

14 April 2021

Construction

New MRT3 Details Unveiled

By Lum Joe Shen | lumjs@kenanga.com.my

OVERWEIGHT



MRT Corp has unveiled new MRT3 details. Key points as below: -

- Tenders to be out as early as August 2021.** We anticipate the awards will likely be out earliest in 1HCY22 after considering the submission and evaluation process of tenders.
- Private funding arrangement of 10-30%.** Despite the government's commitment in supporting the project, MRT Corp is exploring 10-30% private funding arrangements to alleviate the country's fiscal burden. From this aspect, we believe a deferred payment scheme (of 10-30% of total contract cost) can be adopted to conserve government's cash flows.
- MRT3 will have 30+ stations and 10 interchanges spanning 50km.** Despite the revealed alignment (*refer picture overleaf*) being similar to the one available in the 2040 KL structure plan (*mapped out here: <https://bit.ly/30SsfqH>*), we note that the indicated length of 50km is longer than the 40km initially expected.
- Out of the 50km, 40% (20km) will be underground (UG)** – higher than the previous expectations of 25-30%. To recap, MRT2 which spanned 52.2km cost the government RM30.53b* (comprising 13.5km UG portion which cost RM13.11b and 38.7km above ground costing RM17.42b). Extrapolating the cost/length of MRT2 onto MRT3's 50km stretch, the total MRT3 contract cost could be c.RM32.9b (where the 20km UG portion would cost RM19.42b while the 30km AG portion would cost RM13.5b) – higher than street expectations of c.RM21-23b.

**revised contract quantum post renegotiation from PDP to turnkey.*

- MRT3 to be rolled out in 5 phases over 10 years.** The construction period is now longer than the previous 7-year expectation. That said, the first phase will be rolled out within 5-7 years from the start of construction.

Our take. We are net positive on the new details as behind-the-scene progress is picking up fast. Despite the stretched out construction period of 10 years; should our guesstimate contract quantum of RM32.9b be proven accurate – it would be an upside surprise. **Reiterate Overweight on the sector.**

Beneficiaries. Besides **Gamuda (OP; TP: RM4.17)** being the obvious beneficiary – due the longer-than-expected UG portion and being the project lead, the other lesser beneficiaries would be **Kimlun (OP; TP: RM1.45)**, **IJM (OP; TP: RM2.20)**, and **MRCB (OP; TP: RM0.65)** in our opinion.

Kimlun being an IBS precast expert (who is a major supplier to key infrastructure projects in Malaysia and Singapore) would benefit from the supply of Segmental Box Girders (SBG) used above ground and Tunnel Lining Segment (TLS) used underground for the MRT3 project. Also, due to the longer-than-expected underground portion, more TLS components are required – which commands better margins than SBGs.

Meanwhile, should the idea of private funding materialise, we believe IJM and MRCB stand a good chance to undertake a bigger role in MRT3 given their relatively bigger and stronger balance sheet which enables them to gear up to provide funding needs. In our table below, we draw up a tentative scenario where contractors could gear up to 1.0x net gearing and the top three contractors who can shore up the highest borrowings are Gamuda, IJM and MRCB.

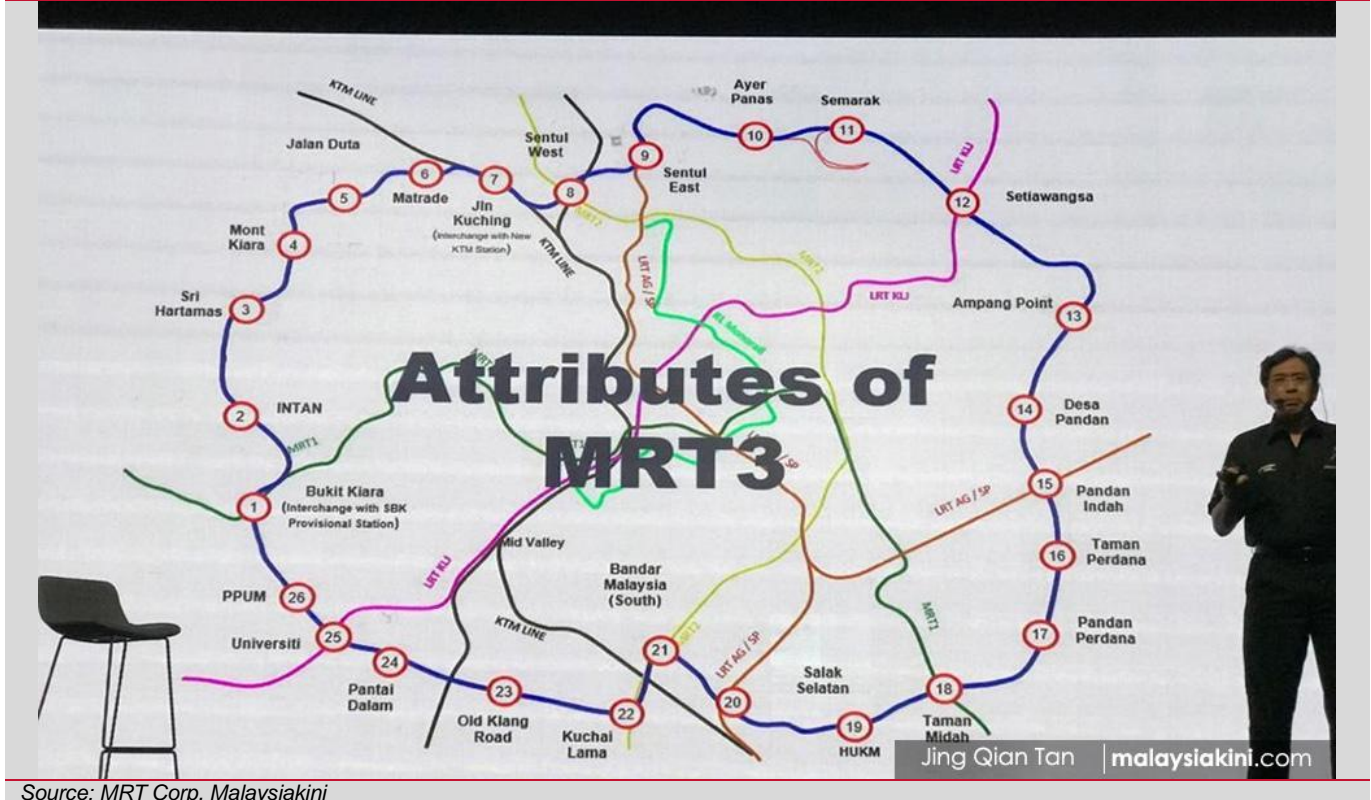
Table: Listed Co's who benefitted from MRT2

Listed Co.	Contract amount clinched from MRT2 (RM m)** <i>Based on un-revised contract terms before 2018</i>	Latest Net Gearing (x)	Assuming net gearing of 1.0x, RMxm cash can be raised – the higher the better, indicating balance sheet strength
GAMUDA	7735	0.28	6262
MMCCORP	7735	0.92	737
AZRB	1728	6.69	n.a.
SUNCON	1475	-0.53	977
IJM	1470	0.38	6013
WCT	1096	1.11	n.a.
GKENT	1007	-0.24	646
GADANG	952	0.14	695
TRC	858	-0.06	461
MRCB	794	0.30	3185
MTDACPI	679	0.42	42
MUDAJYA	559	3.24	n.a.
KIMLUN	253	0.48	377
ECONBHD	136	0.06	413
TSRCAP	90	0.12	148
EDGENTA	87	0.02	1424

Source: Bursa, Kenanga Research

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Revealed alignment (courtesy of Malaysiakini)



Source: MRT Corp, Malaysiakini

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Peer Comparison

STOCKS UNDER COVERAGE													
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price	Rating
	13/04/21				Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE													
GAMUDA BHD	3.60	9,048.7	Y	07/2021	17.1	16.6	15.0	1.0	1.0	6.2%	1.7%	4.17	OP
GEORGE KENT (MALAYSIA) BHD	0.790	413.5	Y	03/2021	11.8	8.3	9.6	0.9	0.8	10.1%	4.3%	0.560	UP
HOCK SENG LEE BERHAD	0.960	527.5	Y	12/2021	16.5	9.5	9.0	0.6	0.6	6.7%	2.5%	1.20	OP
IJM CORP BHD	1.89	6,833.8	Y	03/2021	20.3	26.3	21.5	0.7	0.7	3.4%	1.6%	2.20	OP
KERJAYA PROSPEK GROUP BHD	1.44	1,781.8	Y	12/2021	19.7	13.6	11.3	1.8	1.6	12.7%	2.6%	1.75	OP
KIMLUN CORP BHD	0.895	316.3	Y	12/2021	20.0	6.2	5.5	0.5	0.4	7.3%	3.4%	1.45	OP
MITRAJAYA HOLDINGS BHD	0.335	275.7	Y	12/2021	28.6	16.9	30.5	0.4	0.4	2.3%	0.0%	0.215	UP
MUHIKBAH ENGINEERING (M) BHD	1.08	522.1	Y	12/2021	N.A.	20.0	13.2	0.5	0.4	2.2%	0.9%	1.25	OP
SUNWAY CONSTRUCTION GROUP BHD	1.87	2,411.1	Y	12/2021	29.2	18.3	16.3	3.8	3.6	20.1%	3.7%	2.10	OP
WCT HOLDINGS BHD	0.560	785.8	Y	12/2021	N.A.	6.2	8.6	0.3	0.2	5.6%	0.0%	0.675	OP
Simple Average					20.4	14.2	14.0	1.0	1.0	7.7%	2.1%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

