

03 April 2015 | Sector Update

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Construction Sector

1QCY15 contract awards stats

Maintain POSITIVE

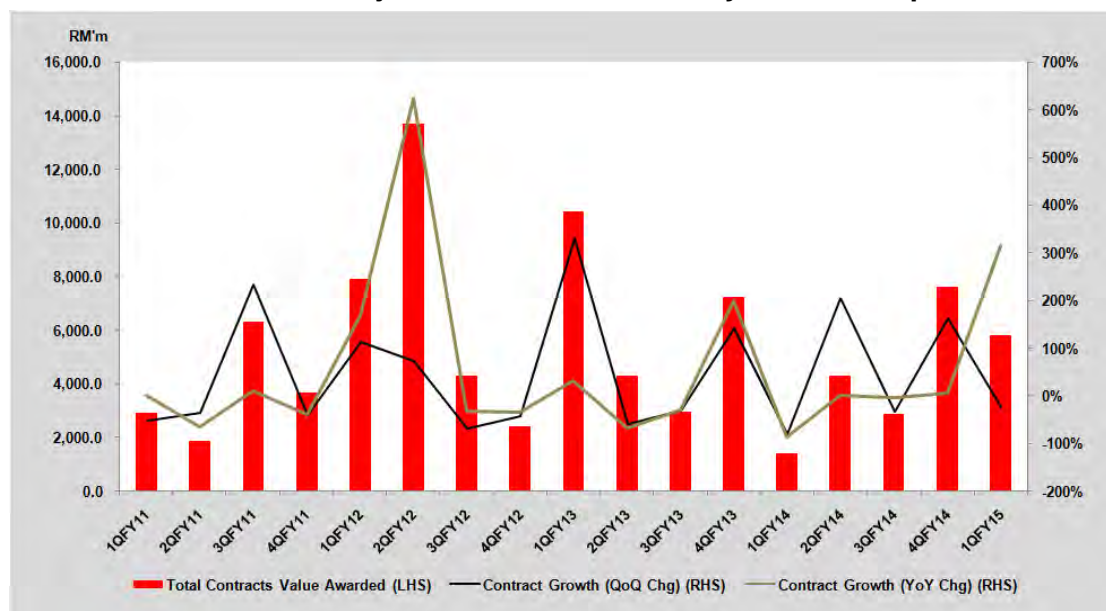
KLCON: 296.78 (+6.59%ytd)
FBMKLCI: 1,831.97 (+5.66%ytd)

INVESTMENT HIGHLIGHTS

- The award of local and foreign jobs to listed construction companies was encouraging in 1QCY15.
- The increase was led by three companies underpinned by strong inflow of jobs and large scale projects.
- The KL Construction Index (KLCON) so far this year is still trading below its 5-year quarterly average PER of 17x and we see limited downside risk given the forward PER is only at 12x.
- Therefore, we reaffirm our POSITIVE recommendation on the sector.

Contract awards regained momentum. We gathered that the growth in total value of contracts awarded to listed construction companies has shown significant increase to an estimated RM5.8b (>300%yoy) in the 1QCY15. This was considerably higher to the mere RM1.4b worth of jobs given out in 1QCY14. The expansion was largely backed by improvement in local and foreign construction jobs rolled-out during the period. The local listed contractors were awarded RM3.9b and RM1.95b worth of new local and foreign jobs respectively. Among major projects contributed to the growth include RM1.2b Phase 1 of New Deep Water Terminal at Kuantan Port, RM1.2b infrastructure works in Doha, Qatar and RM539m Puteri Cove Residences project.

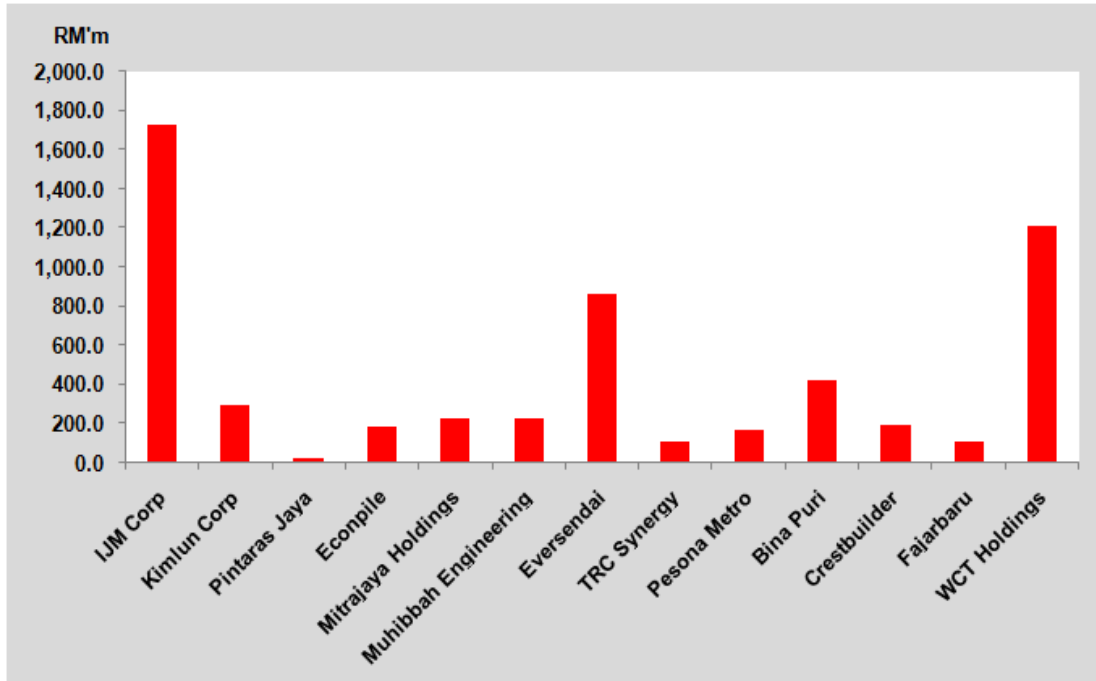
Chart 1: Total Value of Projects Awarded For Locally-Listed Companies



Source: Bursa Malaysia, MIDFR

Five companies dominated the awards. Most of the contract awards in 1QCY15 were dominated by IJM Corp with RM1.7b of new jobs, followed by WCT Holdings and Eversendai with effective values of RM850m and RM860m respectively. We are positive on the strong contract inflows by these three companies thus far as there were zero contract awards in the corresponding period last year. Apart from them, the award of construction contracts to Bina Puri and Kimlun Corp was also picking pace to RM420m and RM294m respectively. We expect new job awards to continue to accelerate in the months ahead underpinned by Government spending on infrastructure projects.

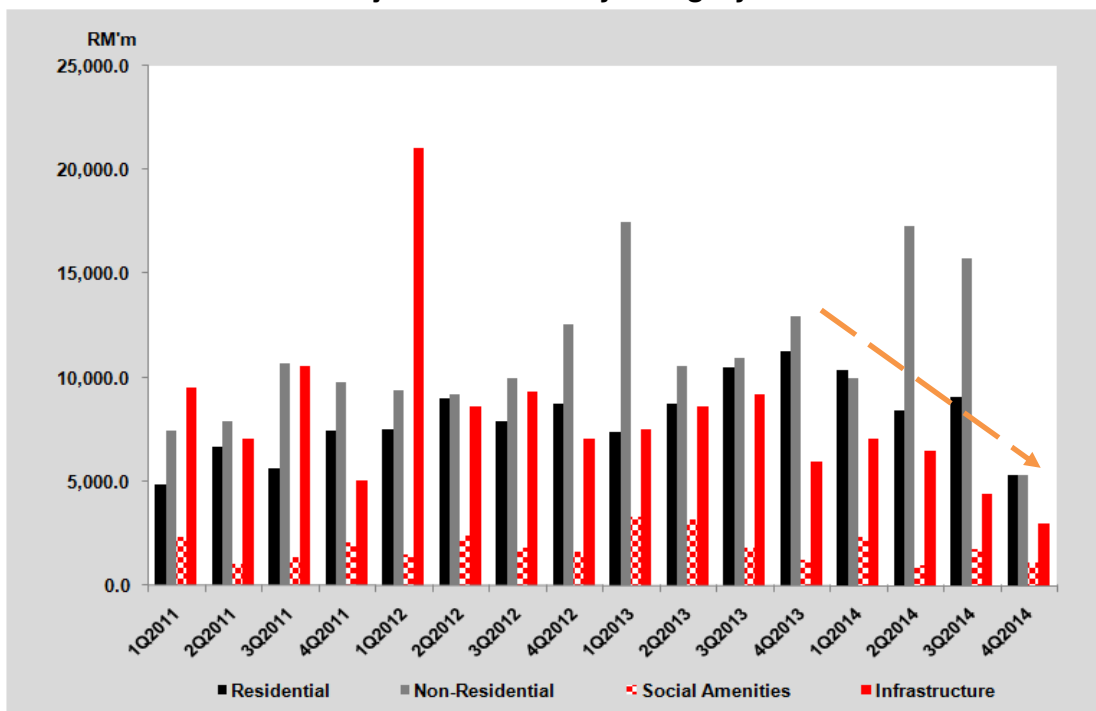
Chart 2: 1QCY15 Projects Awarded by Category of Locally-Listed Companies



Source: Bursa Malaysia, MIDFR

Property projects may continue to slowdown. Going forward, while we expect the infrastructure segment of the industry to be propped up by the various upcoming transport-related projects, the property segment may remain subdued due to weakening property market and implementation of GST recently. We observed that the amount of both residential and non-residential property jobs awarded to all construction companies have dropped by circa -55%yoy from 4QCY13 to 4QCY14.

Chart 3: Total Value of Projects Awarded by Category



Source: CIDB, MIDFR

What to expect? With the noticeable upsurge in contract awards in 1QCY15, we believe the momentum will persist with some large-scale projects award will take off this year. Moreover, some of these projects are deemed priority by the Government and contained in the Budget 2015. Year-to-date, the Government has stamped its commitment by giving the nod to the construction of RM1.6b East Klang Valley Expressway and recent ground breaking for the RM13.0b Phase 1 of Pan Borneo Highway. From demand perspective, projects in the pipeline are likely as follow:

Table 1: Projects in the pipeline

Project	Value	Status	Comments
KVMRT Line 2	RM23.0b	<p>Stage: PDP agreement to conclude by 2Q2015</p> <p>Tender: To be called in late 2015</p> <p>Award: Major civil works from mid-2016</p>	Only local contractor qualified to tender for underground works package, which MMC-Gamuda (TP: RM4.83) JV will be strong contender for the aforesaid job worth approximately RM8-9b.
LRT 3	RM10.0b	<p>Stage: PDP appointment by 3Q-4Q2015</p> <p>Tender: To be called in 2016</p> <p>Award: 3-6 months subsequent to tender closing date</p>	We opine all candidates may have roughly equal chances to win PDP role. As an example, MRCB (TP: RM2.24)-George Kent and Sunway (TP: RM3.72) have experience in LRT construction works which could pave the way for them to win the PDP award. Meanwhile, we understand that Naza-CSR JV has offered attractive packages to remain competing for the PDP role.
Pan Borneo Highway	RM27.0b	<p>Stage: RM13.0b Phase 1 for Sarawak alignment</p> <p>Tender: Subcontractors will be invited soon</p> <p>Award: 3-6 months subsequent to tender closing date</p>	The construction works would be carried out by 75 construction companies from both Peninsular and the state. Cahya Mata Sarawak (non-rated) is in strong position to secure some packages and will boost its building-material products as well. Sarawak backed like Hock Seng Lee (TP: RM2.06) and Naim Holdings (TP: RM4.42) will also be clear beneficiaries.
WCE	RM5.0b	<p>Stage: Remaining RM2.2b packages</p> <p>Tender: Closed</p> <p>Award: 2Q-3Q2015</p>	Among the bidders include WCT Holdings (TP: RM1.84) , Mudajya (non-rated) , Bina Puri (non-rated) and Muhibbah Engineering (TP: RM2.85) .
SUKE	RM5.3b	<p>Stage: Under review</p> <p>Tender: To be determined at later date</p> <p>Award: To be determined at later date</p>	Repeated objections by affected residents opposing the implementation of highway project
DASH	RM4.2b	<p>Stage: Revising alignment</p> <p>Tender: To be determined at later date</p> <p>Award: To be determined at later date</p>	Just like Kinrara-Damansara expressway (KIDEX), implementation of DASH has been opposed by affected residents.
Tun Razak Exchange	RM26.0b	<p>Stage: Infrastructure package</p> <p>Tender: Closing date will be in May 2015</p> <p>Award: 3-6 months subsequent to tender closing date</p>	This package is estimated to be worth more than RM200m. WCT Holdings will be one of the bidders.

Project	Value	Status	Comments
Penang TMP	RM17.0b	Stage: PDP appointment by mid-2015 Tender: 3-6 months subsequent to PDP appointment Award: 3-6 months subsequent to tender closing date	We understand that RM3.0b for water transport project has been omitted from the master plan and hence, the second package is now worth RM17.0b. The construction works are expected to start as early as 2017.
PNB KL118 Tower	RM5.0b	Stage: RM3.0b superstructure contract Tender: Closed Award: 2Q-3Q2015	We view WCT Holdings-Arabtec Construction LLC and UEM Group-Samsung JV in a pole position to secure the project.
Kwasa Damansara	RM50.0b	Stage: Infrastructure works Tender: Open for pre-qualification Award: As early as 2016	The package is worth an estimated RM1.0b. At this juncture, WCT Holdings is keen to participate in the job.
RAPID	RM60.0b	Stage: Subcontract packages Tender: Re-submit tender Award: To be announced by stages	Among the bidders include WCT Holdings, Muhibbah Engineering and Gadang (non-rated) . They have been re-negotiating on the subcontracts price with five main contractors as the latter has to review its budget.

Source: Various, MIDFR

Continued infrastructure investments in the 11th Malaysian Plan. As we enter into the final year of 10th Malaysian Plan, we expect Government to continue to push for infrastructure developments under the nation's 11th Master Plan (11MP). We believe so as it will be the final 5-year before 2020 deadline for Malaysia to achieve developed country status as targeted under the Economic Transformation Programme (ETP). The multiplier effect from physical infrastructure projects will continue to be the catalyst to the other sectors as well.

Limited valuation downside on construction stocks. Valuation-wise, KLCON Index is still trading at a discount to its historical 5-year rolling 4-quarter PER of 17x. As at early this week, the KLCON Index's forward PER was at an estimated 12x hence we expect a limited valuation downside on construction stocks. Therefore, we believe buying interests in construction stocks should emerge sooner rather than later as this is a good time to accumulate them before the award of contracts for upcoming mega projects.

Maintain POSITIVE. Premised on above, we maintain our **POSITIVE** stance on the Construction sector. We believe that timely award of contracts is crucial to help sustain the sector growth. Our overall top pick for construction sector is **IJM Corp (TP: RM7.50)** while **Protasco (TP: RM2.45)** is a favourite among the small to mid -cap category. Meanwhile, we like **Hock Seng Lee (TP: RM2.06)** as a favourite to benefit from SCORE and infrastructure developments in Sarawak. We reckon these companies are in good stead to outperform the broader market and possess (i) good earnings growth potential, (ii) inherent earnings quality, and/or (iii) attractive valuation. Although we deem Gamuda as a strong proxy to most local rail-related projects, we believe its current share has yet to react to the earnings transition phase in FY16. Accordingly, we have a **NEUTRAL** recommendation on Gamuda with a TP of RM4.83.

Risks. Downside risks to the sector include (1) delay/scale back in implementation of mega projects and foreign contracts award, (2) health of country's fiscal position to funding these projects, (3) slower-than-expected property market, and (4) higher building material costs.



Table 2: Our Universe

Company	Rating	Last Price (RM)*	TP (RM)	EPS (sen)		PER (x)		DPS (sen)		Yield (%)	
				FY15F	FY16F	FY15F	FY16F	FY15F	FY16F	FY15F	FY16F
Gamuda	NEUTRAL	5.14	4.83	31.5	30.3	16	17	13.0	13.0	2.5	2.5
IJM Corp	BUY	7.13	7.50	39.7	50.9	18	14	16.0	20.0	2.2	2.8
WCT Holdings	BUY	1.55	1.84	13.7	15.0	11	10	4.0	4.5	2.6	2.9
Muhibbah	BUY	2.19	2.85	23.5	24.3	9	9	5.0	5.0	2.3	2.3
Eversendai	NEUTRAL	0.78	0.78	6.3	6.7	12	12	1.9	2.0	2.4	2.6
Hock Seng Lee	BUY	1.83	2.06	16.0	18.3	11	10	3.0	4.0	1.6	2.2
Protasco	BUY	1.54	2.45	23.5	23.9	7	6	10.0	10.0	6.5	6.5

*As at 2 April 2015

Source: MIDFR

DAILY PRICE CHART



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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.