

SECTOR HIGHLIGHTS

- **Inundated again with strong tidal flow of liquidity**
- **The plot twist of sudden liquidity surge is not a welcomed surprised**
- **Spoilt with catalysts but which one matters?**
- **Earnings Yield and PER separates the wheat from the chaff**
- **Maintain Positive**

Inundated again with strong tidal flow of liquidity. Loans to the sector increased from RM5.19bn in Feb-17 to RM7.43bn in excess of RM2.24bn (+43.1%MoM or +14.1%YoY). (*Figure 1*) We believed that liquidity is a buoyancy parameter of the sector steered by not just by the government through its infrastructure-focused policy. But also 'higher-return' mindset of institutions seeking excess return since KLIBOR 3-months and 5-Y MGS shows an anaemic and stagnating trend. At writing, the uptick in KLCon Index from share prices of heavyweights such as IJM (TP: RM4.00) by surged by +2.32% and Gamuda (TP: RM5.50) increased by +6.65% since our last sector report (*12.04.17*) and sectoral PER rose to 26.9x - unseen since Oct-2010.

The plot twist of sudden liquidity surge is not a welcomed surprised. We have illustrated the impact of liquidity impulse to the sector which stretches the valuation of the sector consequently masking its lofty valuations. (*Figure 2 and Figure 3*). To distil further, from Jan-17 to Mar-17, loans disbursed to construction sector totalled to RM20.1bn whereas the preceding period recorded a total of RM16.8bn registering a sharp increase of +19.6%. On average, RM4.1bn construction loans were disbursed monthly into the sector for the past 11 years, so it is only instinctive for us to depart from our positive stance to a cautious view of the sector considering excess liquidity.

Spoilt with catalysts but which one matters? On a separate note, we suspect the credit liquidity to the sector emanates from anticipation of; (i) an election in early Q4FY17 and (ii) announcements on big ticket project packages such as ECRL, HSR, Bandar Malaysia development, Kuala Linggi International Port and Baleh dam. The recent Belt and Road Forum 2017 dished out construction related projects amounting to RM24.28bn - consisting of the Robotic City in Johor (RM15bn), The Shore, Kota Kinabalu (RM575m) and Methanol and Derivatives in Bintulu, Sarawak (RM8.7bn). The news supports the buoyancy of sector. But what is the realistic impact to our construction sector? Despite the influx of news, earnings are still chugging slowly. Largely, projects in the orderbooks of our coverage are infrastructure projects. Therefore, we recommend a hard-nosed watch for red herrings. i.e. East Coast Rail Line would only bring the total of RM1.5bn of earnings on the back of RM15bn jobs for local companies.

What matters is still valuation then... Valuation-wise earnings factor is represented by the spread between 5-Y MGS and earnings yield of construction companies under coverage (Figure 6). So far, the spread has turned negative on; (i) WCT (SELL, TP: RM1.61) by -1.17% and (ii) CMSB (NEUTRAL, TP: RM4.62) by -0.17%. Thus, we will only depart from our positive stance on the sector based on negative spread of; (i) mean of earnings yield of companies under coverage and (ii) KLCON Index earnings yield compared to 5-Y MGS. For our coverage, we are predicting that for 1Q17-2Q17 earnings would be anaemic. This is due to lower (i) revenue recognition from major projects, (ii) lower margin profile from major infrastructure projects i.e. KVMRT2 and (iii) quarterly trends. Consequently, we reckon that the present higher risk-taking mode sweeping the market is already in dangerous borderline due to the disparity between p/b and p/e ratio for KL Construction Index (*Figure 4*) hence proposing long/short position of construction companies to be guided on earnings yield spread despite the strong surge in activities coupled with liquidity. (*Figure 5, Figure 6 and Figure 7*)

Earnings still counts. That's why we favour construction companies with strong core competency with diversified non-commodity revenue stream. Despite changes in recommendation due to share price movements, we remain positive with the prospects of Muhibbah (TP: RM3.05), MRCB (TP: RM2.10) and Gabungan AQRS (TP: RM1.49) due to their strong forte of construction backed by revenue stream from airport concession, facilities management and property development.

***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.

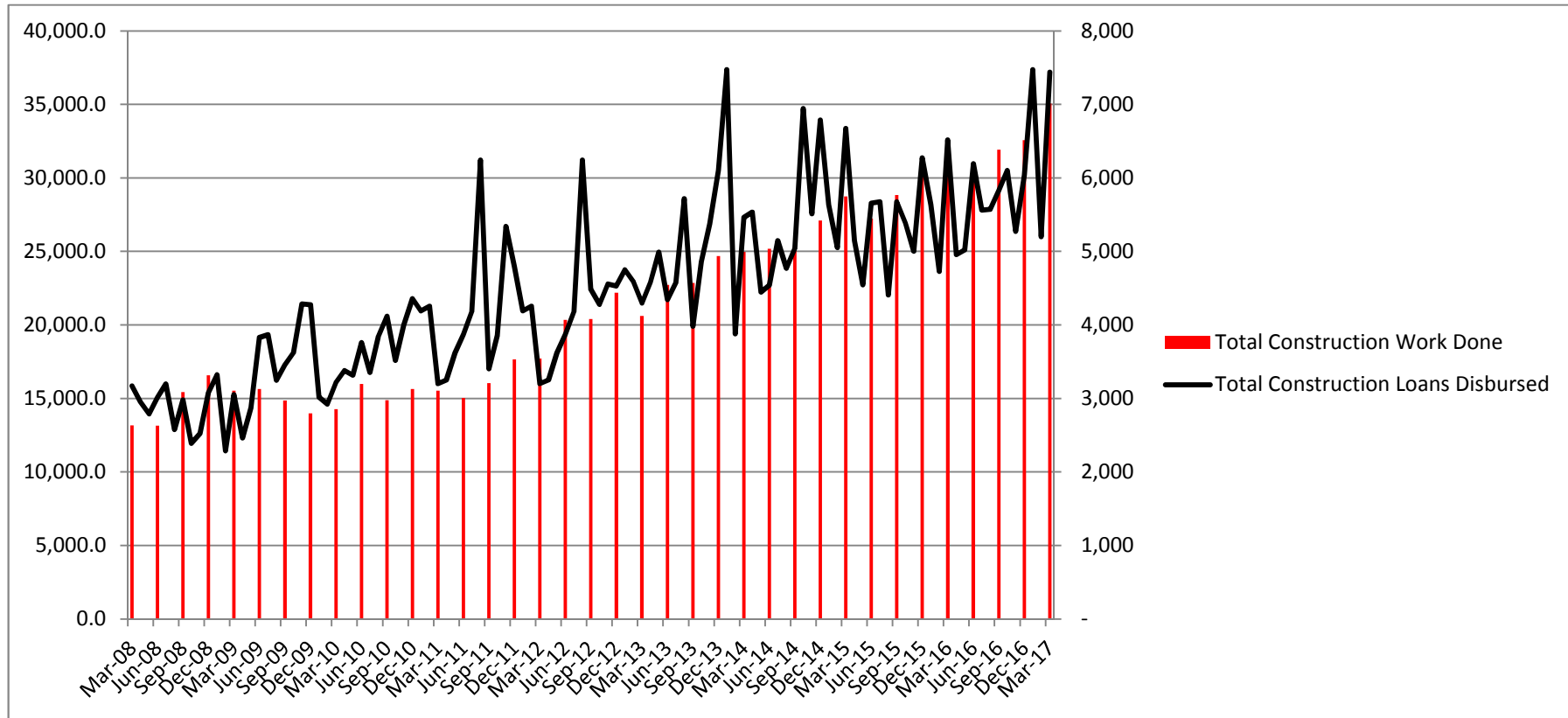
***P/BR :** Price to Book Ratio ***PER :** Price to Earnings

DAILY PRICE CHART



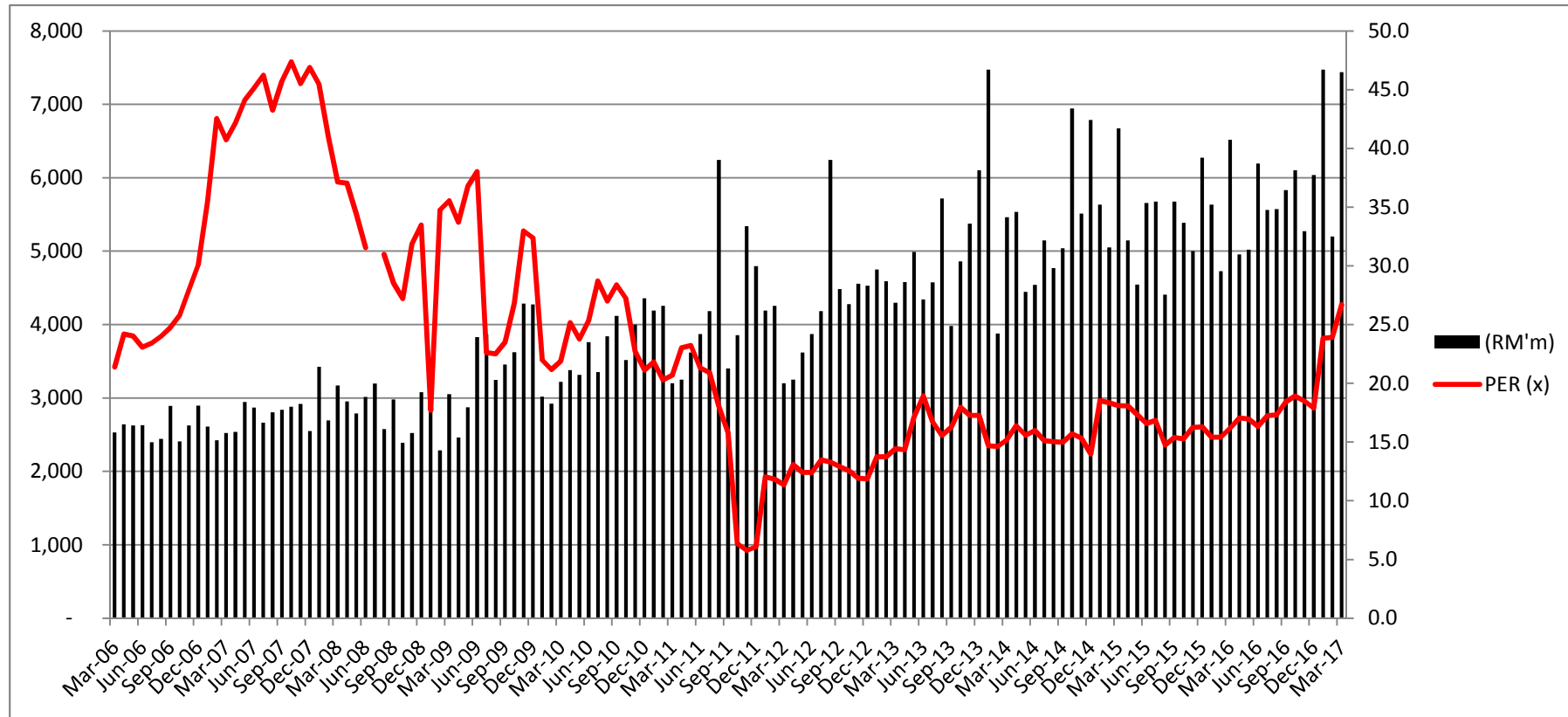
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FIGURE 1: TOTAL CONSTRUCTION WORK DONE AND TOTAL CONSTRUCTION LOANS DISBURSED



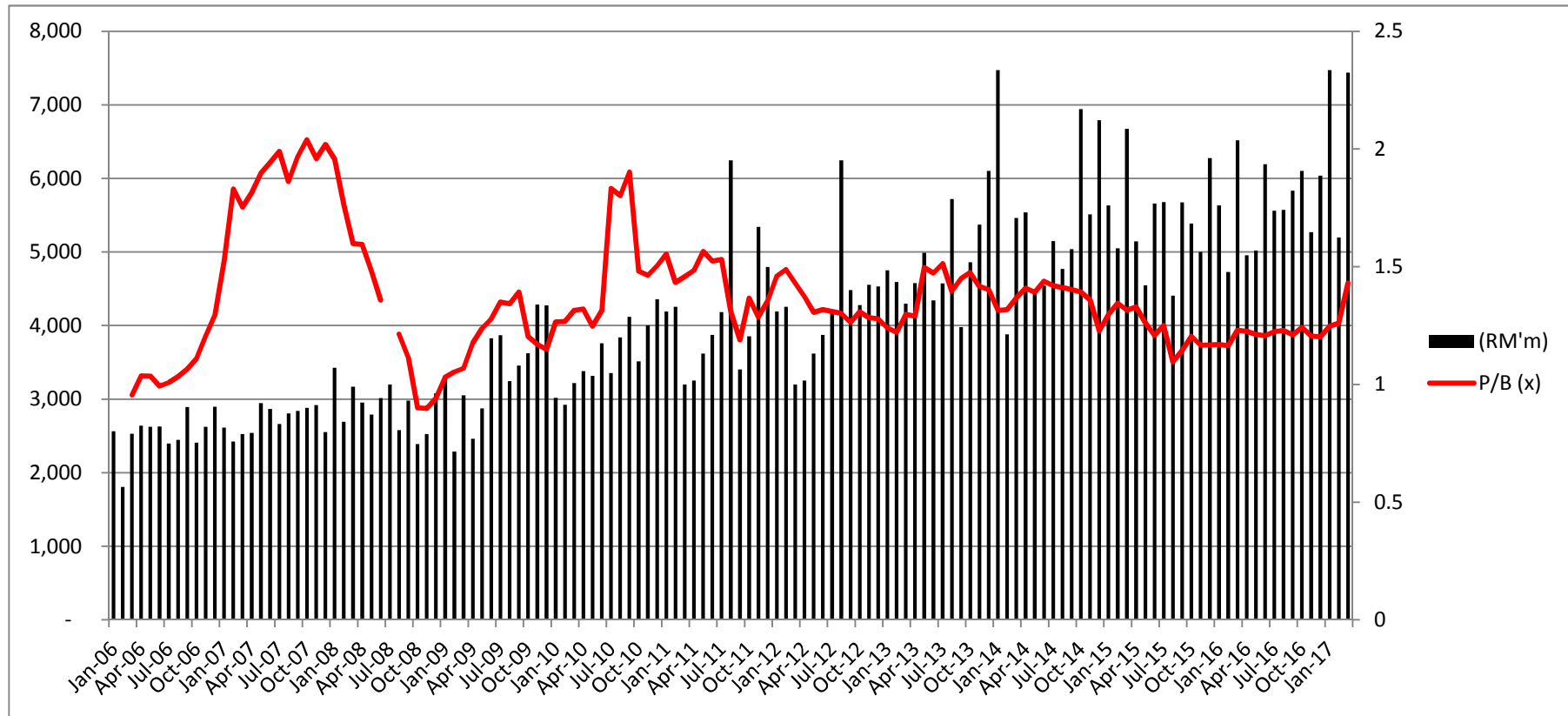
Source: CEIC, DOS, CIDB, Bloomberg

FIGURE 2: PER VS. LOANS DISBURSED



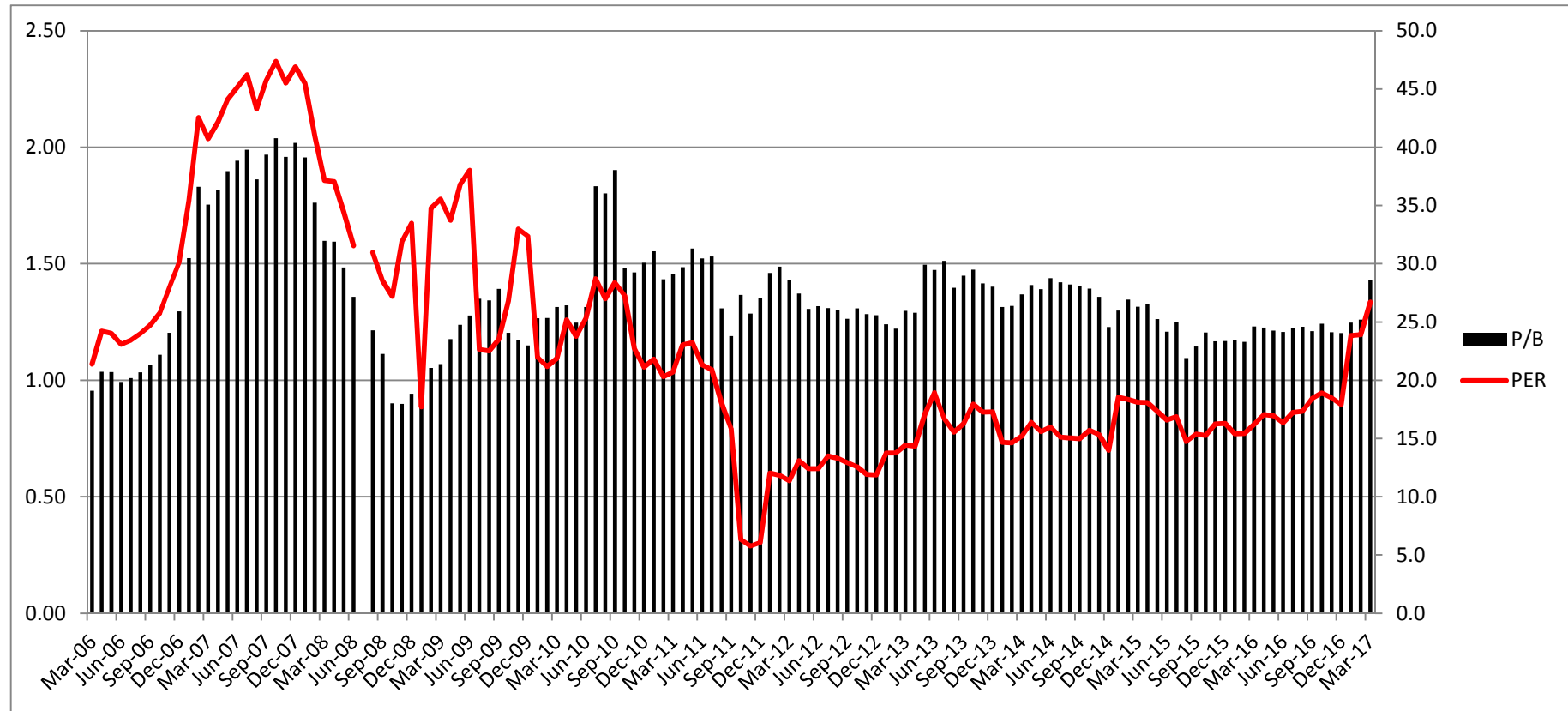
Source: CEIC, DOS, CIDB, Bloomberg

FIGURE 3: PBR VS. LOANS DISBURSED



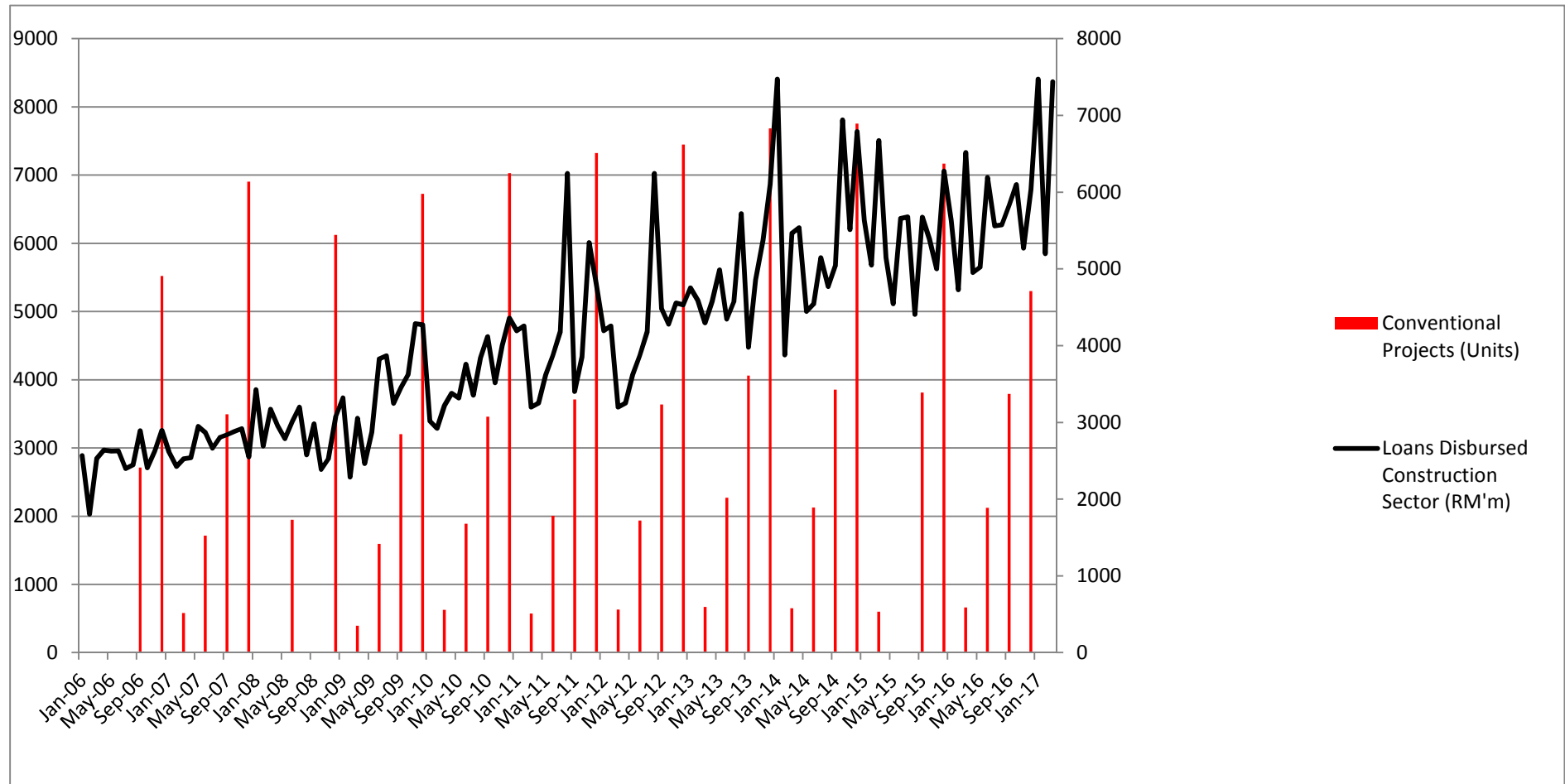
Source: CEIC, DOS, CIBD, Bloomberg

FIGURE 4: KLCON PB/R AND PER CONVERGENCE



Source: CIB, Bloomberg & DOS, Bloomberg

FIGURE 5: CONVENTIONAL PROJECTS VS. LOANS DISBURSED



Source: CIDB, Bloomberg & DOS

FIGURE 6: CONSTRUCTION SECTOR

	MARKET CAP	EV	TRAIL12M SALES	5-Y SALES CAGR	3-Y SALES CAGR	OP/MARGIN	PRO/MARGIN	5YR N/MARGIN	NET DEBT/EQTY	5-Y Total Return	1-Y Total Return	DIV 12-M YLD	EARN/YLD	ROE	5-Y ROE CAGR	ROC	WACC	ROA	5-Y ROA CAGR	P/E	P/B
	RM/m		(x)																		
LDB	-	-	20.13	-23.43	-45.58	8.97	3.85	4.27	1.60	-	-	-	-	0.60	-12.08	0.72	1.32	0.43	-8.78	-	-
ARK	34.07	33.03	6.70	10.38	-9.89	-28.61	-30.62	-5.40	-6.08	-	-	-	-6.20	-11.48	-	-10.67	11.16	-8.64	-	-	1.98
MEHB	103.26	94.50	123.22	3.71	-22.86	-0.66	29.05	10.10	-14.20	8.02	7.01	2.02	10.85	10.80	7.87	7.82	34.49	4.74	7.82	4.74	0.49
MEB	20.10	13.58	91.93	22.95	-4.58	4.06	1.11	2.38	-14.44	4.13	-7.69	-	6.40	2.13	-0.72	2.45	5.36	1.27	-5.94	15.63	0.34
DKLS	188.18	235.33	246.17	6.01	2.74	23.14	20.67	12.37	9.25	15.86	14.72	1.48	27.05	13.53	12.58	10.96	6.24	7.83	7.33	3.70	0.48
ZEC	72.65	368.46	256.27	-	-	50.04	13.34	-	118.65	4.91	-13.48	-	68.87	68.23	-	33.19	4.64	7.73	-	1.45	0.74
TRIB	108.90	347.24	42.80	46.08	-33.11	96.06	47.48	23.83	138.61	31.42	-1.85	-	20.33	13.40	36.90	9.09	4.36	3.80	50.34	4.92	0.61
KICB	704.31	740.32	940.68	7.63	-0.19	12.02	8.71	5.68	6.68	13.67	31.55	2.56	11.89	16.40	-5.12	13.39	7.99	8.31	-2.52	8.41	1.31
BREM	316.82	517.35	138.64	3.22	-2.52	34.01	13.23	23.49	10.94	13.50	7.51	-	2.24	1.29	-21.59	2.11	5.48	0.81	-21.72	44.71	0.55
ACP	89.18	139.71	288.28	-12.98	0.03	0.28	-1.36	-8.76	-16.20	0.72	54.00	-	-0.31	-0.36	-	2.26	5.00	-0.06	-	-	1.14
PINT	634.17	456.18	189.40	1.68	-7.48	13.15	12.99	23.15	-51.82	29.50	16.33	5.19	5.27	9.82	-19.80	9.82	7.08	7.95	-20.43	18.97	1.87
HSL	928.68	850.04	498.55	-3.03	-3.13	14.52	11.32	13.25	-11.60	4.70	-0.94	1.42	6.08	8.30	-18.53	8.30	7.64	6.69	-13.48	16.46	1.32
IREKA	107.65	225.84	262.40	-9.93	-7.26	-6.12	-15.03	-6.96	82.52	3.94	14.55	-	6.19	4.31	-	4.20	6.43	1.30	-	16.15	0.68
SYC	108.88	167.91	139.19	9.77	-21.91	7.59	4.03	5.84	21.89	16.26	-5.56	-	5.15	2.33	-6.04	2.43	6.80	1.10	-9.16	19.43	0.45
KPG	1679.15	1590.72	805.37	42.19	167.67	16.20	12.41	19.94	-16.44	31.93	70.11	1.23	11.27	23.95	10.56	22.88	7.69	16.15	13.23	8.87	2.28
MLG	417.91	584.78	231.87	21.65	110.50	3.30	0.35	-1.25	9.33	-	78.13	-	2.70	5.94	-	3.80	6.41	2.20	-	37.01	2.30
BIN	112.09	775.06	1046.86	-2.33	-0.22	4.97	0.10	0.38	191.00	-10.54	16.22	-	1.02	0.47	-37.62	2.43	3.13	0.06	-39.26	97.73	0.47
MUHI	1392.96	2395.07	1918.78	-1.09	-0.30	5.67	5.50	3.29	43.23	22.75	32.34	1.72	7.64	11.76	-2.26	7.35	6.72	2.85	4.58	13.09	1.42
KJB	76.82	118.48	152.88	1.98	-11.56	-13.68	-16.07	-4.62	53.20	-11.03	77.27	-	-33.51	-22.99	-	-14.38	6.06	-10.66	-	-	0.74
CBH	166.42	733.90	297.76	-7.57	10.05	23.23	4.17	8.79	133.19	2.18	7.09	4.10	7.49	3.10	-23.69	4.33	3.32	0.92	-28.70	13.36	0.41
PESONA	450.32	463.14	393.02	89.36	9.85	4.14	5.10	4.40	8.93	9.72	94.47	2.96	4.53	14.31	-	13.51	9.07	6.34	-	22.06	3.08
PNH	431.59	-635.34	74.24	-50.92	-47.65	-220.57	-350.98	-45.99	-74.92	4.39	-18.22	-	-56.63	-16.67	-	-16.05	9.21	-14.60	-	-	0.30
PRTA	422.09	784.43	1088.97	9.37	3.94	7.62	4.07	2.90	84.87	13.68	-22.24	7.04	10.66	11.50	5.17	8.34	5.71	3.37	-6.69	9.38	1.07
HO	329.89	554.45	198.32	52.06	17.75	34.57	27.00	10.96	60.98	14.35	4.76	-	18.97	21.30	-	13.95	7.58	9.42	-	5.27	1.07
IJGB	361.40	434.79	242.57	10.78	5.71	8.86	4.65	7.68	38.75	-	-9.66	1.44	3.11	5.86	-	5.41	7.30	2.78	-	32.18	1.40
SCGB	2663.37	2334.87	1788.84	-	-0.93	8.33	6.90	5.93	-66.68	-	30.94	2.43	4.64	26.17	-	21.09	6.44	8.25	-	21.56	5.40
WCE	1554.24	2975.92	794.75	-	-	1.22	5.03	-	144.61	10.52	68.48	-	1.60	3.77	-	1.38	5.62	0.97	-	62.50	2.31
TRC	343.56	286.62	742.09	13.11	-3.30	3.46	4.03	2.24	-16.04	2.85	57.78	0.91	8.70	8.11	13.68	6.28	6.26	3.79	5.67	11.50	0.90
AQRS	546.54	818.47	330.06	-2.39	-6.69	17.79	6.84	6.10	75.58	-	56.42	-	4.13	6.79	-	6.17	5.65	2.31	-	24.22	1.59
ZELN	126.73	598.13	222.37	59.99	20.21	-38.98	-30.69	-12.49	359.39	-13.24	-18.92	-	-53.93	-40.54	-	-6.74	6.07	-8.02	-	-	0.96
MHB	930.53	1106.18	964.12	29.78	41.76	16.67	12.22	9.62	28.78	36.15	7.52	3.60	12.57	21.08	10.08	16.41	7.98	10.54	5.33	7.96	1.51
AZR	584.69	1696.19	1202.25	17.58	26.48	7.65	2.16	2.22	204.25	16.04	55.22	1.82	4.92	6.82	-	2.26	2.90	0.99	-	20.33	1.49
PSIP	60.22	155.56	208.02	2.73	-20.76	4.07	2.08	1.40	49.97	2.59	58.33	-	7.21	2.37	-2.83	2.67	4.40	1.09	3.72	13.87	0.32
TSRC	140.43	265.75	182.04	8.95	18.51	10.10	5.61	3.48	73.18	2.41	51.89	-	7.45	6.02	-	4.33	5.01	2.56	-	13.42	0.80
MDJ	861.44	1331.81	736.18	-10.84	-20.93	-29.82	-50.55	-6.67	68.90	-7.16	33.33	-	-30.67	-28.90	-	-15.39	6.81	-12.95	-	-	1.18
JAK	761.87	1331.42	640.38	14.41	7.89	2.28	0.11	2.82	84.27	24.88	72.68	-	0.10	0.15	-	0.83	7.57	0.05	-	987.50	1.37
ECON	1300.05	1268.18	512.37	-	6.17	19.60	14.62	-	-8.78	-	90.38	1.65	5.59	28.93	-	26.10	8.78	17.58	-	17.89	4.69
BHB	415.53	604.06	378.11	8.90	6.72	18.54	5.30	13.10	4.13	-12.94	3.70	1.35	4.42	3.49	-40.60	3.95	6.46	1.54	-43.02	22.61	0.67
IJM	12662.25	17821.53	5563.07	6.63	3.22	18.90	15.48	11.24	36.39	8.64	2.96	2.86	3.67	5.10	7.56	3.57	7.27	2.28	9.43	27.24	1.38
EVSD	719.73	1533.20	1574.61	8.78	17.73	-1.34	-16.35	1.03	88.17	-9.43	39.00	0.54	-35.78	-25.56	-	-0.91	6.25	-9.01	-	-	0.81
VZH	113.73	112.46	40.50	-	-	1.32	0.31	-	-8.15	0.29	44.44	-	1.85	2.51	-	2.53	6.95	1.37	-	54.17	1.54
GAM	13019.96	17173.51	2440.44	-4.51	-1.72	22.37	29.51	26.42	46.23	12.37	14.97	2.24	4.90	9.09	-4.52	6.50	7.70	4.56	-5.22	20.43	1.78
WCTHG	3122.27	5683.27	1933.60	4.63	5.32	7.24	3.54	11.71	90.32	6.21	34.08	0.89	2.44	2.54	-26.87	1.63	5.62	0.97	-23.23	40.98	1.02
GADG	844.23	796.48	629.88	14.02	23.74	17.64	13.03	8.75	-13.32	46.21	60.70	2.17	19.45	19.30	-	13.94	6.90	9.39	-	5.14	1.42
FBC	339.77	458.38	322.95	18.55	25.75	11.41	2.53	-2.07	-2.41	4.91	63.43	1.34	2.16	3.21	-	6.74	6.44	1.34	-	46.29	1.45
EKO	2652.61	4856.02	954.34	44.00	77.89	19.89	19.58	22.91	152.16	29.90	99.20	9.03	8.62	17.64	10.93	5.62	4.62	3.75	-1.73	11.61	1.90
MRC	3335.59	5647.51	2408.07	14.44	36.79	22.28	11.10	6.75	73.15	0.32	28.57	-	8.56	10.31	7.98	7.92	6.83	3.66	13.92	11.68	1.12

Source: Bloomberg, MIDFR

FIGURE 7: COVERAGE BAROMETER

	P/B(x)	P/E (x)	OPM LF (%)	5-Y MGS (%)	Earnings Yield	Spread (%)
MUHIBBAH ENGINEERING (M) BHD	1.42	13.09	8.24	3.57	7.49	3.91
IJM CORP BHD	1.39	27.55	13.15	3.57	3.61	0.04
GAMUDA BHD	1.80	20.62	16.31	3.57	4.90	1.32
WCT HOLDINGS BHD	1.02	40.98	4.24	3.57	2.41	-1.17
GABUNGAN AQRS BHD	1.49	22.66	17.79	3.57	4.45	0.87
HOCK SENG LEE BERHAD	1.34	16.65	13.75	3.57	5.90	2.33
VIVOCOM INTERNATIONAL	1.11	8.58	16.17	3.57	11.65	8.08
CAHYA MATA SARAWAK BHD	2.14	27.98	26.42	3.57	3.47	-0.10
MALAYSIAN RESOURCES CORP BHD	1.36	13.23	16.11	3.57	7.52	3.94
SUNWAY CONSTR GROUP BHD	5.38	21.46	8.33	3.57	4.59	1.02
KLCON INDEX	1.43	26.8	10.32	3.57	3.7	0.13

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

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.