

Mega rail projects on the cards for construction sector

Construction sector

Maintain overweight: We have identified four mega rail projects that will be rolled out over the next two to three years. These include the East Coast Rail Link (ECRL), Kuala Lumpur-Singapore High-Speed Rail (HSR), Gemas-Johor Baru electrified double-tracking (EDT) project and mass rapid transit 3 (MRT3) Circle Line. Collectively, these mega rail projects will have a total cost of RM171 billion.

The 600km ECRL (RM55 billion) will link Kelantan, Terengganu, Pahang and Selangor. Financing will come from the Export-Import Bank of China, while China Communications Construction Co Ltd will lead the construction works. The Land Public Transport Commission has given its conditional approval for the ECRL which is now undergoing a three-month public inspection. Final approval is targeted for June and construction is to begin in July.

In December 2016, Malaysia and Singapore inked a bilateral

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STOCK	MKT CAP (RM MIL)	PRICE (RM)	TARGET (RM)	RATING	FYE	PER		P/B		ROE (%) (CY17)	YIELD (%) (CY17)
						CY16	CY17	CY16	CY17		
Gamuda	13,142	5.40	5.74	Buy	July	18.1	15.8	1.8	1.6	9.9	2.2
IJM	12,801	3.54	3.91	Buy	Mar	20.8	18.1	1.3	1.3	6.5	1.9
MRCB	3,765	1.73	na	UR*	Dec	58.0	44.6	1.5	1.5	2.4	0.5
GKent	1,570	4.18	4.73	Buy	Jan	16.8	14.8	3.9	3.4	23.3	3.0

*UR = Under review

For companies with non-Dec FYE, financials have been calendarised.

Source: HLB estimates

agreement to implement the 350km HSR. The joint development partner has been appointed and tenders for the asset company will be called by year end, while the infrastructure works are expected in the first quarter of 2018. Media reports have placed the HSR's cost at RM60 billion.

The Gemas-Johor Baru section (191km) is the final EDT stretch from the north to south of the peninsula. A consortium of three state-owned Chinese contractors was awarded the RM9 billion job in October 2016. Work has yet to start

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due to issues with state authorities.

Also dubbed the Circle Line, MRT3 will largely be underground, providing interchange stations with other radial rail lines. Currently at a feasibility study stage, the 45km

to 48km MRT3 is said to cost RM50 billion.

Risks include a pull-out of Chinese investments and/or funding would impact some of these mega rail projects.

While the bulk of these mega rail projects will be led by foreign contractors, we estimate that 39% could be undertaken by locals, potentially generating RM67 billion worth of job flows. The significance of these mega rail projects to the construction sector should not be underestimated. To illustrate, domestic job wins for listed contracts

hit a high of RM28 billion in 2012 and RM56 billion in 2016 when MRT1 and MRT2 were rolled out.

Our stock picks include: Gamuda Bhd, with a strong track record in rail jobs such as the Kaohsiung MRT, northern EDT, MRT1 and MRT2, which targets to add RM10 billion to its order book over the next one to two years from these rail jobs; George Kent (M) Bhd, the only local player with expertise in rail-related systems, which has experience in Ampang light rail transit (LRT) extension systems, being the LRT3 project delivery partner, and in MRT2 track works; IJM Corp Bhd, a beneficiary of the ECRL via a 60% stake in Kuantan Port and a 20% stake in Malaysia-China Kuantan Industrial Park; and Malaysian Resources Corp Bhd, which is in negotiations to develop a transport terminal for the HSR in Bandar Malaysia and can leverage on its track record in transit-oriented developments. — Hong Leong Investment Bank Research, May 15