

IJM, SunCon seen as stronger HSR contenders

Construction sector

Maintain neutral: According to *The Edge*, Prime Minister Tun Dr Mahathir Mohamad stated during the signing ceremony for Bandar Malaysia (RM140 billion) that the government intends to revive the Kuala Lumpur-Singapore High Speed Rail (HSR). However, further adjustments must be made to trim down the cost, potentially through downscaling as well as reducing its specifications (slower trains). Bandar Malaysia is also slated to house one HSR station, serving as a transportation hub.

While we reckon that previous project delivery partner (PDP) winners remain front runners to secure contracts, we believe IJM Corp Bhd ("hold"; target price [TP]: RM2.22) and Sunway Construction Group Bhd (SunCon) ("buy"; TP: RM2.30) will emerge as stronger contenders this time around as both have strong financial capacity and should materially benefit from a shift towards an open tender system. Recall that IJM and SunCon previously formed a four-party consortium including Jalinan Rejang Sdn Bhd and Maltimur Resources Sdn Bhd to participate in PDP tenders that were ultimately unsuccessful. While it is still too early to try and pinpoint the potential work package winners, we expect the usual active construction players such as IJM, SunCon, WCT Holdings Bhd, Gabungan AQRS Bhd, TRC Synergy Bhd, Ahmad Zaki Resources Bhd, Mudajaya Group Bhd, Malaysian Resources Corp Bhd and Gadang Holdings Bhd to actively bid for a slice of the pie.

The revival of the HSR would serve as a rerating catalyst for the sector. We are likely to turn bullish should anything more concrete regarding the project turn up. For the time being, we maintain our "neutral" stance. — *Hong Leong Investment Bank Research, Dec 18*