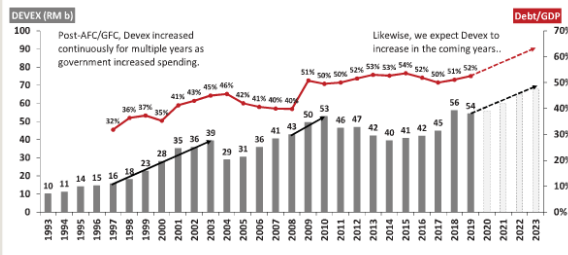## Development expenditure growth during AFC/GFC era (construction spending is a linear function of DEVEX)

KLCON PER chart showcasing potential upside

Construction — the key towards economic recovery

OVERWEIGHT

KENANGA RESEARCH (JUNE 2): As Malaysia gradually recovers from the Covid-19 pandemic, we believe the government will gradually pivot its focus to economic recovery measures for the mid- to long-term horizon.

Based on history, we are convinced that construction will be a key lever for the government to kick-start the recovery and it is a matter of time before the sector sees a blanket re-rating.

Thus, we feel the time is now right to start accumulating shares in construction companies in anticipation of a rally. We reckon that the rally will come somewhere in late August to November after (i) a weak 2QCY20 reporting season (the peak of the Movement Control Order period), and (ii) the market begins to focus on goodies from Budget 2021.

Our KLCON study indicates potential upside of 30% from current levels. We have categorised our coverage into five groups:

1. The safe bets: Gamuda (OP; RM4.30), Suncon (OP; RM2.45), Kerjaya (OP; RM1.45),
2. Bargain galore: HSL (OP; RM1.25), Muhibbah (OP; RM1.20), Kimlun (OP; RM1.00),
3. Contrarian buy: MRCB (OP; RM0.75),
4. Tactical trades: WCT (MP; RM0.55), IJM (MP; RM2.00), and
5. Stay away: Mitra (MP; RM0.20), GKent (UP; RM0.51).

On the earnings front, we aggregately reduce FY20E earnings by 20% to cater for the MCO impact, but lift FY21E earnings by 4% on deferred works. We expect the upcoming 1QFY20 earnings to greatly disappoint the market, but we see an opportunity to accumulate. Maintain "overweight".

Historically, construction has been a relative outperformer post-crisis. Looking back, the sector exhibited strong recovery relative to other sectors during the Asian financial crisis and global financial crisis. During the AFC, KLCON gained 394% from its bottom within a year, while it gained 81% during the GFC. We think the current climate is no different from then.

Currently, KLCON has gained a commendable +47% from YTD lows and we think there might be more upside ahead as further catalytic news flow emerges.