

Revival of construction sector drivers in Budget 2018

Construction sector

Maintain overweight: Major sector drivers were more in focus in Budget 2018. We observe that rail, affordable housing, roads/highways and water infrastructure are major segments that would benefit from the government's high-impact projects initiative and spending next year. The RM210 billion compiled value of projects under Budget 2018 comprises rail and public transport (73%), rural infrastructure, private-finance initiative and schools (19%), with the rest being roads, public housing, and water infrastructure.

Notably, major contracts that will be implemented within five to eight years from 2018 are public transport/rail, including i) the RM55 billion East Coast Rail Link (ECRL), ii) the RM50 billion to RM60 billion Kuala Lumpur-Singapore High Speed Rail, iii) the RM40 billion MRT 3 (Circle Line) and iv) the RM9 billion Gemas-Johor Baru electrified rail double tracking (though it was not highlighted in the Budget). The RM32 billion MRT 2 (SSP Line) and RM9 billion

Construction sector comparison

COMPANY	RECOM.	PRICE (LOCAL CURR)	TARGET PRICE (LOCAL CURR)	MKT CAP (US\$ MIL)	CORE P/E (X)		3-YEAR EPS CAGR (%)	P/BV (X)		RECURRING ROE (%)			EV/EBITDA (X)		DIVIDEND YIELD (%)	
					CY2017	CY2018		CY2017	CY2018	CY2017	CY2018	CY2019	CY2017	CY2018	CY2017	CY2018
Gamuda	Add	RM5.20	RM6.15	3,009	11.9	9.8	14.1	1.62	1.54	8.9	10.0	11.2	20.0	16.4	2.3	2.3
IJM Corp Bhd	Add	RM3.26	RM3.87	2,788	17.3	16.6	4.6	1.58	1.54	9.0	9.4	10.5	18.4	15.9	1.8	1.7
Muhibbah Engineering	Add	RM2.89	RM3.36	327	10.6	10.0	12.7	1.31	1.24	12.7	12.8	13.5	4.3	3.7	1.5	1.5
Protasco	Add	RM1.17	RM1.43	117	18.6	11.7	10.2	1.39	1.43	7.1	12.1	16.4	18.2	13.8	3.2	5.1
Salcon	Hold	RM0.42	RM0.45	67	12.9	11.8	29.7	0.57	0.57	4.5	4.8	4.8	0.6	0.6	4.7	5.9
Sunway Bhd	Add	RM1.69	RM2.09	1,933	14.4	13.6	3.5	1.37	1.30	8.2	9.9	10.2	17.9	15.6	1.5	1.5
WCT Holdings	Hold	RM1.61	RM1.97	534	14.8	14.3	29.6	0.68	0.66	4.6	4.7	5.0	35.2	33.1	1.5	1.5
YTL Corp	Hold	RM1.29	RM1.46	3,268	40.2	15.2	na	0.99	0.99	2.4	6.5	8.9	12.6	10.5	5.7	6.6
Average					15.3	13.5	7.1	1.57	1.51	8.4	9.2	10.2	18.0	15.1	1.9	1.9

Source: CIMB Research, Company

LRT 3 (Bandar Utama-Klang Line), which have largely been awarded, will ramp-up construction works next year.

The MRT 3 (Circle Line) project is targeted to be completed in 2025, two years earlier than the original target of 2027. Our cost estimate based on an assumed 40km alignment and MRT 2-benchmarked RM1 billion cost/km puts an RM40 billion estimated price tag for the

project, which could be up for cabinet approval by mid-2018, going by our previous industry checks. Funding mechanism for the MRT 3 was not detailed. MRT 3 will be the final high-capacity rail network in Kuala Lumpur.

Compared with our compilation for Budget 2017, the combined allocation for public housing projects surged more than eightfold to RM3.5 billion under Budget 2018,

while the budget for water/electricity infrastructure surged 60% to RM3.1 billion. Allocation for the construction of non-tolled roads (excluding road maintenance and the Pan Borneo Highway) surged 81% to RM2.4 billion. Separately, the RM2 billion allocation for Pan Borneo Highway is likely to focus on the 11 awarded packages in Sarawak and the five awarded in Sabah.

Overall, Budget 2018 places pri-

ority on outstanding major rail contracts, mainly the RM55 billion ECRL. Gamuda remains our top big-cap rail pick, while IJM Corp could emerge as one of the early rail winners. Protasco could benefit from the public housing contracts, while the surge in water infrastructure allocation could be positive for Salcon. Maintain "overweight". Delays and funding issues are key downside risks. — CIMB Research, Oct 31