

21 May 2014 | Sector Update

Construction Sector

Consortium IJMC-KEURO gets the nod

Maintain POSITIVE

KLCON: 295.62 (+6.6%ytd)

FBMKLCI: 1,881.16 (+0.8%ytd)

INVESTMENT HIGHLIGHTS

- **The Government of Malaysia (GOM) approved the appointment of Consortium IJMC-KEURO as the Turnkey/Engineering and Procurement Contractor for the construction of the West Coast Expressway (WCE).**
- **IJM Construction (IJMC) appointed as the contractor for five out of eleven packages.**
- **We view this announcement as positive to the construction sector.**
- **We reaffirm our POSITIVE recommendation on the sector.**

Appointment of main contractor for WCE. Kumpulan Europlus Bhd has yesterday announced that the GOM has approved the appointment of Consortium IJMC-KEURO comprising of IJM Construction Sdn Bhd and Kumpulan Europlus Bhd (KEuro) as the Turnkey/Engineering and Procurement Contractor for the construction of the WCE project for a fixed sum cost not exceeding RM5.0b. Simultaneously, the GOM approved the appointment of IJMC as the contractor for the construction of Sections 3,4,5,8 and 9 of the WCE project at a cost of RM2.8b which will be verified and confirmed by Lembaga Lebuhraya Malaysia (LLM). We are not surprised with this appointment as it was already expected.

Still in line with IJM Corp expectation. Nonetheless, the value of the five packages was below IJM's Management guidance of RM3.5b of the total project cost of RM5.9b. However, the number is in line with our expectation and the Management's minimum target. We do not rule out IJM Corp could also possibly be tendering for the other remaining packages. We anticipate IJM Corp to fetch a tight PBT margin of between 6% and 9%. Pending more details that shall be disclosed in an Analysts Briefing next week, we maintain our earnings forecasts and valuation.

Six more packages to be tendered out in 2H14. We view this announcement as positive to the construction sector as it will help to keep the industry busy for the next several years. The construction works for WCE consists of 11 packages with the remaining 6 packages will be awarded in 3Q14 or 4Q14. The appointment of the contractors for the construction of Sections 1,2,6,7,10 and 11 at a cost of RM2.2b will be on an open tender basis in accordance with the Concession Agreement. We expect WCT (TP: RM2.88), Gadang (Non-rated), Mudajaya (Non-rated) and Muhibbah Engineering (Non-rated) to be among the major potential beneficiaries for the remaining WCE construction works packages.

233km highway. Stretching from Banting in Selangor to Taiping Perak, the WCE project was initially planned as a 316km highway, which comprised 224km to be tolled section and 92km that would be toll-free. However, we understand that 83km of the stretch has been taken out of the project scope. Hence, the WCE project now involves the development of only 233km highway (including 40km of highway to be constructed later). The construction work is expected to be partially funded via RM2.24b government loans.

SECTOR OUTLOOK

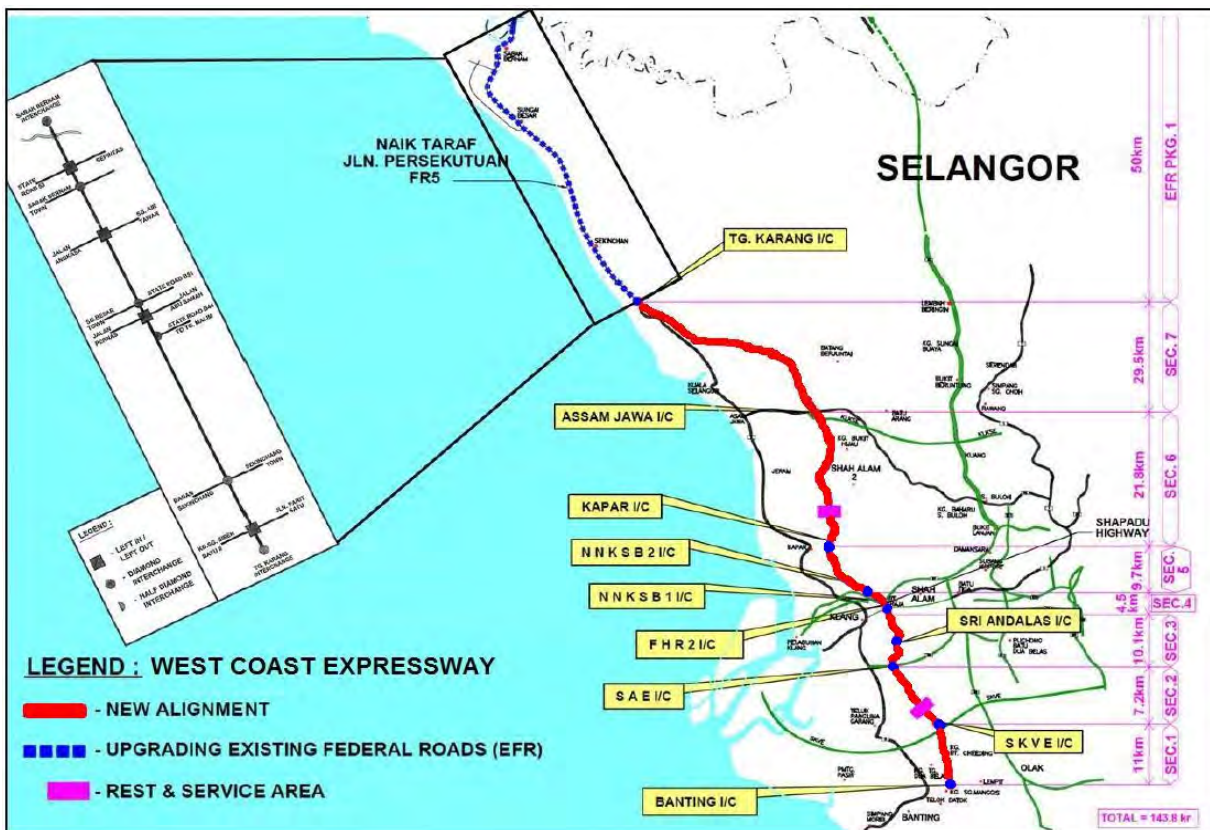
Maintain POSITIVE. We are maintaining our positive stance on the Construction sector. From demand perspective, the drivers are plenty:

- New transport infrastructure projects are needed to improve the traffic flows and network in the Klang Valley, Penang as well as Sabah and Sarawak;
- Oil & Gas sector is booming with building of onshore facilities benefiting the construction sector;
- Electricity demand continues to increase, requiring investments in generation and transmission infrastructures;
- In the property market, we believe developers are planning new creative buyers' schemes, which could reignite launches.

We believe that timely contracts award such as RM5b Warisan Merdeka Tower, RM8b SUKE and DASH highways, RM5b WCE and private as well as foreign contracts are crucial to help sustain the sector growth. Our top picks for construction sector are IJM Corp (TP: RM6.90) and Gamuda (TP: RM4.88) due to its healthy order books and a strong proxy for multi-billion rail infrastructure projects. We also have BUY recommendations on MRCB (TP: RM2.16) Protasco (TP: RM2.90) and WCT (TP: RM2.88). Meanwhile, we believe Naim (TP: RM4.23), Hock Seng Lee (TP: RM2.01), Cahya Mata Sarawak (Non-rated) and KKB Engineering (TP: RM2.93) will continue to be key beneficiaries of SCORE projects and this is a good reason to accumulate these stocks.



WCE-Selangor approximate alignment



Source: Various, MIDFR

WCE-Perak approximate alignment



Source: Various, MIDFR

Table 1: Potential Multi-Billion Projects in the Pipeline

| Potential Multi-Billion Projects | Project Owner | Estimated Value |
|--|--|--|
| <u>Rail-infrastructure</u> | | |
| <ol style="list-style-type: none"> 1. Klang Valley MRT Line 2 (KVMRT2) 2. Southern Electrified Double Tracking Railway 3. KL-Singapore High Speed Rail 4. LRT 3 | <p>MRT Corp Government Government Syarikat Prasarana</p> | <p>RM25.0b RM8.0b RM40.0b RM9.0b</p> |
| <u>Roads and highways</u> | | |
| <ol style="list-style-type: none"> 1. West Coast Expressway (WCE) 2. Sungai Besi to Duta Ulu Klang Expressway (SUKE) 3. Damansara-Shah Alam Highway (DASH) 4. Kinrara Damansara Expressway (KIDEX) 5. East Coast Expressway Phase 3 & 4 6. Pan-Borneo Highway 7. Penang Undersea Tunnel | <p>WCESB Zabima-Emrail JV Prolintas Prolintas ECER Government Consortium Zenith BUCG</p> | <p>RM6.0b RM4.8b RM4.2b RM2.5b N.A. RM21.0b RM6.3b</p> |
| <u>Property developments</u> | | |
| <ol style="list-style-type: none"> 1. Kwasa Damansara 2. Tun Razak Exchange 3. Warisan Merdeka Tower 4. Bandar Malaysia 5. PR1MA Houses | <p>EPF 1MDB PNB 1MDB PR1MA Corporation</p> | <p>RM50.0b RM26.0b RM5.0b RM20.0b RM17.6b</p> |
| <u>Utilities</u> | | |
| <ol style="list-style-type: none"> 1. RAPID 2. Power Plant Track 4 3. Baram and Balleh Hydroelectric Dams | <p>Petronas Energy Commission Sarawak Energy</p> | <p>RM60.0b RM8-10.0b RM7-8.0b</p> |
| <u>Others</u> | | |
| <ol style="list-style-type: none"> 1. Indoor and outdoor world-class theme parks 2. Kuantan Port Expansion | <p>DA Land Sdn Bhd IJM Corp</p> | <p>RM5.0b RM3.0b</p> |

Source: Various, MIDFR

DAILY PRICE CHART



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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. |