

29 March 2024

Construction

On Your Marks

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OVERWEIGHT



We remain **OVERWEIGHT** on the construction sector ahead of the roll-out of various mega public infrastructure projects such as MRT3, Bayan Lepas LRT, large-scale flood mitigation projects as well as new Pan Borneo Highway packages. Meanwhile, the private-sector construction market will stay vibrant underpinned by massive investment in new semiconductor foundries and data centres. Not surprisingly, builders are guiding for higher new job wins this year. Our top sector picks are **GAMUDA (OP; TP: RM6.20)**, **IJM (OP; TP: RM2.54)** and **SUNCON (OP; TP: RM3.16)**.

We maintain our **OVERWEIGHT** rating on the construction sector ahead of the roll-out of various mega public infrastructure projects such as the RM45b MRT3 or MRT Circle Line which will provide connectivity to the existing MRT, LRT, monorail and train lines in Klang Valley through interchange stations, and the RM9.5b Bayan Lepas LRT, which will help to ease the chronic traffic congestion in Penang Island. Coupled with the roll-out of six flood mitigation projects reportedly to be worth RM13b including flood mitigation works at Sungai Johor (Johor), the construction of the Sungai Klang-Sungai Rasau dual-function reservoir (Selangor) and the Sungai Golok Integrated River Basin Development Phase 3 (Kelantan) and new Pan Borneo Highway packages, we believe there will be enough jobs to go around for all players. We are unperturbed by a lower gross development expenditure of RM90b in Budget 2024, vs. RM97b estimated in Budget 2023 as the government can tap into DanaInfra Nasional Bhd to fund these large-scale public projects on an off-balance sheet basis.

In terms of timing, Bayan Lepas LRT could be rolled out as soon as the middle of the year as we understand “chariot driver” **GAMUDA** is already in “advanced” discussions with the government to finalise the implementation model, pending government’s approval while the Department of Environment published the Environmental Impact Assessment (EIA) report for a segment of the LRT on 5 Mar 2024. This federal-funded project comprises land acquisition cost of about RM1.5b and construction cost of RM7b-RM8b. Meanwhile, we understand that MRT Corp recently asked bidders for MRT3 work packages to extend the validity of their tenders for a fourth time to end-Mar 2024 and it appears that MRT Corp is likely to ask for another extension soon. We believe realistically, the project may only get off the ground in 2HCY24 the soonest.

For the KL-Singapore high-speed rail (HSR), so far only **BLAND (Not Rated)** announced that its 70%-owned unit Berjaya Rail had formed a consortium with **IJM, MRCB (Not Rated)** and national railway firm KTMB to submit a bid for the HSR when the request for information (RFI) exercise closed on 15 Jan 2024. It was reported that a total of seven consortia submitted their bids for the HSR project. In our opinion, it is still early days for the project.

On the other hand, the government has committed to expedite on-going projects in East Malaysia such as Pan Borneo Highway and Sabah-Sarawak Link Road. According to the Mid-term Review of the 12MP, Pan Borneo Highway Sarawak Phase 1 was 92% completed while the Phase 1A in Sabah was 74% completed in 2023. Given its involvement in the Sarawak-Sabah Link Road project, **KIMLUN (MP; TP: RM0.89)** is keen to bid for work packages from Pan Borneo Highway Sarawak Phase 2, while **IJM** has also shown interest. Meanwhile, the Sabah state government said that the entire 19 work packages of Phase 1B of the Pan Borneo Highway Sabah worth a total of RM15.7b will be awarded by Mar 2024.

Meanwhile, the private-sector construction market will stay vibrant, underpinned by massive investment in new semiconductor foundries and data centres. Malaysia is gaining traction in terms of destination for data centre investment, as evidenced by **TENAGA (MP; TP: RM11.50)** having signed Electricity Supply Agreements with nine data centres requiring a potential energy demand of 2,300MW. So far, nine data centres have been completed with a total energy demand of 635MW. The national utility company guided for potential additional demand for 7,000MW of electricity from data centres by CY34. These semiconductor foundry and data centre projects are sizeable, ranging between RM1b to RM1.5b each, and are typically on a fast-track basis, which means they fetch better margins. **SUNCON** and **KERJAYA (OP; TP: RM1.90)** have already bagged such contracts.

Positive forward guidance. Generally, builders have guided for higher new job wins this year. **GAMUDA** guided for RM25b new job wins within 24 months, while **SUNCON** recently raised its guidance for new job wins in FY24 to RM3b from RM2.5b. While **WCT** has not secured any new key jobs in FY23, it also guided for bullish new job wins of RM3b (vs. our more prudent assumption of RM1b). Meanwhile, **IJM’s** YTD FY24 (FYE: Mar 2024) new job wins of RM3.62b have already surpassed its full-year target of RM3.0b and we assume it will secure RM4.6b contracts in FY25 (FYE: Mar 2025). On the other hand, YTD, **KERJAYA** has secured RM377.9m worth of new jobs against our full-year assumption of RM1.5b. **KIMLUN’s** YTD new jobs have hit RM133.6m against our full-year assumption of RM750m.

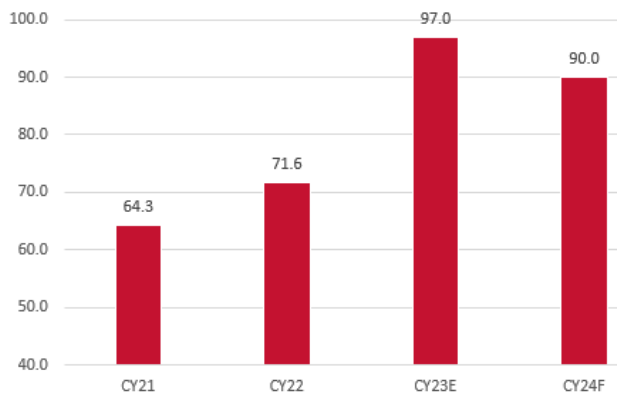
Meanwhile, the industry is poised for margin recovery as newly-secured contracts reflected cost inflation. In addition, post the pandemic, it has become increasingly common for contracts to carry price escalation clauses to safeguard the margins of contactors. As such, we expect industry margins to improve in CY24 as older contracts with low margins tail off and new contracts with normalised and higher margins start to contribute.

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Our sector top picks are:

- GAMUDA** for: (i) being the front-runner for the tunnelling job for MRT3 and Bayan Lepas LRT, (ii) its ability to secure new jobs in overseas markets, (iii) its strong war chest after the disposal of its toll highways, (iv) its strong earnings visibility underpinned by a record outstanding order book of RM26.1b, and (v) its inroads into the renewable energy space.
- IJM** for: (i) it is poised to garner a slice of action in the imminent mega rail projects, i.e. MTR3 and Bayan Lepas LRT given its involvement in the previous MRT and LRT projects, (ii) its strong earnings visibility underpinned by an outstanding construction orderbook of RM6.6b and new property sales of RM1.4b, and (iii) Kuantan Port's position as the largest port in the East Coast capturing export and import activities growth.
- SUNCON** for: (i) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works, (ii) its strong earnings visibility underpinned by a record outstanding order book of RM6.05b, (iii) its strong balance sheet that enables it to carry out projects for local and overseas clients based on a deferred payment model, and (iv) recurring jobs from parent and sister companies.

Gross Development Expenditure* (RM b)



Source: Budget 2024, Kenanga Research

Penang Bayan Lepas LRT

Station	Nearby Landmark
1	Komtar
2	Moddium
3	Bandar Sri Pinang
4	Sky Club
5	East Jelutong
6	The Light
7	Gelugor
8	USM
9	Batu Uban
10	Pesta
11	Sungai Nibang
12	Bukit Jambul
13	SPICE
14	Jalan Tengah
15	FR North
16	FR South
17	Sungai Tiram
18	Penang Airport
19	Pematang Damar Laut
20	Stn A1
21	Stn A2
22	Stn A3
23	Stn A4



Petunjuk / Legend

- Stesen / Station
- Stesen Pertukaran / Interchange Station
- Depot / Depot
- P Kemudahan Park & Ride / Park & Ride Facility

Jarak (km) / Length (km) 26.8
 Bilangan Stesen / Number of Stations 23

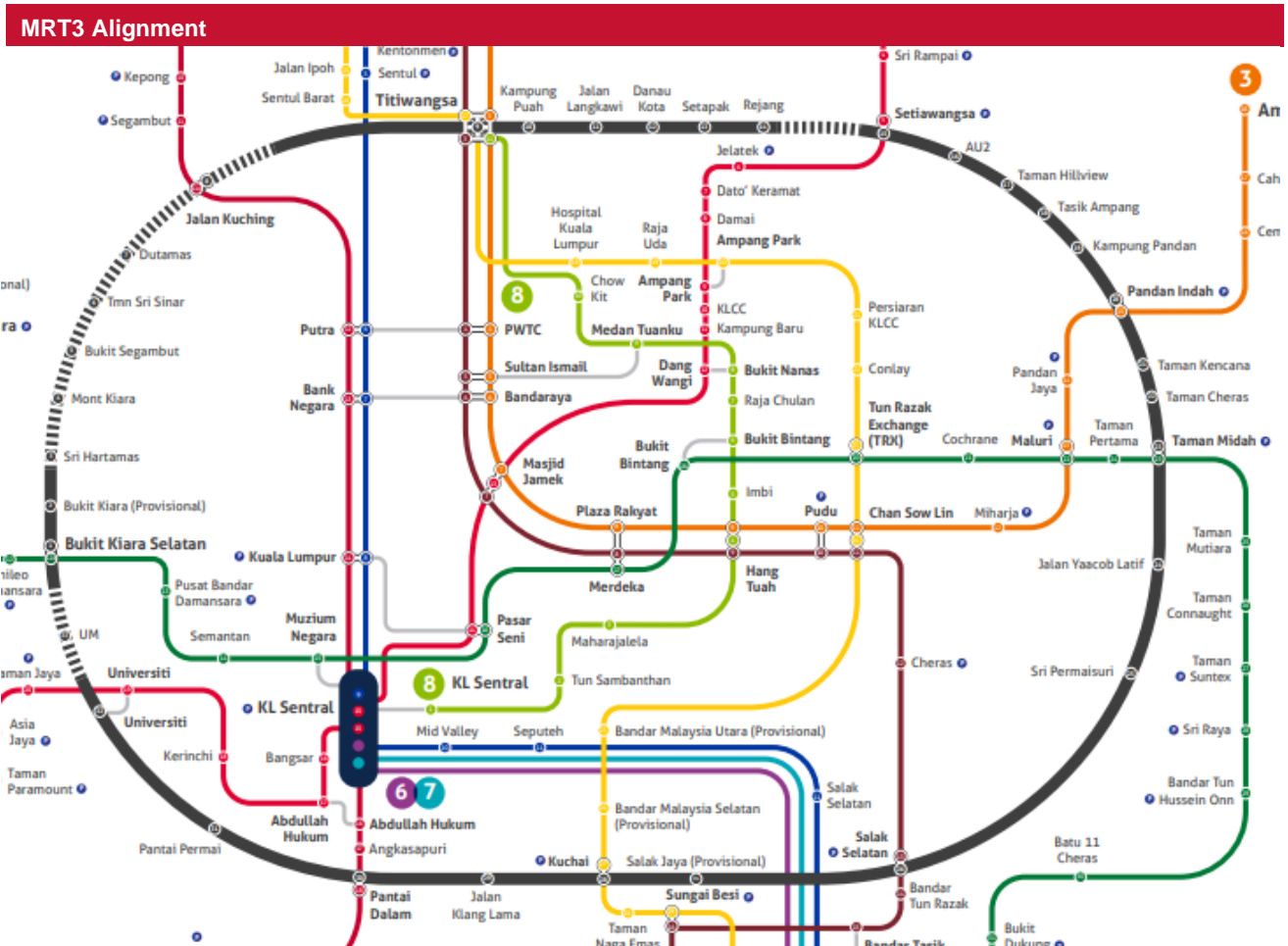
KL-Singapore HRS



Source: MyHSR Corp

Source: Penang Infrastructure Corporation

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Source: MRT Corp

Projects	Value (RM b)	Status	
		Ongoing	Pending
Penang Transport Masterplan	46.0		✓
MRT3	45.0		✓
Penang LRT	9.5		✓
KL-SG HSR	N/A		✓
Johor Bahru-Singapore RTS	4.3	✓	
Central Spine Road	10.7	✓	
Pan Borneo Sarawak Phase 1	16.0	✓	
Pan Borneo Sarawak Phase 2	4.6		✓
Pan Borneo Sabah Phase 1	15.3	✓	
Pan Borneo Sabah Phase 1B	15.7		✓
Sabah Sarawak Link Road Phase 1	5.2	✓	
Sabah Sarawak Link Road Phase 2	7.2b		✓
Large-scale flood mitigation projects	13.0		✓
Rasau Water Treatment Plant	4.5	✓	
Iskandar BRT	2.56	✓	
Kuching Autonomous Rail Transit	6.0	✓	
Large-scale Flood Mitigation Projects	13.0		✓
Bangi Putrajaya Highway (PBE)	N/A		✓
Kuala Lumpur Northern Dispersal Expressway (KL NODE)	N/A		✓

Source: Kenanga Research, Media reports

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Peer Table Comparison

Name	Rating	Last Price @ 8/3/24 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	5.27	6.20	17.6%	14,586.2	Y	07/2024	40.2	48.0	39.4%	19.2%	14.5	11.6	1.3	10.0%	12.0	2.3%
IJM	OP	2.42	2.54	5.0%	8,484.9	Y	03/2024	11.6	12.4	62.5%	7.0%	26.6	28.4	0.9	4.7%	8.0	3.3%
KERJAYA	OP	1.78	1.90	6.7%	2,244.7	Y	12/2024	14.2	15.8	33.3%	11.3%	14.6	12.8	1.6	13.0%	10.0	5.6%
KIMLUN	MP	0.985	0.890	-9.6%	348.1	Y	12/2024	8.3	8.9	311.3%	7.9%	9.9	8.5	0.5	3.9%	1.0	1.0%
SUNCON	OP	2.94	3.16	7.5%	3,790.7	Y	12/2024	12.7	16.7	-3.2%	31.1%	23.1	22.1	3.9	17.6%	6.0	2.0%
WCT	OP	0.545	0.660	21.1%	772.4	Y	12/2024	2.5	3.0	-85.9%	18.4%	21.6	14.8	0.3	1.2%	0.5	0.9%
Sector Aggregate					30,226.9					74.3%	16.7%	15.6	13.3	1.1	7.0%		2.5%

Source: 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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