

# CONSTRUCTION

**Maintain POSITIVE**

## All aboard MRT3

### KEY INVESTMENT HIGHLIGHTS

- **Tenders for 5 turnkey contract packages of MRT3 to begin in May, to be awarded by 4QCY22**
- **Construction cost estimated at RM31b, excluding land acquisition cost at RM8.4b**
- **Government to fund project using sukuk, gives MRT Corp approval to explore private finance initiative (PFI)**
- **MRT3 to have a length of 50.8km, of which 40.3km is elevated and 10.7km underground**
- **Maintain POSITIVE on construction on the back of improving outlook and economic recovery play. Top picks for the sector include GAMUDA (BUY, TP: RM3.63), IJM Corp (BUY, TP:1.90) and SUNWAY CONSTRUCTION (BUY, TP: RM1.80)**

**MRT3 tenders begin in May.** MRT Corp held a media conference yesterday on the recently approved MRT3, which provided further insights on the mega rail project. Transport Minister Datuk Seri Dr Wee Ka Siong announced that the tender process will begin in May, in line with our expectation that it will be called in 2QCY22. There will be a total of five turnkey contract packages - four construction contract packages and one project management contract. The four construction packages comprise two packages for elevated works, one for underground works and one for the integrated rail system. The tenders are expected to be awarded in 4QCY22.

**MRT3 construction to cost RM31b.** Initial estimations of the project's construction cost by MRT Corp stands at RM31b, similar to that of MRT2 of the Putrajaya Line. This will be finalised after the tender exercise. The figure excludes land acquisition costs of about RM8.4b. The project will be primarily funded through sukuk that will be raised by the Government, of which we understand that the green sukuk is being considered. Although the Finance Ministry has set aside RM50bil (including RM11b as contingency funds), MRT Corp is adopting a hybrid financing model to keep its options open which could possibly be in the form of direct funding when Malaysia's economy picks up in future. For now, the Government has given MRT Corp the green light to explore the private finance initiative (PFI), meaning that the private sector will finance the upfront costs which will be reimbursed by the Government through deferred payments, and also to step in when there is shortage of funds.

**Updated MRT3 alignment.** Also known as the Circle Line, MRT3 is the third and final line of the KVMRT. It will have a length of 50.8km, with a circular alignment running along the perimeter of the Kuala Lumpur City. It is the final puzzle to connect the whole of Klang Valley. It will have 31 stations as initially planned but the underground portion has been revised to 10.7km, instead of 20km as reported previously. Out of the 31 stations, 24 are elevated and the remaining seven are to be built underground. MRT3 will be connected to the existing MRT, LRT, KTM and Monorail lines through 10 interchange stations. Titiwangsa will be one of the key interchanges, which will be a multi-modal hub integrating four rail lines and a city bus hub. The first phase of MRT3 is expected to be operational in 2028 and the second phase or fully operational by 2030.

### COMPANY IN FOCUS

#### Gamuda Bhd

**Maintain BUY** | Unchanged target price: **RM3.63**

Price @ 15<sup>th</sup> March 2022: RM3.10

- Vast experience in MRT1 and MRT2
- Frontrunner in clinching lion's share of MRT3
- Strong unbilled order book of about RM11.2b

#### Share price chart



#### IJM Corp Bhd

**Maintain BUY** | Unchanged target price: **RM1.90**

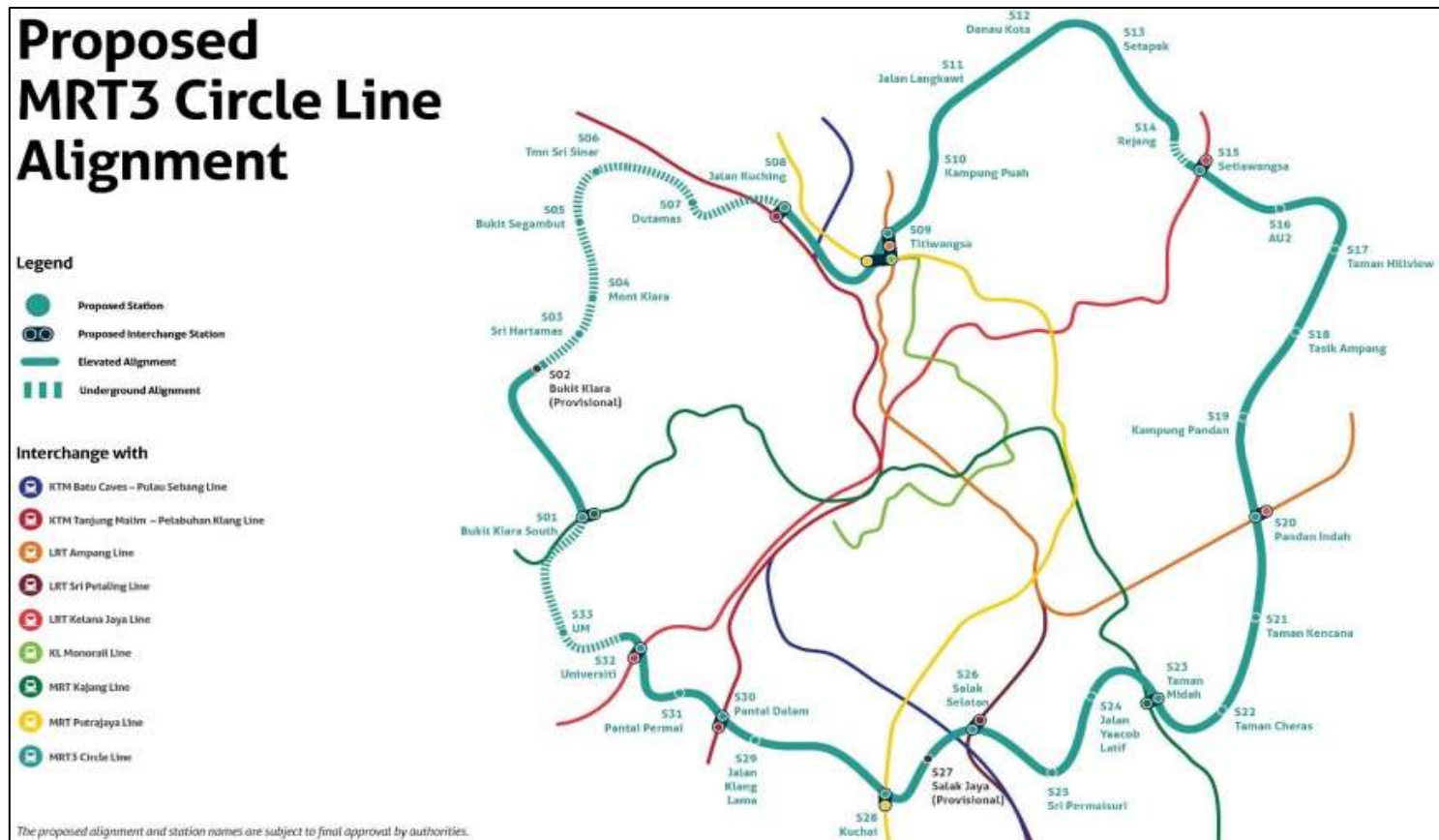
Price @ 15<sup>th</sup> March 2022: RM1.48

- Strong portfolio of undertaking rail projects
- Solid outstanding order book of about RM4.51b which translates into earnings visibility for the next 3-4 years
- Strong contender for jobs in MRT3

#### Share price chart



**Figure 1: Proposed MRT3 alignment**



Source: MRT Corp


**Table 1: MRT3 attributes**

|                      |                                                                                                                                                                                     |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Length               | 50.8km (40.1km elevated and 10.7km underground)                                                                                                                                     |
| Stations             | 31 (24 elevated, 7 underground)                                                                                                                                                     |
| Interchange stations | 10 stations. (2 with MRT Kajang Line, 2 with MRT Putrajaya Line, 2 with LRT Kelana Jaya Line, 3 with LRT Ampang Line, 1 with monorail, 2 with KTM Komuter, 1 with city bus station) |
| Car park facility    | 15 sites with 11,650 parking bays                                                                                                                                                   |
| Construction cost    | As a guide, cost is similar to MRT Putrajaya Line around RM31b. Final cost is subject to open tender                                                                                |
| Opening dates        | Phase 1: 2028 subject to land acquisition process.<br>Phase 2: 2030.                                                                                                                |

Source: MRT Corp

**Cost comparison with MRT2.** The estimated cost for MRT3 stands at RM31b, almost similar to that of MRT2 at RM30.5b. The RM31b covers the cost for the construction, the integrated rail systems and the rolling stock. While this is in line with our earlier guesstimate of RM31.22b, we note that the underground portion of the project is lower than what we initially expected. Out of 50.8km for MRT3, 10.7km or 21.1% is underground whereas for MRT2, out of 57.7km, 13.5km or 23.4% is underground. Based on the cost of MRT2, this roughly translates into RM970.4m per km underground and RM393.7m per km of elevated track or in total, RM13.1b and RM17.4b respectively. Going by this breakdown, cost for underground works is approximately 2.46 times higher than elevated track jobs, which is understandable as tunneling works are more labour intensive, coupled with the high cost of heavy machineries needed such as the tunnel boring machines. Using this argument in our guesstimate to break down the RM31b construction cost of MRT3, it points to RM12.3b for underground works and RM18.7b for elevated tracks. All in, while the quantum of MRT3’s construction cost may be similar to MRT2, it is approximately 18.5% higher, which seems justifiable, considering higher operating and labour costs, and the recent surge in raw material prices. Meanwhile, MRT Corp estimated land acquisition costs at circa RM8.4b, which is slightly higher, as MRT3 tracks will be built on developed areas of Kuala Lumpur.

**Potential beneficiaries.** There will be a total of five turnkey contract packages, in line with our earlier expectations that the contract will be awarded in packages, such as what was seen in MRT2. While the underground package will not likely be the largest contract this time around, the amount remains sizeable and we expect the major early beneficiary to be **Gamuda (BUY, TP: RM3.63)**, which we also expect to clinch the lion's share of MRT3. The group, which is the largest construction company in the country based on market capitalisation, is as good as shovel ready for the project, premised on its JV outfit MMC-Gamuda with vast experiences in MRT1 and MRT2. Just recently, Gamuda was also awarded a RM6.5b tunneling project in Sydney and a RM1.45b contract to build a station and two tunnels in Singapore, together with its Singapore JV partner, which are testaments to its tunneling expertise. Another potential front runner is IJM Corp, which is no stranger to mega projects like this. We like IJM due to its strong portfolio of undertaking rail projects such as the excavation of underground tunnels for a portion of LRT3, and also the construction of MRT stations and viaducts. Among other beneficiaries include those that were previously involved in MRT2, such as **Sunway Construction (BUY, TP: RM1.80)**, **WCT Holdings (BUY, TP: RM0.80)**, **Gabungan AQRS (BUY, TP: RM0.64)**, **MRCB (NEUTRAL, TP: RM0.36)** and **Malayan Cement (BUY, TP: RM3.00)**.

**Maintain POSITIVE.** The announcement of the MRT3 approval has come in timely as a shot in the arm for the rather muted construction sector where most firms are all dressed up with nowhere to go in recent years. The tenders are expected to be awarded by 4QCY22, which is a positive development for the sector. This will keep the construction players busy for the next eight years until 2030 with strong order book replenishments whilst providing them with the earnings visibility. While there could potentially be delays in the roll out of the project due to multiple factors, we believe that the improving inflow of jobs, domestically and overseas, will be able to keep most of the construction companies under our coverage engaged until they are able to start reaping the fruits of MRT3. Our optimism is also strengthened through the Government's commitment to review and potentially revive previously canned projects, such as the Kuala Lumpur-Singapore High-Speed Rail (HSR) which will see the Transport Ministry engaging its Singaporean counterpart in 2QCY22. We also take note on the recent announcement by the Melaka Government that it has long-term plans to build an undersea tunnel for a rail system network linking Melaka and Dumai in Sumatra, Indonesia, though we would like to point out that it is not exactly a new idea. Something similar was mooted years back, believed to be 1995, for a bridge connecting Melaka and Dumai, but this was placed in the back burner due to the Asian Financial Crisis in 1997-1998. Talks on the project resurfaced in 2009 but there were no developments after that. Also, recall that in 2018, there was a proposal for an undersea tunnel project from Bagan Datuk in Perak to Sumatra, which could cost up to USD20b. Idealistic as these international links may sound, we are not factoring any of it into our assessment of the sector, until there are more concrete actionable plans in sight. All factors considered, we maintain our **POSITIVE** recommendation on the construction sector on the back of our optimistic outlook and economic recovery play, especially with MRT3 ready to kick off soon. We have **BUY** recommendations on **Gamuda (TP: RM3.63)**, which remains our clear favourite, **IJM Corp (TP: RM1.90)**, **Sunway Construction (TP: RM1.80)**, **Gabungan AQRS (TP: RM0.64)**, **Cahaya Mata Sarawak (TP: RM1.62)**, **Malayan Cement (TP: RM3.00)**, **Muhibbah Engineering (TP: RM0.78)** and **WCT Holdings (TP: RM0.80)**. 

## PEER COMPARISON TABLE

| Stock                           | FYE  | Rec.    | Price @<br>15-Mar-22 | Tgt Price<br>(RM) | Core EPS<br>(sen) |       | CORE PE (x) |       | Net DPS<br>(sen) |       | Net Dvd Yield<br>(%) |       |
|---------------------------------|------|---------|----------------------|-------------------|-------------------|-------|-------------|-------|------------------|-------|----------------------|-------|
|                                 |      |         |                      |                   | FY22E             | FY23F | FY22E       | FY23F | FY22E            | FY23F | FY22E                | FY23F |
| Gamuda                          | July | BUY     | 3.10                 | 3.63              | 25.9              | 27.7  | 11.97       | 11.2  | 9.0              | 9.0   | 2.9                  | 2.9   |
| Gabungan AQRS                   | Dec  | BUY     | 0.33                 | 0.64              | 7.8               | 10.5  | 4.2         | 3.1   | 1.0              | 1.0   | 3.0                  | 3.0   |
| Sunway Construction             | Dec  | BUY     | 1.54                 | 1.80              | 10.0              | 10.9  | 15.4        | 14.1  | 4.0              | 4.0   | 2.6                  | 2.6   |
| IJM Corp                        | Mar  | BUY     | 1.48                 | 1.90              | 6.2               | 10.6  | 23.9        | 14.0  | 6.0              | 6.0   | 4.1                  | 4.1   |
| Cahaya Mata Sarawak             | Dec  | BUY     | 1.11                 | 1.62              | 19.5              | 21.0  | 5.7         | 5.3   | 6.5              | 6.5   | 5.9                  | 5.9   |
| Hock Seng Lee                   | Dec  | NEUTRAL | 1.35                 | 1.35              | 8.5               | 9.6   | 15.9        | 14.1  | 1.4              | 1.4   | 1.0                  | 1.0   |
| Malayan Cement                  | June | BUY     | 2.11                 | 3.00              | 8.7               | 9.8   | 24.3        | 21.5  | 0.0              | 0.0   | 0.0                  | 0.0   |
| Muhibbah Engineering            | Dec  | BUY     | 0.56                 | 0.78              | 11.1              | 14.4  | 5.1         | 3.9   | 2.5              | 2.5   | 4.5                  | 4.5   |
| Malaysian Resources Corporation | Dec  | NEUTRAL | 0.34                 | 0.36              | 1.2               | 1.6   | 28.3        | 21.3  | 1.0              | 2.0   | 2.9                  | 5.9   |
| WCT Holdings                    | Dec  | BUY     | 0.495                | 0.80              | 5.7               | 6.1   | 8.7         | 8.1   | 0.0              | 0.0   | 0.0                  | 0.0   |

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### 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. |

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

|      |                                                                                              |
|------|----------------------------------------------------------------------------------------------|
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell      |
| ☆☆☆  | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell   |
| ☆☆   | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆    | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell   |

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology