

09 May 2014 | Quarterly Statistics

Construction Sector

Coming out of hibernation

Maintain POSITIVE

KLCON: 290.78 (+4.9%ytd)

KLGI: 1,862.84 (-0.2%ytd)

INVESTMENT HIGHLIGHTS

- The award of local and foreign jobs to construction companies was disappointing in 1Q14.
- However, we detect a renaissance in the second quarter. The value of jobs awarded to listed construction companies so far in 2Q14 has surged to RM2.7b, or an increase of 92.4% compared with the amount awarded in 1Q14.
- The pace of new job awards is expected to continue to accelerate in the months ahead.
- Although the KL Construction Index (KLCON) has underperformed the broader market, we reaffirm our POSITIVE recommendation on the sector.

A. REVIEW OF 1Q14 STATISTICS

A trickling of contract awards. As expected, the flow of contract was relatively dry in 1Q14. An amount of only RM11.8b of local jobs was awarded to contractors. This compared with the RM27.5b and RM23.1b given out in 1Q13 and 4Q13 respectively. Rather disconcerting is the fact that the total value of local and foreign jobs in 1Q14 fell below the RM20b level to RM12.5b for the first time since 2Q10 (see Exhibit 1), a decline of -64.5%yoy and -53.2%qq (see Exhibit 2). Meanwhile, the value of jobs awarded dropped -6.6% to RM116.9b in 2013 from RM125.2b in 2012. The apparent drying of the tap, in our opinion, is associated with a lack of mega jobs.

Foreign jobs almost non-existent. Total foreign jobs won by local contractors amounted to only a marginal RM0.78b, for three jobs, in the 1Q14. There was no foreign job at all in February and March this year.

Chart 1: Number and Value of Contracts Awarded

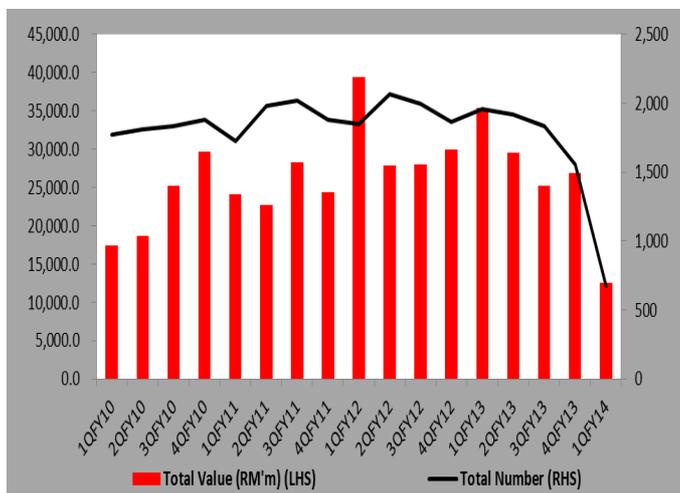
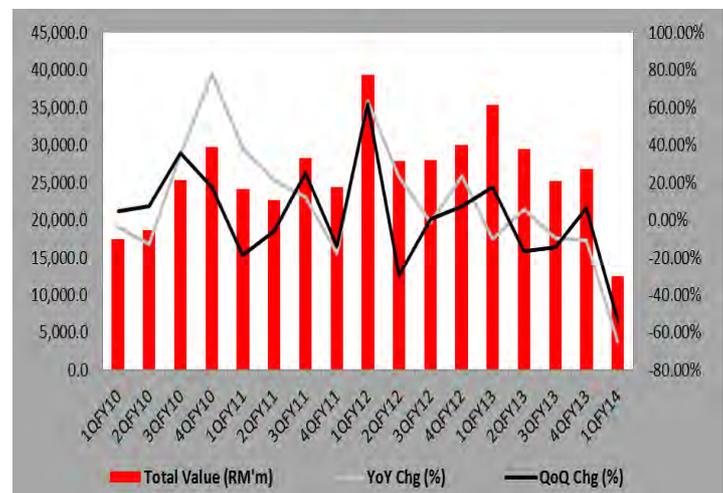


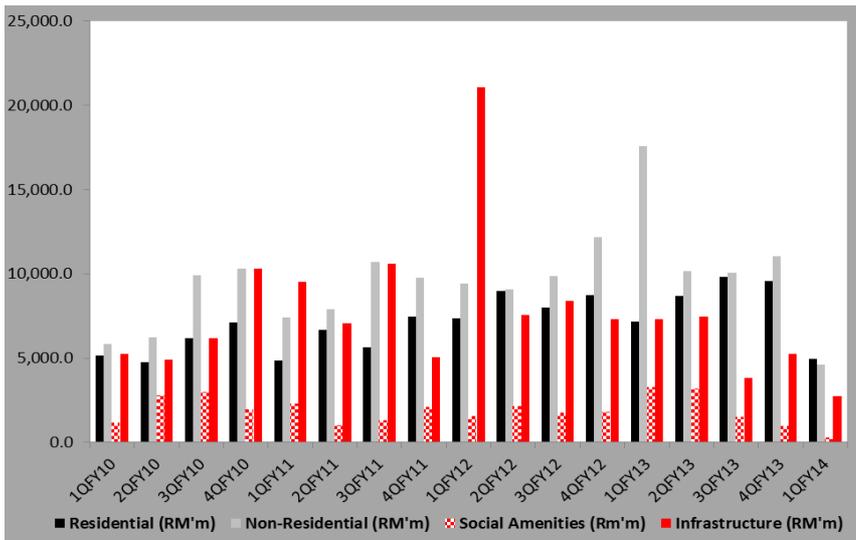
Chart 2: Contract Award Growth Statistics



Source: CIDB, MIDFR

Number of jobs continued to decline. In terms of number of jobs, the flow slowed significantly to 671 in 1Q14, from 1,960 and 1,559 in 1Q13 and 4Q13 respectively. It was also the fourth consecutive quarterly decline since 2Q13, suggesting that lower Government spending appeared to be taking its toll on the sector. To make things worse, developers are still feeling the heat over the implementation of property cooling measures policy.

Chart 3: Value of Projects Awarded By Category



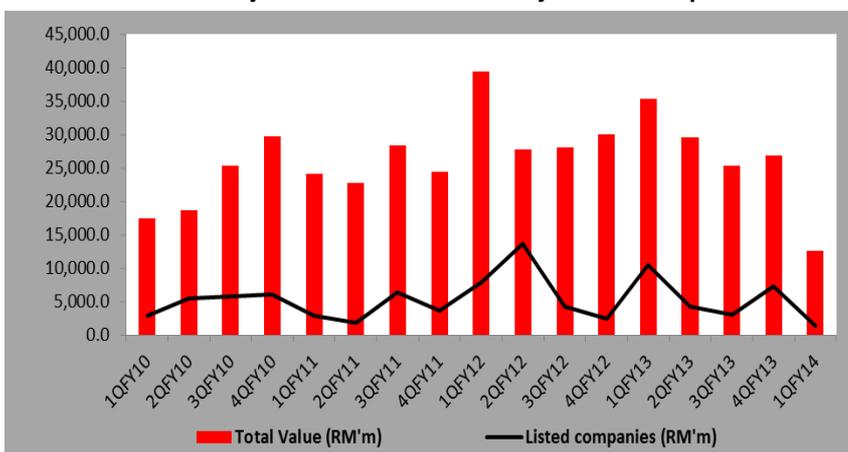
Source: CIDB, MIDFR

All segments hit badly. The value of projects awarded decreased for all segments in 1Q14, of which social amenities recorded the biggest fall of -71.4%qoq. This was followed by non-residential (-58.2%qoq), residential (-48.5%qoq) and infrastructure (48.1%qoq).

B. CONTRACTS AWARDED TO COMPANIES LISTED ON BURSA MALAYSIA

RM1.4b worth of contracts was awarded in 1Q14 to Bursa-listed companies. This was a -86.6%yoy and -80.6%qoq decline from an estimated RM7.2b and RM10.4b of jobs awarded in 1Q13 and 4Q13 respectively.

Chart 4: Value of Projects Awarded For Locally-Listed Companies



Source: Bursa Malaysia, CIDB, MIDFR

Encouraging signs of contract awards picking pace. The award of construction contracts had been slow for months, but we detect a possible industry renaissance in the second quarter. The value of jobs awarded to listed construction companies so far in 2Q14 has surged to RM2.7b, or an increase of 92.4% compared with the amount awarded in 1Q14. Although not even half-way in the quarter, the value of jobs awarded already accounted for 63% of that in 2Q13.

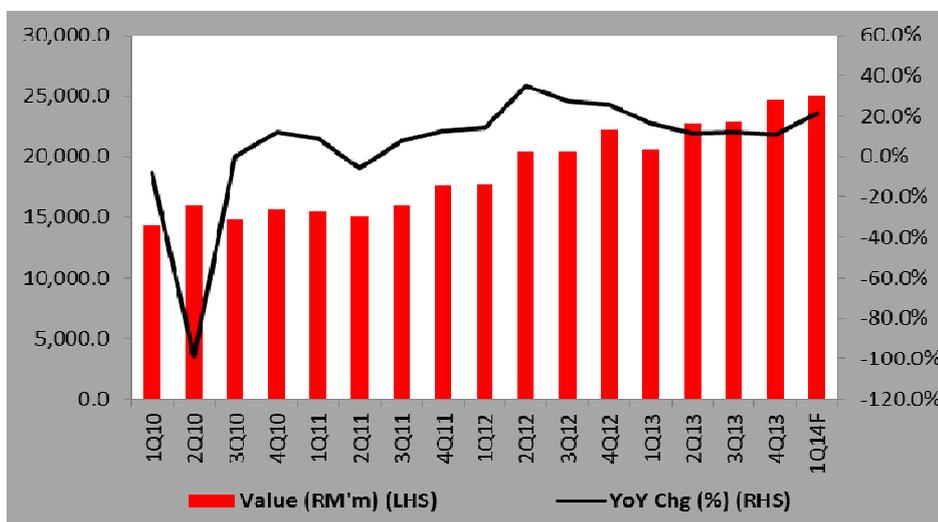
The pace of new job awards is expected to continue accelerate in the months ahead as more large scale projects, such as MRT2 and Menara Warisan take off.

C. PERFORMANCE (JOB PROGRESS) OF THE CONSTRUCTION SECTOR

Construction activity to remain positive. The value of work-in-progress completed amounted to RM24.7b in 4Q13, an increase of +11.3%yoy and 8.1%qoq as compared to the 4Q12 and 3Q13. After accounting for robust construction activity growth in the last two years (2012: 25.5%, 2013: 12.7%), we expect completions to amount to RM25-30b in 1Q14 (the official statistics will be released on 12th May 2014).

Their current robust construction activity reflects mainly contracts award in 2012 and 2013, especially work related to the Klang Valley Mass Rapid Transit (KVMRT) Line 1. This underlines the projected construction GDP growth of 9% this year.

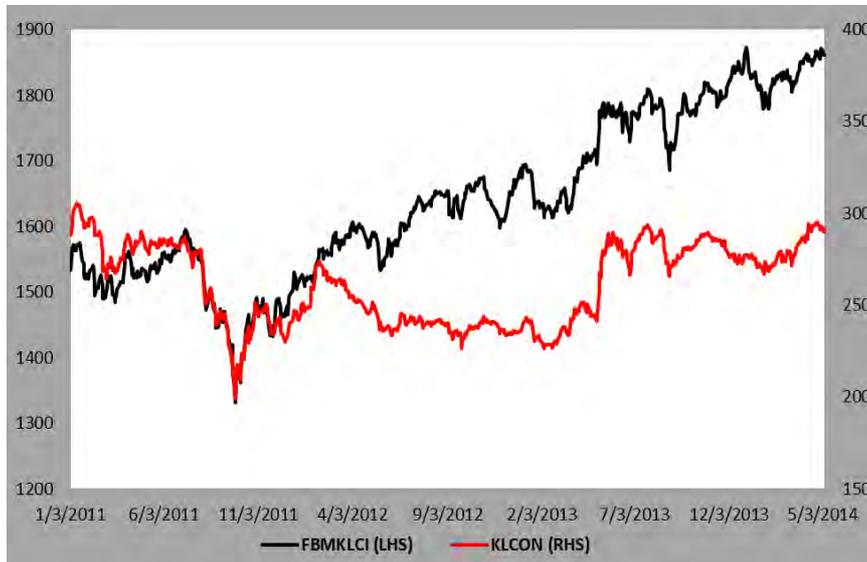
Chart 5: Value of Construction Work Done



Source: Department of Statistics, MIDFR

Better outlook for construction stocks. Sentiment on some construction stocks has weakened recently particularly on the slower contract flow. As at 8th May 2014, the KL Construction Index (KLCON) was still trading at a discount to historical average. At 290.78 points, the KLCON's current year PER of 15.1x is below its 5-year quarterly average of 18.1x. We see upside potential and the current phase of share price weakness provides an excellent opportunity to accumulate. An important catalyst would be positive news on mega jobs. Permodalan Nasional Bhd (PNB) Merdeka Ventures Sdn Bhd has just invited local and foreign contractors to participate in pre-qualification tender for its 118-storey tower, Warisan Merdeka. Based on the criteria list, we view AZRB (Non-rated) as frontrunner to be the main contractor, through a JV with Korea or Japan contractors. We also expect Eversendai (TP: RM1.14) to secure sub-contracts to carry out steel structure works.

Chart 6: FBMKLCI vs. KLCON Performance



Source: Bloomberg, MIDFR

D. SECTOR OUTLOOK

Job awards to excite the market. With the noticeable recovery so far in 2Q14, we believe optimism will return to the industry. From demand perspective, the drivers are plenty:

- New infrastructure projects are needed to improve the traffic flow and network in Klang Valley, Penang and Sabah and Sarawak;
- Activity in the Oil & Gas sector is booming;
- 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 to offer, which could reignite launches .

Potential earnings re-rating. Recall that the lackluster earnings last year was largely attributable to relatively unexciting earnings and poor job executions amongst the construction companies (i.e. Eversendai, Naim and MRCB). However, the strength of the contractors' and developers' current orderbook is good enough to support their bottomline growth in the next two years, even in the absence of new jobs. Although some of construction stocks under our coverage (i.e. Naim, Hock Seng Lee and MRCB) have already priced in their fundamentals this year, we are still optimistic and expect upward-biased earnings revisions going forward underpinned by potential job rollouts in 2H14 (SCORE, roads and highways and power) .

Maintain POSITIVE. We are maintaining our positive stance on the Construction sector. We believe that timely contracts award such as RM5b Warisan Merdeka Tower, RM8b SUKE and DASH highways, RM6b WCE and private as well as foreign contracts are crucial to help sustain the sector growth. Our top picks for construction sector is IJM Corp (TP: RM6.90) and we also favour Gamuda (TP: RM4.88) due to its healthy order books and strong proxy for multi-billion rail infrastructure-projects. We also have BUY recommendations on 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 these are good reasons to accumulate these stocks. 

Table 1: Potential Multi-Billion Projects in the Pipeline

List of Potential Multi-Billion Projects	Project Owner	Estimated Value
<u>Rail-infrastructure</u>		
1. Klang Valley MRT Line 2 (KVMRT2)	Government	RM25.0b
2. Southern Electrified Double Tracking Railway	Government	RM8.0b
3. KL-Singapore High Speed Rail	Government	RM40.0b
<u>Roads and highways</u>		
1. West Coast Expressway (WCE)	WCESB	RM6.0b
2. Sungai Besi to Duta Ulu Klang Expressway (SUKE)	Zabima-Emrail JV	RM4.8b
3. Damansara-Shah Alam Highway (DASH)	Prolintas	RM4.2b
4. Kinrara Damansara Expressway (KIDEX)	Prolintas	RM2.5b
5. Pan-Borneo Highway	Government	RM21.0b
6. Penang Undersea Tunnel	Consortium Zenith BUCG	RM6.3b
<u>Property developments</u>		
1. Kwasa Damansara	EPF	RM50.0b
2. Tun Razak Exchange	1MDB	RM26.0b
3. Warisan Merdeka Tower	PNB	RM5.0b
4. Bandar Malaysia	1MDB	RM20.0b
5. Penang Sentral	MRCB-PHB JV	RM2.0b
6. PR1MA Houses	PR1MA Corporation	RM17.6b
<u>Utilities</u>		
1. RAPID	Petronas	RM60.0b
2. Power Plant Track 4	Energy Commission	RM8-10.0b
3. Baram and Balleh Hydroelectric Dams	Sarawak Energy	RM7-8.0b
<u>Others</u>		
1. Indoor and outdoor world-class theme parks	DA Land Sdn Bhd	RM5.0b
2. Kuantan Port Expansion	IJM Corp	RM3.0b

Source: Various, MIDFR

DAILY PRICE CHART



Z.Hamzah | Hafiz Hassan
 mohd.hafiz@midf.com.my
 03-2772 1668

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.