80), SunCon, Gamuda and WCT (NEUTRAL, TP:0.57).**

Figure 4: ECRL 3.0 Latest Alignment



Source: MRL, MIDFR

Figure 5: Penang Transport Master Plan (PTMP) Map



Source: State Government of Penang, MIDFR

Improving fiscal ability could expedite public infra projects. While the 12th Malaysia Plan is postponed to a later date until Parliament reconvenes, we do not discount the possibility of more snippets to be unveiled in 2QCY21 for mega projects such as MRT3, a potential domestic KL-JB High Speed Rail (HSR), Klang Valley Double Tracking-Phase 1 (KVDT1) and Pan Borneo Highway. With the expected completion of MRT2 by end-2022 and the scrapping of KL-SG HSR project, we anticipate that the MRT3 to be the key low-hanging fruit project to be rolled-out potentially in 2HCY21. As the tunnelling works for MRT2 has been completed in 2020, the tunnel boring machines and the engineering team could also start work on MRT3 as soon as the project is awarded rather than kick-start the process from scratch. Taking the cue from the change in procurement method from open tender to direct award for the construction of the final section 7B of the West Coast Expressway project *(Figure 3)* by the government in April 2021 to **IJM Corp**'s 25.99%-owned WCE Holdings Bhd to speed up the progress, we do not discount the possibility of MRT3 contract to be directly awarded to **MMC-Gamuda** to help stimulate the economic recovery momentum. In addition, we believe the recovery of oil prices (MIDF's CY21 Brent crude oil price assumption raised to USD59pb from USD51pb vs Budget 2021 assumption of USD42pb) will help to provide a boost to the Government's coffers, thus improving its fiscal ability to possibly expedite mega infra projects. We also opine that JB-SG Rail Transit System (RTS)'s contracts could be awarded to Malaysian contractors in 2QCY21 as the construction of the viaduct and tunnels in Singapore is scheduled to start in 2QCY21 by CCCC. Hence, we posit the continuation and revival of mega public infra projects to be major catalysts for the sector moving forward.

Kick-starting the Penang Transport Master Plan in 2021 and onwards. In March 2021, Gamuda-led SRS Consortium, the project delivery partner (PDP) for PMTP, announced that it will proceed with the Penang South Island (PSI) reclamation project of Island A, the largest Island of three *(Figure 5)* with the Penang State Government. It will be a 70:30 venture (Gamuda:Penang State Government) to form Project Developer (PD) and Turnkey Contractor under a Project Development model. Note that the other components of the PTMP will still be under PDP model. We gather that the financing will be undertaken by SRS Consortium under a Private Finance Initiative (PFI) model. The land sales would be the main revenue of the PD and acts a primary source of funding for the PTMP. Given Gamuda's healthy balance sheet and relatively low net gearing *(Figure 11)*, we opine the financial standing of Gamuda to remain manageable depending on the rate of reclamation and market absorption of the reclaimed land. In addition, the Penang's Chief Minister Chow Kon Yeow stated that the construction work of the bypass connecting the Tun Dr Lim Chong Eu Expressway to Ayer Itam (Package 2) has commenced on 1 Feb 2021. The other three packages are the construction of the north coastal paired road from Tanjung Bungah to Teluk Bahang (Package 1), the construction of the bypass connecting Jalan Pangkor to the Tun Dr Lim Chong Eu Expressway (Package 3), and the undersea tunnel (Package 4). Moving forward, we expect the commencement of the PTMP project to boost order book replenishment prospects for contractors under our coverage, especially **Gamuda** which double its order book with an increase of RM5.0b of reclamation works *(Figure 10),* as well as potential beneficiaries such as **IJM Corp, SunCon, AQRS**, and **Malayan Cement** given that any major construction projects would boost cement demand and hence sales in the medium term.

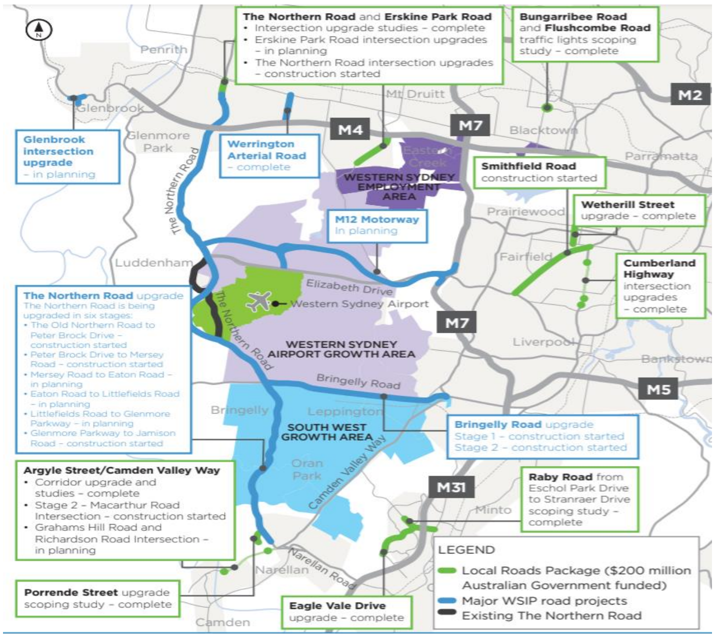
Table 1: Ongoing and New Major Infrastructure Projects

Projects	Estimated cost (RM'b)	Contractors Involved/ (Potential Beneficiaries)	Comments
MRT2	30.5	Gamuda, IJM Corp, SunCon, MRCB, WCT, Malayan Cement	>70% progress. Expected to be completed by 2022
LRT3	16.6	MRCB, SunCon, IJM Corp, WCT, AQRS	45.8% progress as of 31 Dec 2020. Expected to be completed by 2024
ECRL	50.0	AQRS/ (IJM Corp, Gamuda, MRCB, WCT, SunCon, Malayan Cement)	Expected to be completed by 2026. Cost revised upwards from RM44b to RM50b on 5 April 2021
Pan Borneo Highway (Sabah and Sarawak)	30.0	WCT, HSL, CMSB, KKB/ (IJM Corp, SunCon, Gamuda)	60% completed in Sarawak, 45% in Sabah. Expected to be completed by 2040 with private finance initiative
JB-SG RTS	3.7	(SunCon, AQRS, IJM Corp, WCT)	Expected to be completed by 2026
West Coast Expressway	5.0	IJM Corp	Expected to be completed by 2024
MRT3	23.0	(Gamuda, IJM Corp, SunCon, MRCB, WCT, Malayan Cement, AQRS)	Expected to commence in 2HCY21
Penang Transport Master Plan (PTMP)	46.0	Gamuda/ (IJM Corp, SunCon, WCT, Malayan Cement, AQRS)	Gamuda to kick-start the PSR's Island A in April 2021 and whole project is expected to be completed by 2030
Gemas-JB Electrified Double Tracking Project	9.5	CCCC, AQRS/ (IJM Corp, Gamuda, SunCon, WCT)	Expected to be completed by 2021
Klang Valley Double-Tracking Project 1 (KVDT1)	1.4	Dhaya Maju LTAT Sdn Bhd	Expected to be completed by 2021
Klang Velley Double-Tracking Project 2 (KVDT2)	4.5	(SunCon, IJM Corp, Gamuda, AQRS, WCT)	24% completed. Government decided to reopen the tender after terminating its contract with Dhaya Maju LTAT Sdn Bhd
Sarawak Second Trunk Road	6.0	(CMSB, HSL, KKB, Gamuda, WCT, KKB)	Expected to be completed by 2025
Sarawak Coastal Highway	5.0	(CMSB, HSL, KKB, Gamuda, WCT, KKB)	Expected to be completed by 2025
Labuan Bridge	4.0	(WCT, CMSB, HSL, KKB)	Expected to be completed by 2023
Sarawak Water Projects	18.0	(CMSB, HSL, KKB)	Expected to be completed over the next 5 years under the 12th Malaysia Plan
Rasau Water Treatment Plant (first phase)	4.0	(Gamuda, Salcon, Taliworks, Kumpulan Perangsang Selangor)	Tenders to be called in 2021
KL-SG HSR	40.0	(Gamuda, IJM Corp, SunCon, MRCB, WCT, Malayan Cement, AQRS)	A domestic HSR from KL-JB is being studied after the agreement with Singapore was terminated
Bandar Malaysia	140.0	(Gamuda, IJM Corp, SunCon, MRCB, WCT, Malayan Cement, AQRS)	Assuming 50% infra works: RM70b job opportunities for local contractors

Source: MIDFR, various media

East Malaysia's infrastructure play continues to excite. We reaffirm our view on the solid growth prospects in East Malaysia (EM) given the bigger share of the federal budget allocation in 2021 of about RM5.1b and RM4.5b in Sabah and Sarawak respectively for the construction and upgrading works for largely water, electricity, and road infrastructure. We are also of the view that the numerous continuous upgrading works of potentially over 1,800 projects in EM will provide a fillip to the demand of cement, concrete and steel pipes in the regions in the longer term. Potential major beneficiary would be **Cahya Mata Sarawak Berhad (CMSB) (BUY, TP:RM2.80)** given it is the sole cement manufacturer currently in the region. The prospects of the local contractors could be promising given the potential roll-out of sizeable projects in 2QCY21, ahead of the Sarawak state election by 1 August. Adding onto that, an additional RM6.3b will also be allocated under the Sarawak's state budget in CY21 for DE. These projects would include the Pan-Borneo Highway (RM16.5b), Sarawak-Kalimantan border security road (RM24.0b), Sarawak Petrochemical Hub (RM8.0b), Coastal Road network (RM5.0b), Second Trunk Road (RM6.0b), Baleh Dam (RM9.0b) and various projects under the Regional Corridor Development Authority (RECODA) (RM1.7b) and the integrated Regional Samarahan Development Agency (IRSDA) (RM792.0m). Moreover, the Sabah's State Cabinet has stated in March 2021 to adopt the Private Finance Initiative (PFI) approach moving forward in which the contractor will be paid by the Government after the project is completed to expedite the construction of the Pan Borneo Highway. As such, we are of the view that contractors with strong balance sheet will be in favour to undertake major infra projects in EM such as **Hock Seng Lee (HSL) (BUY,TP:RM1.18)** *(Figure 11)* and it is the only company which owns a full range of tunnel boring machine for sewer networks in EM. Thus, we postulate that the EM construction players' order book replenishment and earnings prospects to be bright in the medium to long term.

Figure 6: Western Sydney Infrastructure Plan



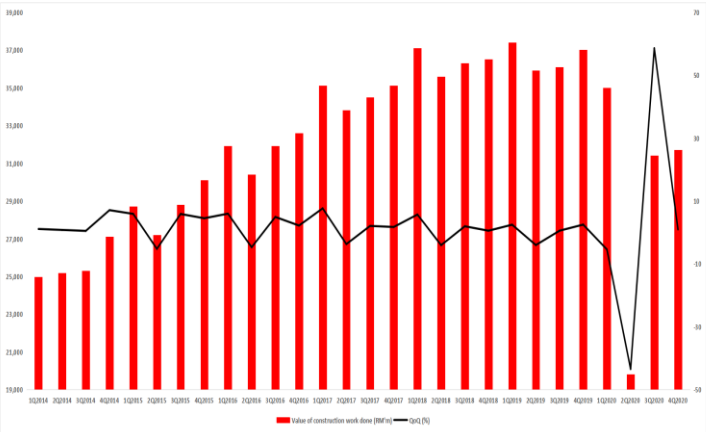
Source: New South Wales Government, MIDFR

Figure 7: An Impression of the Site of the Aotea Central Over Station Development (OSD)

Source: MRCB, MIDFR

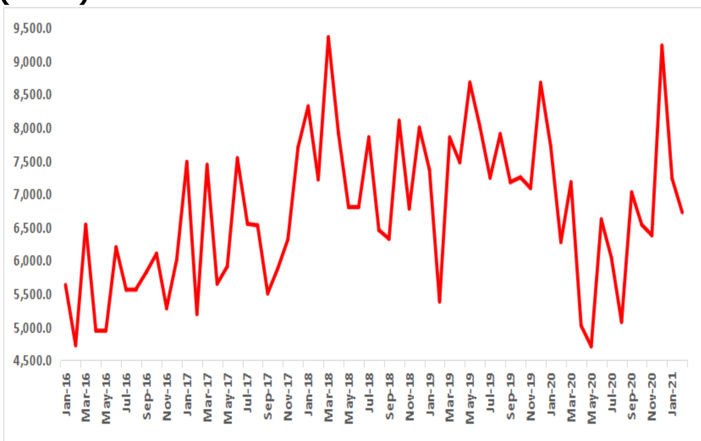
Overseas expansion drive gaining steam. We continue to favour construction companies with healthy track record of venturing into the overseas' markets with exciting pockets of opportunities to boost its order book size, while in a bid to reduce its dependency on the domestic market as well. Contractors with vast experience in railway and highway projects are in the spotlight, as these companies with technical engineering know-how are normally strong contenders for similar mega infra projects abroad. For instance, **SunCon** has clinched two new major Indian highway projects worth about RM823.0m or 35.5% of its new job wins in CY20, which enables the group to command a well-balanced job portfolio. In addition, we remain positive on **Gamuda**'s ability to clinch mega Australian infra projects in CY21 *(Figure 6)*. In March 2021, Gamuda has been short-listed for the Sydney Metro-Western Sydney Airport's tunnelling works worth about AUD2-3.0b. Note that this is the third Australian project for which Gamuda has been shortlisted for. We gather that the contract award for "M6 Stage 1 Motorway project" worth about AUD2.6b in Sydney involving building a twin 4-km tunnels is expected to be announced in 2QCY21, in which we believe Gamuda to have a higher likelihood in clinching the deal, premised on it being the only contender with a local JV partner (BMD Constructions Pty Ltd) and its extensive experience in tunnelling projects such as the completed SMART tunnel in Malaysia. The group is also short-listed for the first stage of the estimated AUD2.5b "Sydney Metro West Project" with potential one tunnel package win in 2QCY21. Similarly, **Malaysian Resources Corporate Berhad (MRCB) (NEUTRAL, TP:0.43)** has made a foray into New Zealand to develop the Aotea Central Over Station Development *(Figure 7)* with a gross development value of RM1.3b in Auckland City Centre while its property developments in Australia such as 1060 Carnegie has also been well-received. All in, we posit that a continuous overseas job wins showcase the superior quality and reputation of major Malaysian contractors which would bode well to its order book replenishment rate moving forward.

Figure 8: Value of construction work done (RM'm)



Source: DOSM, MIDFR

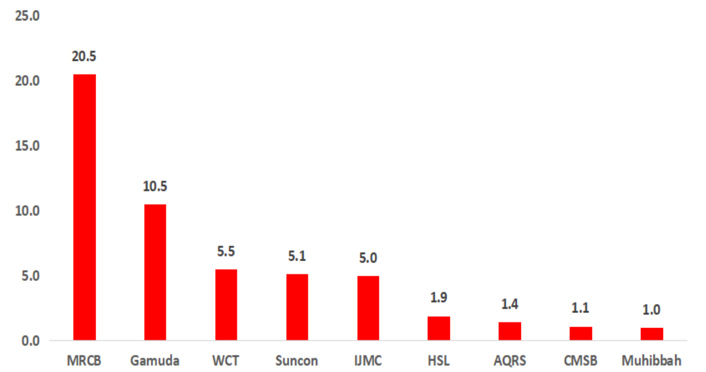
Figure 9: Loans disbursed to the construction sector (RM'm)



Source: BNM MIDFR

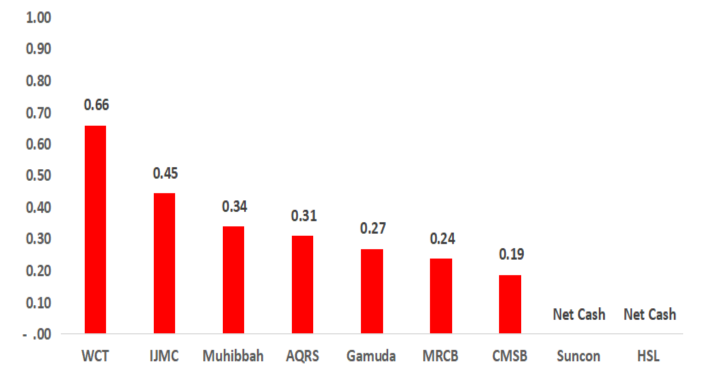
Acceleration of work pace to enhance progress billings. Despite the complete halt in construction activities in the 2QCY20, we have seen a strong recovery of quarterly earnings of construction companies under our coverage post-MCO1.0 as reflected in the strong rebound in the value of construction work done *(Figure 8)*. This is primarily premised on the prompt resumption of construction work pace and implementation of catch-up strategies to make up for the time loss, resulting in higher progress billings. We are also sanguine on the sector given that there is no cancellation of major contracts despite Covid-19 headwinds. In addition, we observed that rather sizeable domestic and overseas contracts are still being awarded and implemented possibly in CY21 such as PTMP, MRT3, **Gamuda**'s shortlisted Sydney infrastructure projects, building job wins by **HSL** and **AQRS**, as well as the extension and upgrading of the Sultan Ismail Petra Airport in Kelantan worth about RM440m bagged by **WCT**. With MRT2, LRT3 and ECRL projects on track to reach its targeted progress rate of about slightly more than 70%, 40% and 20% respectively, we believe there is a potential for the acceleration of progress billings. This is due to the fact that projects' schedules has reach its prime stage with work sites fully operational, which could underpin a healthy earnings growth prospects in CY21.

Figure 10: Outstanding order book (RM'b) of companies under our coverage



Source: Various companies, MIDFR
**Based on respective quarterly announcements*
**Gamuda 10.5b include the reclamation works for Island A*

Figure 11: Net Gearing (x) of companies under our coverage



Source: Various companies, MIDFR
**Based on respective quarterly announcements*

Maintain POSITIVE. In our opinion, the construction sector is set for an upcycle in view of the expansionary Budget 2021, the largest ever DE, as well as a potentially strong earnings recovery and order book replenishment prospects in CY21 and onward. The mega public infra projects' contract awards and roll-out such as MRT3, PTMP, Pan Borneo Highway and a potential domestic KL-JB HSR will be an exciting sectoral development that favours the local contractors with extensive experience in railway and road projects *(Table 1)*, a healthy track record and strong balance sheet *(Figure 11)*. Coupled with an anticipated continuous overseas jobs win which serve as additional positive catalysts, our top picks under our coverage that fulfil these criteria are **Gamuda**, **Suncon**, and **IJMC**. We postulate that the overseas expansion drive will partially assuage any potential delay in the roll out of domestic projects due to domestic political uncertainties. However, we continue to believe that the upcoming 12th Malaysia Plan could potentially unveil more mega infrastructure development plans in the coming years which will provide a further boost of market sentiments and confidence to the construction sector. Meanwhile, the expected resumption of construction activities at full force could speed up progress billings given the on-going mega infra projects reaching its prime stage. Coupled with a solid outstanding order book of construction companies under our coverage *(Figure 10)* that could provide earnings visibility for approximately the next 2-5 years even without new job replenishment, we are positive on the sector's earnings recovery moving forward. With the growth story of East Malaysia's burgeoning infra developments in CY21, we remain optimistic on the outlook of the local contractors under our coverage, namely, **HSL and CMSB.** All factors considered, we reiterate our **POSITIVE** recommendation on the sector.

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 05-Apr-21	Tgt Price (RM)	Core EPS (sen)		CORE PE (x)		Net DPS (sen)		Net Dvd Yield (%)	
					CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F
Gamuda	July	BUY	3.66	4.20	24.5	26.6	14.94	13.8	10.0	10.0	2.7	2.7
Gabungan AQRS	Dec	BUY	0.695	0.85	9.5	12.3	7.3	5.7	3.0	3.0	4.3	4.3
Sunway Construction	Dec	BUY	1.83	2.14	11.9	13.1	15.4	14.0	6.0	7.0	3.3	3.8
IJM Corp	Mar	BUY	1.77	1.80	9.2	11.3	19.3	15.6	3.0	3.0	1.7	1.7
Cahya Mata Sarawak	Dec	BUY	2.23	2.80	19.7	22.4	11.3	10.0	6.5	6.5	2.9	2.9
Hock Seng Lee	Dec	BUY	0.965	1.18	10.0	11.2	9.7	8.6	1.4	1.4	1.5	1.5
Malayan Cement	June	BUY	2.68	3.00	5.9	16.5	45.4	16.2	0.0	0.0	0.0	0.0
Muhibbah Engineering	Dec	BUY	1.09	1.22	9.9	14.2	11.0	7.7	3.0	3.0	2.8	2.8
Malaysian Resources Corporation	Dec	NEUTRAL	0.50	0.43	1.4	1.7	35.7	29.4	1.0	1.0	2.0	2.0
WCT Holdings	Dec	NEUTRAL	0.575	0.57	4.0	5.2	14.4	11.1	0.0	0.0	0.0	0.0

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology