MGB seen to secure more PPA1M, other projects

MGB Bhd
(Jan 8, RM1.80)

Maintain buy with a higher target price (TP) of RM2.05: MGB Bhd's (formerly known as ML Global Bhd) wholly-owned subsidiary MGB Land Sdn Bhd has entered into a share sale and purchase agreement with vendors Datuk Pang Shee Pak and Datuk Kok Chee Khung to purchase the entire equity interest in Multi Court Developers Sdn Bhd (MCDSB). The company is to pay RM2.8 million in cash and settle RM17.3 million in outstanding advances for the entire stake in MCDSB, which equates to a total purchase consideration of RM20.1 million. An affordable housing project is included in the deal.

In return, MGB is to acquire a parcel of land measuring 9.4ha in Batu Pahat, Johor valued at RM22 million. The land comes with an agreement with the 1Malaysia Civil Servants Housing Programme (PPA1M) to build 365 units of double-storey terrace homes with a gross development value (GDV) of RM93.5 million. MCDSB is to also receive a facilitation fee amounting to RM14.6 million. The project is expected to commence in the second quarter of 2018 and is slated for completion by 2020. MGB intends to fund the acquisition and development internally, given that its net gearing is at a healthy 0.11 times.

The deal is fair for MGB, in our opinion, with land cost of RM20.1 million representing 19% of GDV, which amounts to RM108.1 million — this includes the facilitation fee. Nonetheless, the acquisition allows the company to deal directly with PPA1M, as opposed to going through an intermediary. This could increase MGB's chances of securing similar projects in the future as the company builds up its track record and working relationship with PPA1M.

Upward revision to our earnings forecasts. We raise our financial year 2018 (FY18) and FY19 net profit forecast by 5.8% and 4.6% respectively after imputing progress billings for the new Batu Pahat PPA1M project and higher interest expenses. We expect the Batu Pahat project to achieve brisk sales of 90% in FY18 due to a shortage in the supply of affordable housing. We also believe that MGB stands a good chance of securing more PPA1M or other affordable housing projects in the future. We maintain our "buy" call, but raise our sum of the parts-based TP to RM2.05 (from RM1.82). Risks include a further slowdown in the property market and a sharp rise in input cost. — *RHB Research Institute, Jan 8*

MGB Bhd

FYE DEC (RM MIL)	2015	2016	2017F	2018F	2019F
Total turnover	37	93	696	1,278	1,573
Reported net profit	10.2	0.6	39.2	73.8	91.2
Recurring net profit	10.2	0.6	39.2	73.8	91.2
Recurring net profit growth (%)	13,836.7	(93.8)	6,079.2	88.5	23.6
Recurring EPS (RM)	0.03	0.00	0.10	0.19	0.23
Recurring PER (x)	68	1,096	18	9	8
P/BV (x)	22.9	2.1	1.9	1.5	1.3
P/CF (x)	na	na	na	6.17	6.04
EV/Ebitda (x)	74	144	11	6	4
ROAE (%)	40.4	0.3	11.0	17.9	18.5
Net debt to equity (%)	46.2	8.7	19.3	net cash	net cash

Sources: Company data, RHB

Construction sector to be rerated on HSR

Construction sector

Maintain overweight: The tender for the project delivery partner (PDP) to undertake the Malaysian portion of the Kuala Lumpur-Singapore High-Speed Rail (HSR) infrastructure construction works was called on Nov 22, 2017, and will close on Jan 30, 2018. The tender for the AssetsCo public-private partnership project was jointly launched by MyHSR Corp Sdn Bhd and Singapore's SG HSR Pte Ltd on Dec 20, 2017, and will be closed on June 29, 2018. We expect the potential news flow on contract awards for the RM60 billion HSR project will be a major upward rerating catalyst for the Malaysian construction sector.

The PDP tender is expected to see stiff competition since it is open to both foreign and local consortiums with HSR experience and have undertaken major railway projects in Malaysia. The Gamuda Bhd and Malaysian Resources Corp Bhd (MRCB) [Gamuda-MRCB] joint venture (JV) and IJM Corp Bhd-Sunway Construction Bhd (SunCon)-Jalinan Rejang Sdn Bhd-Maltimur Resources Sdn Bhd JV are among the strong contenders for the PDP role. We believe a local consortium has a better chance than a foreign one to bid for the PDP role. We believe the Gamuda-MRCB JV is in a strong position to win the PDP tender given Gamuda's extensive experience in PDP projects (completed mass rapid transit [MRT] Line 1 and undertaking MRT Line 2) and undertaking railway projects (completed Ipoh-Padang Besar double- tracking). We believe MRCB has the political links, experience in developing railway transportation hubs and the backing of major shareholder Employees Provident Fund.

According to the tender documents, the AssetsCo is responsible for designing, financing, building and maintaining the rolling stock and rail assets, including track work, power, signalling and telecommunications. Malaysian companies have limited experience in HSR and the financing requirement is likely too high with the estimated cost at between RM15 billion and RM20 billion. They will have to team up with foreign companies to bid for the AssetsCo role. We gather that MMC Corp Bhd with Japanese partner(s), George Kent (M) Bhd partnering with Siemens and YTL Corp Bhd with Chinese partner(s) are interested to bid for the AssetsCo role. There is no requirement for the AssetsCo to have a Malaysian or Singaporean partner.

It was reported that a Chinese consortium, led by China Railway Corp, will bid for the AssetsCo role for the HSR. It is uncertain if there will be any Malaysian beneficiaries for the AssetsCo bid. We gather that the infrastructure works for the Malaysian portion of the HSR could be worth between RM35 and RM40 billion. The PDP fee for the MRT1, MRT2 and light rail transit Line 3 (LRT3) is based on 6% of the project cost. Based on the same fee structure, the Malaysian PDP for the HSR project will potentially earn net profit of RM1.60 billion to RM1.82 billion (applying a corporate tax rate of 24%) over the 2019 to 2026 construction period or RM200 million to RM228 million per annum (based on a straight-line recognition basis). Based on 50:50 JV shares in Gamuda and MRCB, we estimate the potential earnings lift if the JV secures the project is 21% to 24% and 63% to 72% respectively in estimated financial year 2019 (FY19E). Assuming IJM Corp and SunCon's share of the PDP fee is 33% each, the potential earnings lift if the IJM Corp-SunCon-Jalinan Rejang-Maltimur Resources JV wins the PDP contract is 25% to 29% in FY20E for IJM Corp and 100% to 114% in FY19E for SunCon. — *Affin Hwang Capital, Jan 8*

Construction peer comparison

STOCK	RATING	SH PR (RM)	TP (RM)	MKT CAP (RM MIL)	YEAR END	CORE PE (X)		CORE EPS GROWTH (%)		EV/EBITDA (X)	P/BV	ROE (%)		DY (%)	
						CY17E	CY18E	CY17E	CY18E	CY17E	CY17E	CY17E	CY18E	FY17E	FY18E
IJM Corp	Buy	3.04	3.70	10,984.7	Mar	20.4	17.1	10.4	18.9	12.8	0.9	5.6	5.5	2.5	2.7
Gamuda	Buy	4.95	5.86	12,131.2	Jul	18.8	16.2	12.2	15.5	15.8	1.7	9.4	11.8	2.4	2.4
MRCB	Hold	1.26	1.02	3,095.8	Dec	37.2	26.0	0.4	43.0	19.1	1.2	4.1	9.5	2.2	2.2
WCT	Buy	1.73	2.46	2,196.7	Dec	17.3	13.1	117.1	31.4	19.4	0.8	4.0	6.4	2.3	2.3
Sunway Construction	Hold	2.52	2.45	3,258.1	Dec	20.8	17.1	24.1	21.3	12.1	6.0	30.0	29.8	3.6	2.8
Gabungan AQRS	Buy	2.08	2.16	813.1	Dec	34.3	15.7	25.0	118.8	12.2	2.2	13.3	16.0	1.0	1.4
WZ Satu	Hold	1.00	1.18	347.1	Aug	21.6	18.0	(2.9)	19.5	8.3	1.0	8.9	9.2	3.0	3.2
Pintaras	Buy	3.78	4.62	618.1	June	15.3	12.3	49.8	23.9	8.6	1.8	11.9	14.0	5.3	5.3
HSS Engineering	Buy	1.48	1.60	472.2	Dec	33.0	18.5	4.9	78.3	18.7	5.6	17.0	11.1	1.2	1.6
Average				**33,917.1**		**19.0**	**14.6**	**0.5**	**30.2**	**14.8**	**2.4**	**7.2**	**8.6**	**2.6**	**2.7**

Sources: Bloomberg, Affin Hwang forecasts Note: Pricing as of close on Jan 5, 2018

New temporary duty expected to boost palm oil exports

Plantation sector

Maintain neutral with a crude palm oil (CPO) price outlook of RM2,500 a tonne for 2018: The government has temporarily suspended export duties on CPO for three months starting yesterday. The implementation of this new policy is to reduce the current higher palm oil stocks and help support the CPO prices, which have fallen more than 10.7% to the current level of RM2,517/tonne since late-October. We are "positive" on the latest move, which will make our CPO exports more competitive and we believe it helps boost the CPO exports significantly. However, the move could be muted for the CPO price, which is currently under the pressure of high inventories and strengthening ringgit. We maintain our "neutral" stance on the plantation sector with a CPO price outlook of RM2,500/tonne for 2018.

The implementation of this new policy is to reduce the current higher palm oil stocks and help support the CPO prices.

The aim of lifting the export duties is to reduce the current high level of palm oil stocks and to help support the CPO prices. Nevertheless, the export tax suspension will be lifted before the three-month period if CPO stocks fall to 1.6 million per tonne from the current two-year high level of 2.5 million tonnes.

The new policy would benefit the upstream plantation players while the downstream players would experience higher input costs as they are not able to ask for a cut in CPO prices, ranging from RM100 to RM150 per tonne, when buying CPO from the upstream players. This will result in a temporary margin pressure on the downstream plantation players.

Though the new policy would benefit Malaysian CPO exporters, it would also trigger trade protectionism among countries. Indonesia, the world largest palm oil producer, might also roll out some incentives to undercut the CPO prices in order to push for their palm oil exports.

We believe the temporary suspension of palm oil export duty policy will give a boost to our palm oil exports amid the upcoming Chinese New Year celebration. Price-sensitive importers like India will likely import more while China, the second largest palm oil importer, will also lock in more orders as demand picks up ahead of Chinese New Year in February. — *PublicInvest Research, Jan 8*