

2017 rail theme positive for construction sector

Construction sector

Maintain overweight: Last Friday, a day after the official launch of phase 1 of the mass rapid transit (MRT) Sungai Buloh-Kajang (SBK) line, we hosted a group tour for 10 domestic fund managers to experience the country's first MRT system. Phase 1 runs 21km (fully elevated) from Sungai Buloh to Semantan, covering 12 major catchment areas, including Bandar Utama, Kota Damansara and Sungai Buloh. We started our journey from the Semantan station around mid-morning, which was an off-peak slot.

A good news on the eve of our event was Prime Minister Datuk Seri Najib Razak's announcement that the MRT service will be free of charge for one month beginning Dec 16. The official revenue service will commence from Jan 16, 2017. An RM3.90 ticket fare per person will be charged for the full 21km one-way journey, which has a peak capacity to transport an average of 400,000 commuters daily. Each of the locally assembled BMW-designed Siemens four-car

Construction sector comparison

COMPANY	RECOM.	PRICE		MKT CAP (US\$ MIL)	CORE P/E (X)		3-YEAR EPS CAGR (%)		P/BV (X)		RECURRING ROE (%)			EV/EBITDA (X)		DIVIDEND YIELD (%)	
		(LOCAL CURR)	(LOCAL CURR)		CY2016	CY2017	CY2016	CY2017	CY2016	CY2017	CY2016	CY2017	CY2018	CY2016	CY2017	CY2016	CY2017
Gamuda	Add	RM4.81	RM5.88	2,602	12.0	11.0	6.4	1.67	1.64	9.6	10.1	11.2	18.1	13.9	2.5	2.5	
IJM Corp Bhd	Add	RM3.28	RM3.80	2,638	17.6	17.4	-4.8	1.52	1.58	8.4	9.0	9.4	15.1	15.3	1.8	1.8	
Malaysian Resources Corp	Add	RM1.38	RM1.53	660	28.6	25.0	-11.2	1.60	1.62	5.6	6.4	7.7	21.4	19.9	0.8	0.8	
Muhibbah Engineering	Add	RM2.23	RM2.86	239	9.9	9.3	14.8	1.61	1.52	16.3	16.9	18.3	5.4	4.8	3.1	0.4	
Salcon	Add	RM0.57	RM0.68	81	20.4	17.4	62.7	0.78	0.69	4.1	4.2	4.3	2.3	0.5	5.3	6.2	
Sunway Bhd	Add	RM2.97	RM3.42	1,344	12.3	10.6	-15.0	0.97	0.92	7.8	8.9	9.0	18.2	15.1	2.1	2.1	
WCT Holdings	Add	RM1.78	RM2.16	498	18.3	16.4	-22.2	0.80	0.79	4.5	4.9	5.0	31.3	29.3	3.6	3.6	
Average					14.8	13.9	1.8	1.61	1.61	9.1	9.7	10.6	15.3	13.7	2.1	2.0	

Sources: CIMB Research, company

train sets is able to handle up to 1,200 passengers.

Effective Dec 16, MRT SBK line phase 1 was officially handed over to Rapid Rail Sdn Bhd, a subsidiary of Prasarana Malaysia. Rapid Rail is currently the domestic asset operator of the light rail transit (LRT) system, monorail, and buses largely in the Klang Valley. Overseas, it is the operator of the Mecca Metro Rail. Interestingly, according to Najib, the final cost

of the MRT SBK line is RM21 billion, which is RM2 billion lower than the original budget/target of RM23 billion versus RM32 billion for the upcoming MRT 2.

Overall, our one-hour two-way journey was an eye-opener, underscoring the country's ability to undertake its maiden MRT project on a massive scale and the success of the project development partner model, which was executed by the MMC-Gamuda joint venture. The

trip was a pleasant experience and is likely to be well received once it is fully operational in July 2017. The highlight of our trip was when we passed over the vast Rubber Research Institute land in Sungai Buloh, where the massive MRT depot was located.

We came away from the MRT ride feeling more positive about prospects for 2017's rail theme. MRT 2 will begin works next year, which should shift job awards to

the RM8 billion Gemas-Johor Baru double tracking, RM9 billion LRT 3, tenders for the RM55 billion East Coast Rail Link and progress of the RM50 billion Kuala Lumpur-Singapore high speed rail (HSR). Among domestic rail contractors, Gamuda remains the biggest proxy and our top big-cap pick. Possible early elections could also catalyse sector news flow in the first half of 2017. Downside risks are job delays. — CIMB Research, Dec 21