

Expecting a Post-Election Relief Rally**SECTOR HIGHLIGHTS**

- **Liquidity tapered**
- **Multiples suppressed but attractive level unmask**
- **GE-14 Post-Election Relief Rally beckons**
- **Maintain Positive on sector**

Loans to the sector is tapered by a dissuading shot of disbursement rate amounting RM7.2bn (-4.14%MoM or +38.84%YoY). (Figure 1) We believe that Jan-18's loan disbursement rate of RM8.3bn coupled with the current liquidity rate contributed to Mar-18's attractive valuation (PER and P/B) 16.42x and 1.04x respectively. Although the disbursement rate of construction loans tapered, Jan-18's credit largesse of RM8.3bn is anticipated to buoy the sector's growing need of working capital which is a leading indicator of earnings expansion. Looking at the rate of disbursement, which matches with the recent news of Pan Borneo Sabah segment and the pickup in LRT3 awards in Mar-18 - credit liquidity to the sector is sufficient to respond to upcoming projects awards and expectations of implementation such as;

1. Railway-related

- a) East Coast Railway Line (award stage)
- b) Gemas-JB Double Tracking (sub-contracting packages)
- c) Malaysia-Singapore High Speed Railway (award stage)
- d) MRT3 (Circle Line) (award)

2. Deep Sea Ports

- a) Carey Island (Klang Port Extension) (Feasibility Studies News)
- b) Kuala Linggi International Port (progress stage)
- c) Melaka Gateway Port (progress stage)

3. Highway

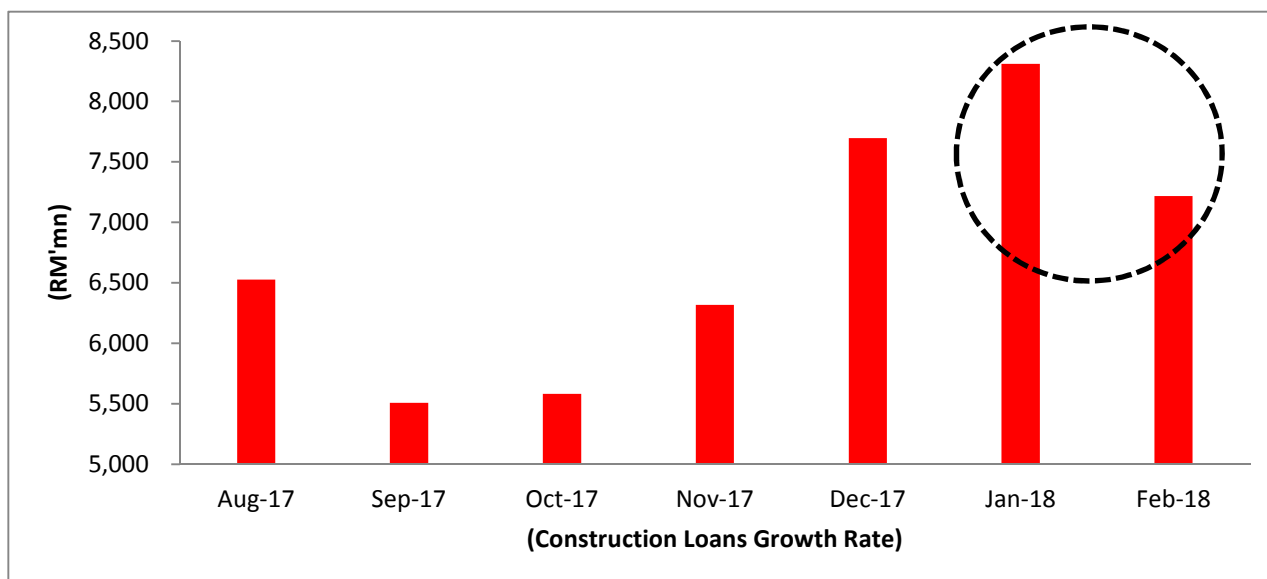
- a) Pan Borneo Sabah's segment (Award stage)
- b) Pan Sarawak (progress stage)

Multiples suppressed but attractive level unmask. However, valuation remains suppressed – unmasking its attractiveness due to heightened risk of GE14 results. Most investors opt to remain at the sidelines waiting for clarity. Thus, we reckon that the current situation is most ideal to take position as valuations indicate below average multiples. For example current sectoral PER is 16.42x as opposed to its 11-year monthly average of 22.8x which correspond with the dip in its PBR of 1.04x against its 11-year monthly average of 1.3x. Despite the lack of clarity in the sector's direction we believe that this is the opportune moment of increasing exposure. Year-to-date,

construction stocks under our coverage has registered anaemic returns, its share prices are clobbered to reflect growing uncertainty for big-ticket projects which foddres the sector's orderbook. Despite the risk perception, earnings yield for our coverage illustrates opportunity for accumulation.(Figures 2,3, & 4)

GE14 post-election relief rally. From the expected date of BN's GE-14 Manifesto's launching on the 7th of April, 2018 we interpolate that the dissolution of parliament will be potentially be within 10 days (at publication). The announcement on the dissolution is expected to add heat of interest to construction companies as it provides clarity to the implementation of large infrastructure projects. Based on our observation of the previous election held in 2013 (GE-13) share prices of companies such as IJM, Gamuda, CMS and MRCB responded with advancements from the date of voting/election results. (Figures 5, 6 & 7)

Maintain Positive. With these developments, we maintain our positive stance on the construction sector, advocating increase exposure in; **i)IJM (TP: RM4.62)**, **ii) Cahya Mata Sarawak (TP: RM4.62)**, **iii) Muhibbah (TP: RM3.60)** and **iv) Gabungan AQRS (TP: RM2.30)** as our top picks.

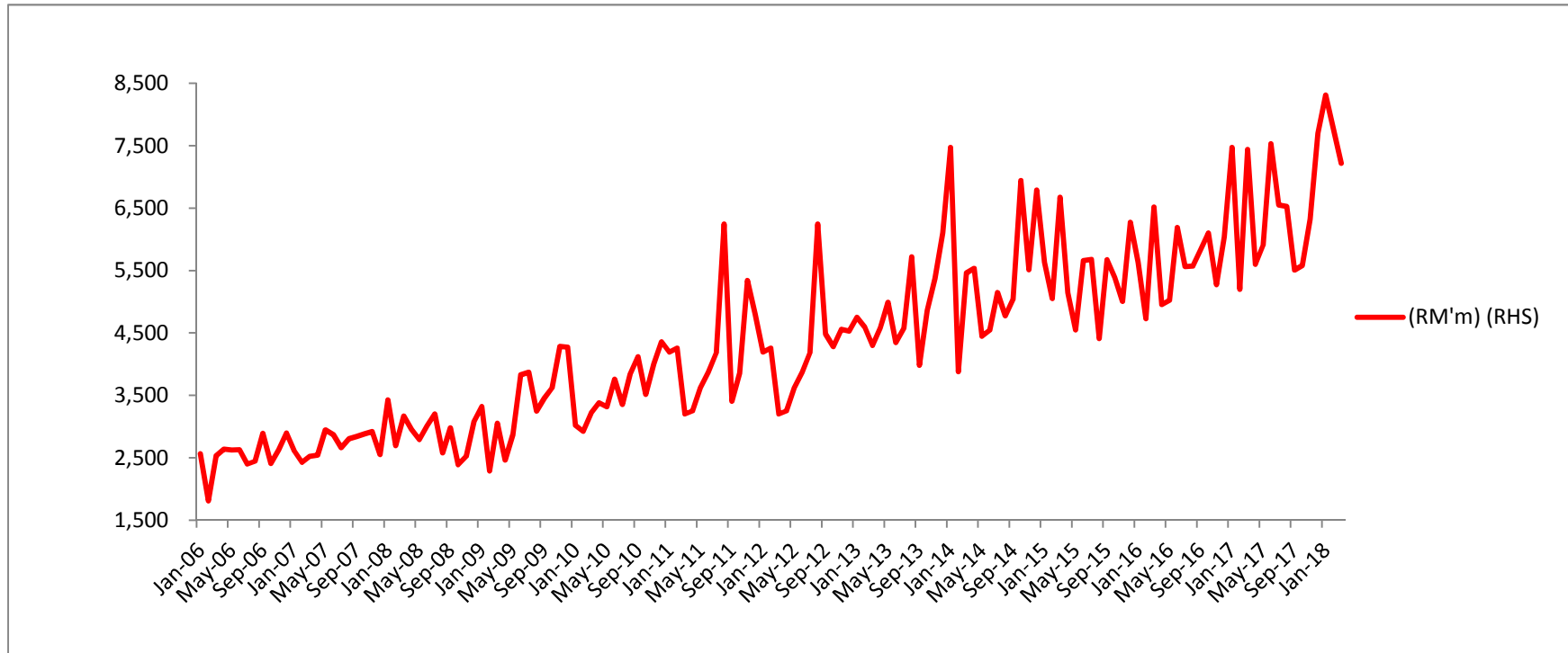


DAILY PRICE CHART



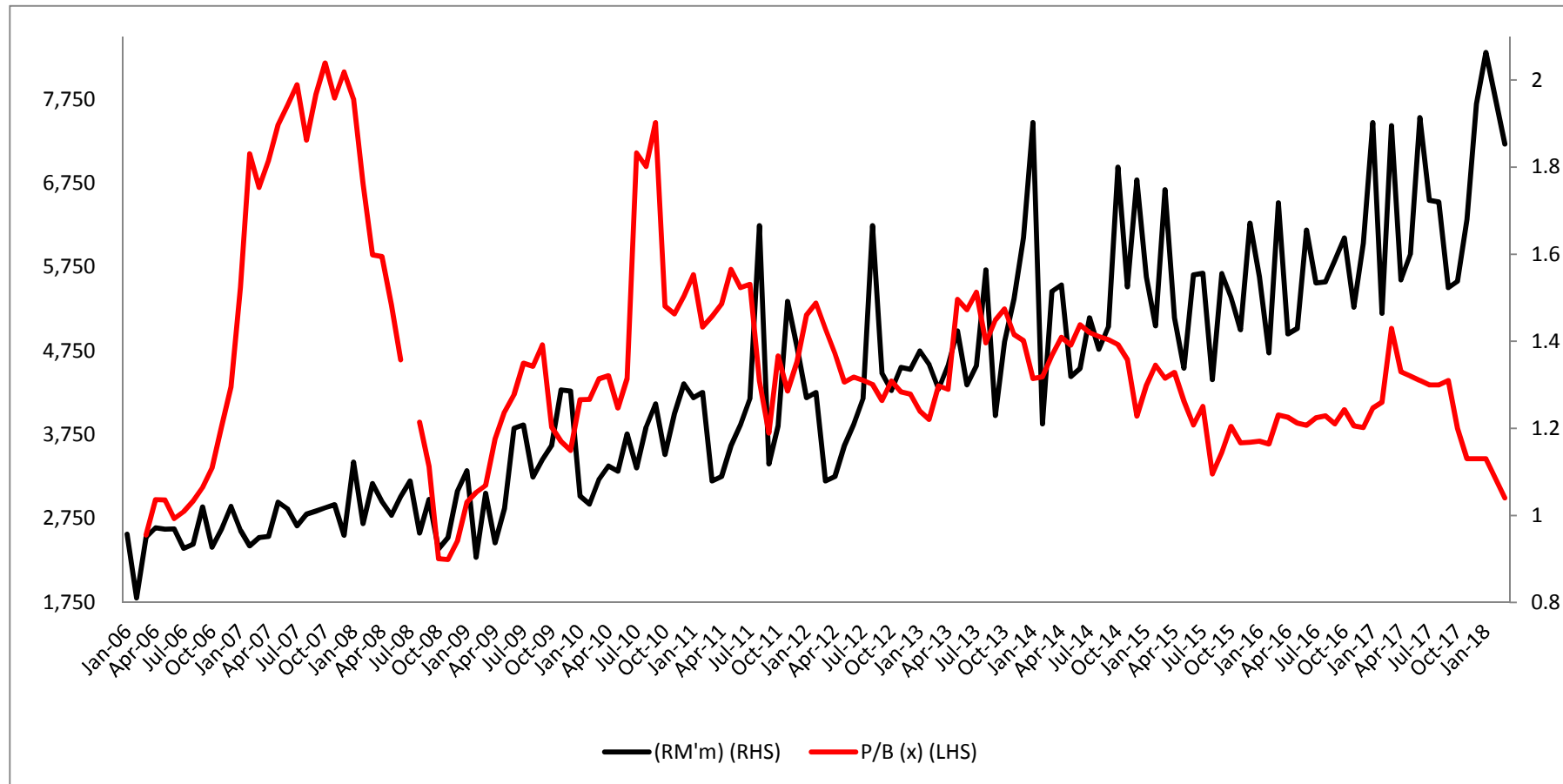
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FIGURE 1: LOANS DISBURSED TO CONSTRUCTION SECTOR



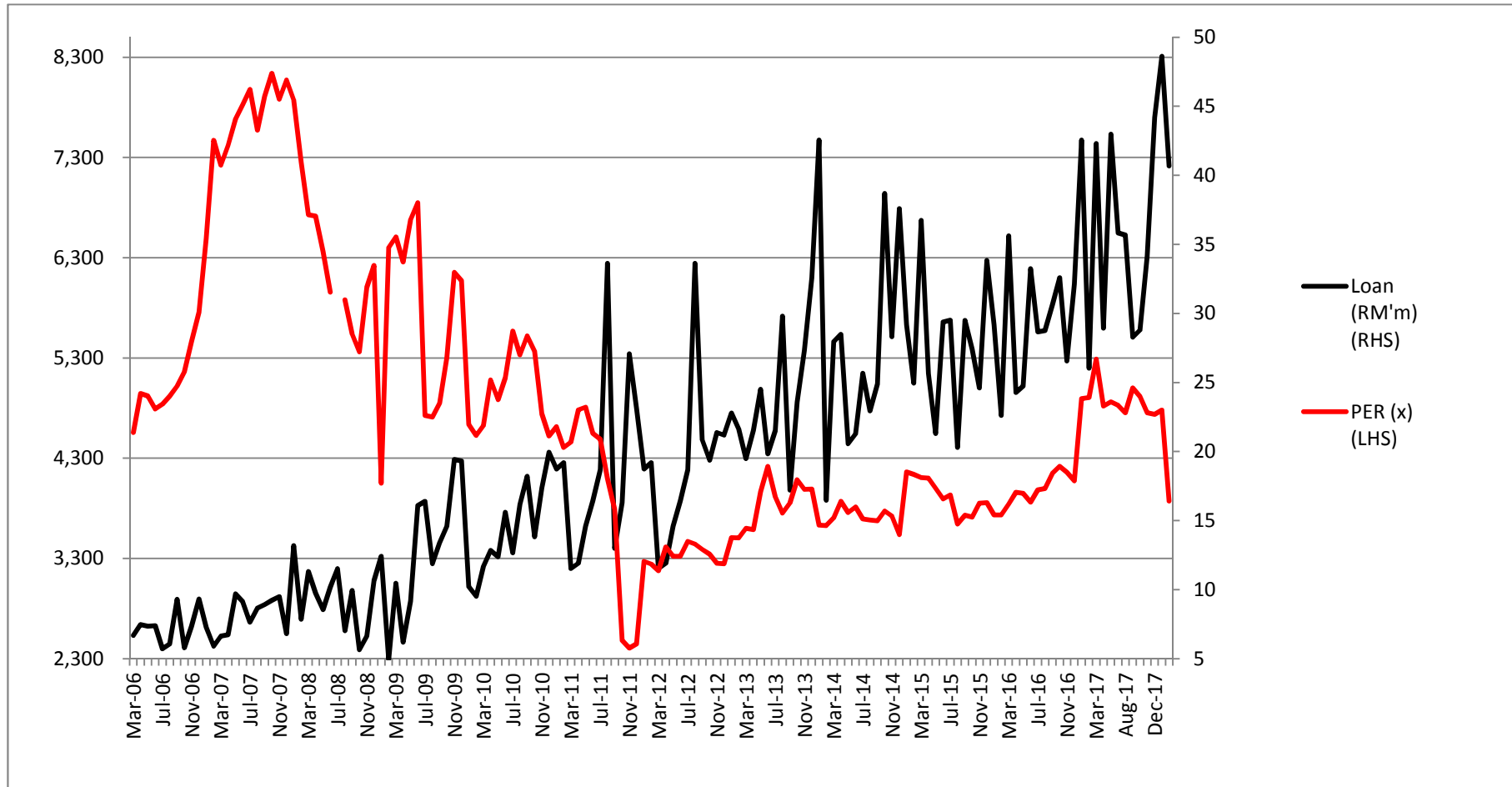
Source: CEIC

FIGURE 2: LOANS DISBURSED VS. PRICE-TO-BOOK



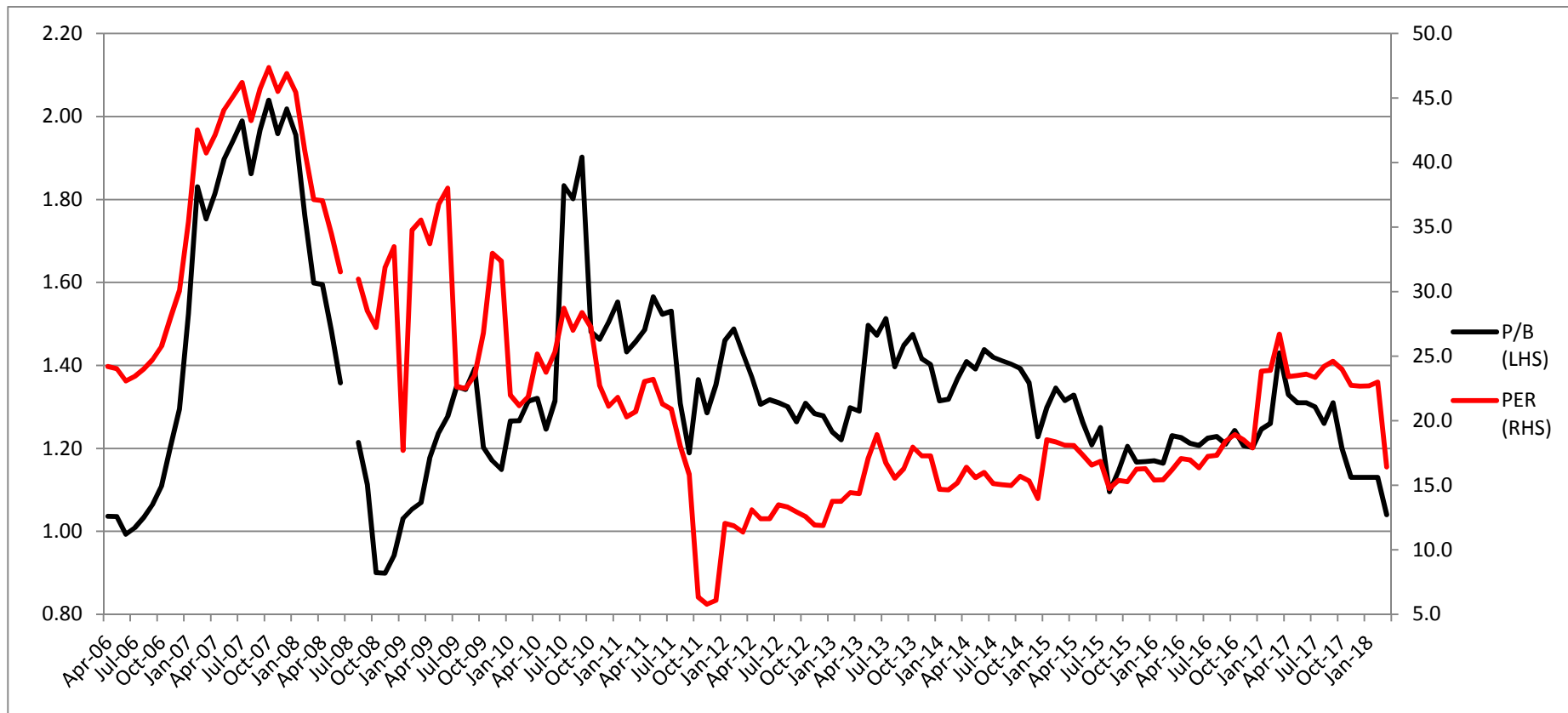
Source: CEIC, Bloomberg

FIGURE 3: LOANS DISBURSED VS. PRICE-TO-EARNINGS



Source: CEIC, Bloomberg

FIGURE 4: PER VS. PBR



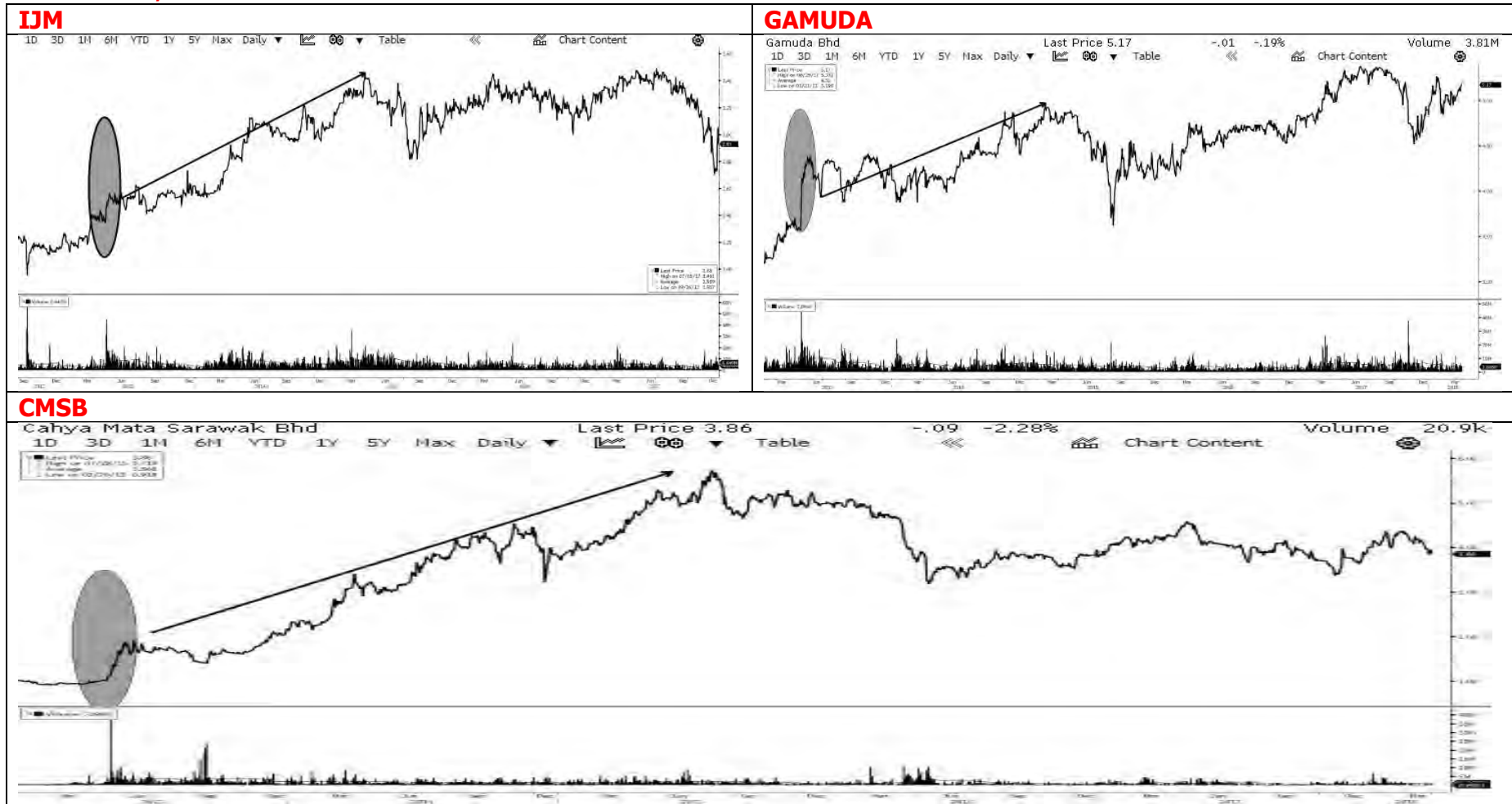
Source: CEIC, Bloomberg

FIGURE 5: SECTOR EARNINGS YIELD

Stock	YTD HPR	YTD annualised return	TP	Val. Basis	P/B	P/E	Earnings Yield
IJM	-12.46%	-40.35%	4.00	SOP	1.2	16.8	5.95
CMS	-1.03%	-3.92%	4.62	SOP	1.8	19.5	5.14
GAM	4.23%	17.47%	5.05	SOP	1.6	19.8	5.06
MUHI	1.06%	4.16%	3.60	SOP	1.3	10.4	9.65
WCTHG	-24.69%	-66.75%	1.47	SOP	0.7	14.3	6.97
AQRS	-16.06%	-49.33%	2.30	DCF	1.9	16.4	6.08
SCGB	-17.93%	-53.57%	2.67	SOP	5.9	23.5	4.25
MRC	-11.61%	-38.06%	1.19	SOP	1.0	17.1	5.86
HSL	1.40%	5.54%	2.00	DCF	1.1	16.9	5.92
LMC	-31.13%	-76.50%	3.80	DCF	1.8	68.5	-4.08
LTK	1.26%	4.99%	5.95	DCF	4.0	12.9	7.72

Source: Bloomberg

FIGURE 6: IJM, GAMUDA & CMSB'S SHARE PRICE REACTION POST GE-13



Source: Bloomberg

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.