

# Mega rail projects to revive job flows next year

## Construction sector

**Maintain overweight:** Domestic contract awards to listed contractors in the third quarter of 2017 (3Q17) amounted to RM7.7 billion (+90% quarter-on-quarter [q-o-q]; -35% year-on-year [y-o-y]). The strong q-o-q increase was due to a low base in the previous 2Q which saw an absence of mega contracts as the mass rapid transit line 2 (MRT2) contracts had been largely dished out and the boost in 3Q from the award of light rail transit 3 (LRT3) contracts.

On the other hand, the y-o-y decline was expected given the high base in 3Q16 coming from various mega contracts such as the Pan Borneo Highway (PBH) Sarawak (RM6.9 billion), SUKE (RM1.6 billion) and MRT2 track works (RM1 billion).

The 3Q17 witnessed the award of two sizeable LRT3 contracts totalling RM1.6 billion to WCT Holdings Bhd and TRC Synergy Bhd. There were also several large building jobs such as the 1Malaysia Civil

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STOCK	MKT CAP (RM MIL)	PRICE (RM)	TARGET (RM)	RATING	FYE	PER		P/B		ROE (%) (CY17)	YIELD (%) (CY17)
						CY17	CY18	CY17	CY18		
Gamuda	12,959	5.28	6.36	Buy	July	17.7	15.0	1.7	1.6	10.1	2.3
IJM	11,973	3.30	3.97	Buy	Mar	21.5	18.8	1.2	1.2	5.8	2.3
WCT	2,518	1.79	2.29	Buy	Dec	18.1	15.6	0.9	0.8	4.9	1.4
MRCB	2,028	0.93	1.00	Hold	Dec	34.7	25.0	0.4	0.4	1.4	0.0
Edgenta	2,204	2.65	3.20	Buy	Dec	14.8	12.7	1.5	1.5	10.6	3.7
SunCon	2,959	2.29	2.59	Buy	Dec	20.9	17.7	5.3	4.6	26.8	2.4
Eversendai	728	0.94	1.01	Hold	Dec	14.7	11.2	0.9	0.8	5.9	1.4
Kimlun	729	2.28	2.30	Hold	Dec	10.6	9.3	1.2	1.1	12.1	1.9
Hock Seng Lee	797	1.45	1.48	Hold	Dec	16.9	11.5	1.1	1.0	6.6	1.5
Mitrajaya	716	1.04	1.15	Hold	Dec	10.7	9.0	1.0	1.0	10.3	3.8
GKent	1,769	3.14	3.75	Buy	Jan	17.4	15.6	3.9	3.5	23.8	2.9
Pesona	370	0.56	0.76	Buy	Dec	13.5	9.6	2.3	2.1	18.2	3.6
Protasco	450	1.06	1.20	Buy	Dec	12.6	9.2	1.1	1.1	8.9	5.6

Source: HLIB estimates

Servants Housing (PPA1M) apartments (RM582 million) to Sunway Construction Group Bhd, Cyberjaya Hospital (RM475 million) to Gading, UOB Tower 2 (RM451 million) to IJM Corp Bhd and Vertu Resort (RM442 million) to Kerjaya Prospek Group Bhd.

The cumulative nine-month 2017 (9M17) domestic job wins totalled RM18.4 billion, falling 63% y-o-y amid a high base last year. To recap, the same period last year saw several large-scale awards, such as the MRT2 (RM22 billion), PBH Sarawak (RM6.6 billion) and

highways (RM6.1 billion). We expect contract flows in 4Q to mirror that of 3Q, which would bring total job wins in 2017 to about RM25 billion. Job flows in 4Q are likely to be driven by more LRT3 contracts, in our view.

We have identified RM161 bil-

lion worth of mega rail projects that will be rolled out over the next one to two years, namely the East Coast Rail Link (ECRL) (RM55 billion), High-Speed Rail (HSR) (RM57 billion), MRT3 (RM40 billion) and the southern electric double tracking (EDT) (RM9 billion) project. We estimate that in totality, about 50% of these contracts will be accorded to local contractors in value terms.

The soft property market is expected to hamper job flows from the private sector. We expect a strong revival in job flows next year, driven by the above-mentioned mega rail projects.

Our top picks are centred on the upcoming influx of mega rail projects. We favour Gamuda Bhd (buy; target price [TP]: RM6.36) given its strong track record with civil rail projects (Northern Double Track, MRT1 and MRT2). We also like George Kent (M) Bhd (buy; TP: RM3.75) as the only local player with an expertise in rail-related systems. — *Hong Leong Investment Bank Research, Oct 9*