

SECTOR HIGHLIGHTS

- **Given a stabilizing shot to cool down**
- **Clearer cherry picking from normalized valuation**
- **The cavalry is coming to support construction activities**
- **Sifting for winners through positive spreads**
- **Maintain Positive**

Given a stabilizing shot to cool down. Loans to the sector is filliped by a stabilizing shot of lower disbursement rate of RM5.59bn (-24.7%MoM or +12.9%YoY). (*Figure 1*) We believed that the current tide of liquidity took some heat off from the sector. Despite the slump in 5-Y MGS (3.574%), risk-seeking has toned down - sectoral PER aerated from last report (24.05.17) of 26.7x to current 23.3x. Even heavyweights i.e. IJM (TP: RM4.00) and Gamuda (TP: RM5.50) took a breather by registering only -1.97% and -0.18% from our last note respectively. However, robust liquidity is still prevalent because current disbursement rate of RM5.59bn is well above the sector's 11-year median of RM4.17bn or +34.1%.

Clearer cherry picking. At writing, the National Development Plan was unveiled with a promise of an extension of MRT1. As we have predicted, the sector would not be able to maintain the dizzying height of 26.7x PER of Mar-17 (*Figure 2*). Hence, FYE17-FYE18 could be the year that KLCON Index's valuations i.e. PER will normalize within our expectation of 17.5x. With the roll-out of the plan, we surmise that the Index will flit between 16.5x -19.5x PER. On the other hand, if the current liquidity disguises itself as precursor to another surge in FYE17, the tail-end of our PER estimate would flutter to 20.0x to 22.8x reflecting its 11-y median on monthly basis. We can only reconcile our suspicion if; (i) earnings in Q3/Q4 FY17 picks-up, (ii) liquidity crosses RM7.0bn mark in any 2 upcoming months. Meanwhile, PB/PER parity shows that valuation couldn't run far from fundamentals (*Figure 4*). Currently, PB cooled-down to 1.33x (-0.1ppts) from Mar-17 of 1.43x (*Figure 3*). We advocated tracking the credit expansion against the multiples i.e. PER and PB since Feb-17. So now, we are glad that lofty valuations takes a breather and the loans disbursement ambles to a lower level which makes it easier for cherry picking.

The cavalry is coming. The cavalcade of potential infrastructure projects under the National Development Planning (NDP) reiterates the government commitment to boost rural and urban connectivity. The roll-out is timely as infrastructure project awards tumbled to 26 projects only in Mar-17 (-85.1%YoY) or 142 projects in 1Q17 (-63.9%QoQ). Even residential projects awarded nationwide took a beating chalking only 30 projects in Mar-17 (-82.2%YoY) or 208 projects in 1Q17 (-52.1%QoQ).

Thus, we consider that NDP would be the 'cavalry' to bolster the sector. We reckon the impact will be seen in FYE18-FYE19 as FYE17 may welcome the 14th General Election after the SEA Games in August.

Sifting for winners through positive spreads. Our view on earnings attractiveness is represented by the spread between 5-Y MGS and earnings yield of companies under coverage. To date, the spread has improved with companies such as; (i) IJM (TP: RM4.00, S*: +1.61%) and (ii) CMS (TP: RM4.62, S: +0.73%) turned positive compared to May-17. However, companies such as; MRCB (TP: RM2.08, S: +6.02%) and small-caps such as Muhi (TP: RM3.24, S: +5.02%), AQRS (TP: RM1.49, S: +0.47%) and Vivo (TP: RM0.40, S: +6.51%) are most persistent despite being inundated amongst other companies. We regard the spread as moats showing the intrinsic strength of the respective companies. As such, we continue to favour Muhibbah (TP: RM3.24) and MRCB (TP: RM2.08) as our leading choice. (Figure 5)

****Exception.** We exclude figures for July-2008 as it skews our observation as the figures for p/e and p/b ratio reflects the significant drop in sectoral earnings causing p/e and p/b ratios to reach 1619.2x and 164.4x respectively.*

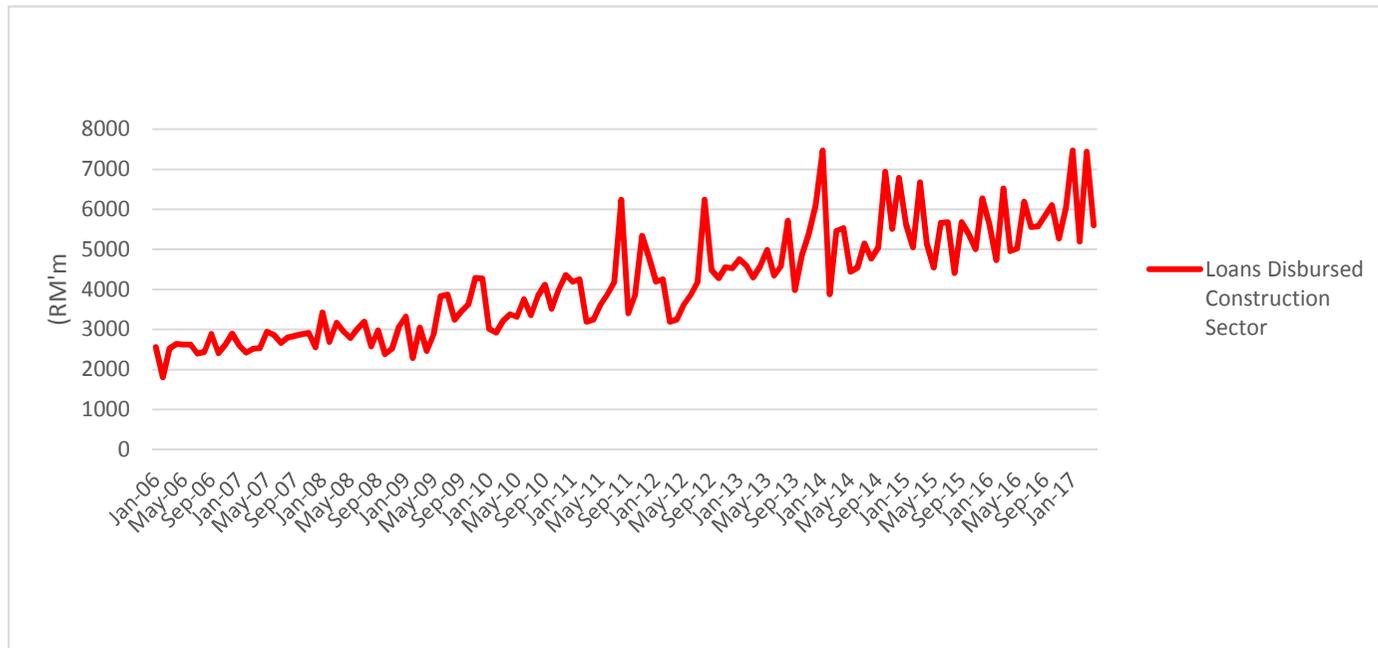
***PB :** Price to Book Ratio ***PER :** Price to Earnings ***S:** Spread = Earnings Yield - 5-Y MGS

DAILY PRICE CHART



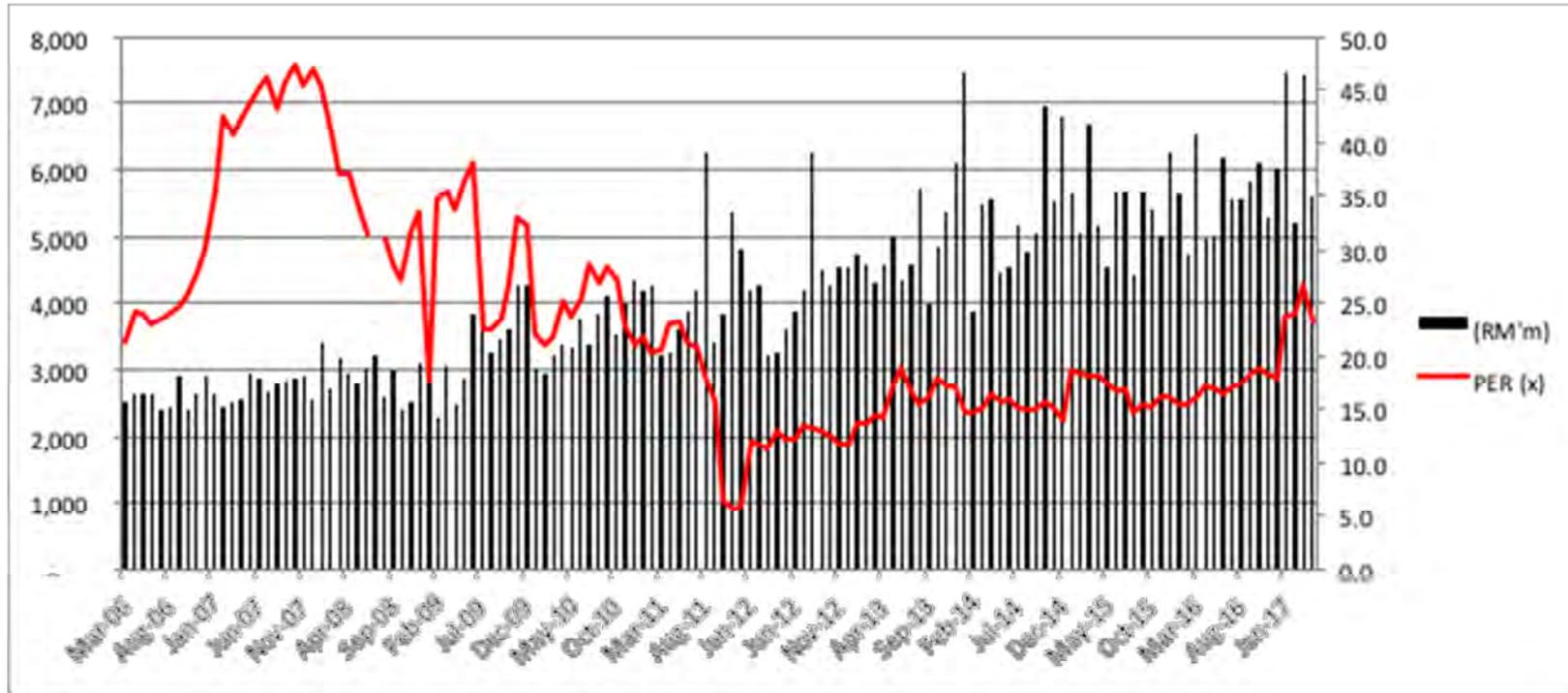
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FIGURE 1: TOTAL CONSTRUCTION WORK DONE AND TOTAL CONSTRUCTION LOANS DISBURSED



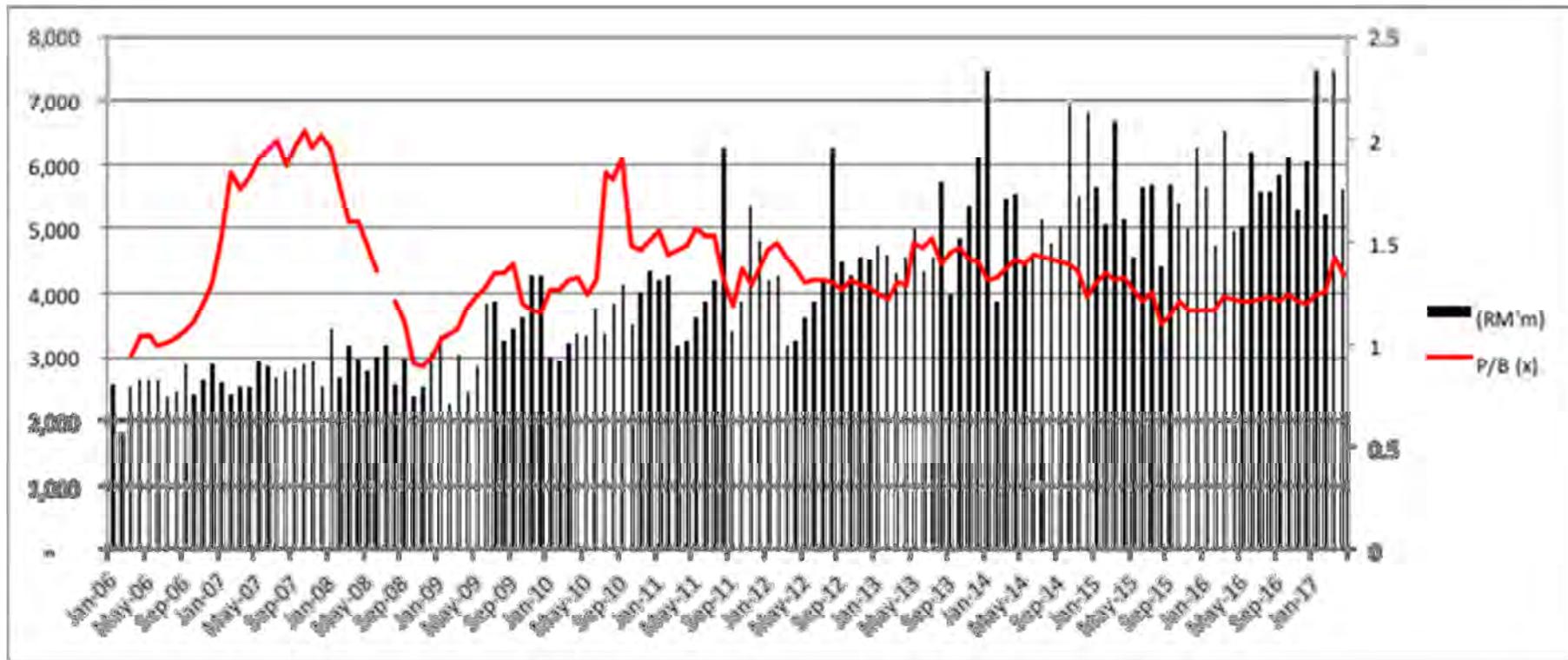
Source: CEIC, DOS, CIDB, Bloomberg

FIGURE 2: PER VS. LOANS DISBURSED



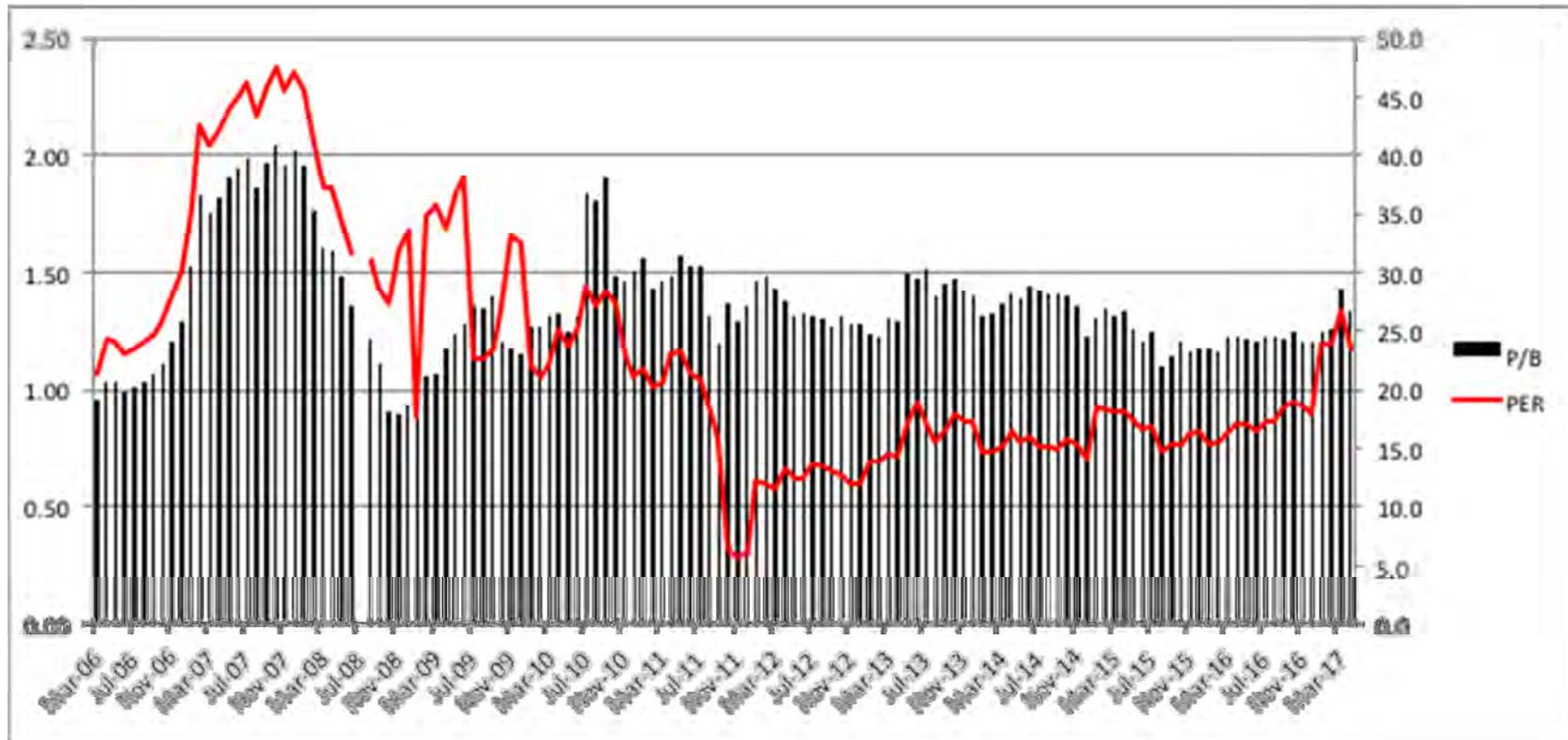
Source: CEIC, DOS, CIDB, Bloomberg

FIGURE 3: PBR VS. LOANS DISBURSED



Source: CEIC, DOS, CIBD, Bloomberg

FIGURE 4: KLCON PB/R AND PER CONVERGENCE



Source: CIDB, Bloomberg & DOS, Bloomberg

FIGURE 5: COVERAGE BAROMETER

	P/B(x)	P/E (x)	OPM (%)	5-Y MGS (%)	Earnings Yield	Spread (%)
MUHIBBAH ENGINEERING (M) BHD	1.31	11.72	8.24	3.57	8.6	5.02
IJM CORP BHD	1.32	19.17	13.15	3.57	5.2	1.61
GAMUDA BHD	1.77	20.31	16.31	3.57	4.9	1.32
WCT HOLDINGS BHD	0.97	29.05	4.24	3.57	3.5	-0.07
GABUNGAN AQRS BHD	1.66	25.26	17.79	3.57	4.0	0.47
HOCK SENG LEE BERHAD	1.25	17.31	13.75	3.57	5.8	2.20
VIVOCOM INTERNATIONAL	0.88	9.52	16.17	3.57	10.1	6.51
CAHYA MATA SARAWAK BHD	1.98	23.07	26.42	3.57	4.3	0.73
MALAYSIAN RESOURCES CORP BHD	1.01	10.34	16.11	3.57	9.6	6.02
SUNWAY CONSTRUCTION GROUP BHD	5.43	21.67	8.33	3.57	4.6	1.04
KLCON INDEX	1.32	23.3	10.32	3.57	4.2	0.63

Source: Bloomberg, MIDFR

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.