

CONSTRUCTION

Maintain POSITIVE

Lock and load, the MRT3 tenders are here

KEY INVESTMENT HIGHLIGHTS

- **MRT Corp issues tenders for the three main packages of MRT3 – CMC301 (6km elevated), CMC302 (27km elevated, 1.2km underground) and CMC303 (10km underground, 6km elevated)**
- **We estimate that CMC303 is worth RM14.29b, CMC302 at RM13.94b and CMC301 at RM2.79b**
- **Tenderers to provide upfront financing for first two years of at least 10% of contract value**
- **IJM Corp (BUY, TP: RM2.18) and Sunway Construction (BUY, TP: RM1.87) indicated interests in CMC302 while we expect Gamuda (TRADING BUY, TP: RM3.89) to take on CMC303**
- **Maintain POSITIVE on construction sector. Top picks are Gamuda (TRADING BUY, TP: RM3.89), IJM Corp (BUY, TP: RM2.18), Sunway Construction (BUY, TP: RM1.87) and Malayan Cement (TP: RM3.00)**

MRT3 CMC tenders begin. The tenders that the Malaysian construction industry yearn for the most are finally out. MRT Corp, the project developer and asset owner of MRT3, has issued three tender notices for the civil main contractor (CMC) packages on Friday. These three packages comprise the main bulk of the construction cost of MRT3, which is RM31b in total, based on initial estimations by MRT Corp.

Salient details of the packages. The CMC packages are known as CMC301, CMC302 and CMC303. While no exact details were released by MRT Corp on each of these packages except for the nature of the jobs, we have since gathered the following information from industry players and news reports:

CMC301. Design, construction and completion of viaduct guideway, elevated stations, depot and other associated works from Pandan to Jalan Cheras. This is expected to be for 6km of elevated works.

CMC302. Design, construction and completion of viaduct guideway, tunnels, stations, depot, ancillary structures and other associated works from Jalan Cheras to Pantai Dalam and from Jalan Kuching to Pandan. This is expected to be 27km of elevated works and 1.2km underground.

CMC303. Design, construction and completion of viaduct guideway, tunnels, stations, ancillary structures and other associated works from Pantai Dalam to Jalan Kuching. This is expected to be 10km of underground works and 6km elevated.

And the size of each contract is... Using MRT2 or the Putrajaya Line as a guidance for our back-of-the-envelope estimation, the cost of underground works is about 2.46 times higher than that of elevated works. This is normal, as tunnelling works are more labour intensive, coupled with the high cost of heavy machineries needed such as the tunnel boring machines. Therefore, based on the RM31b projected construction cost by MRT Corp, we estimate that CMC303 is worth RM14.29b, making it the largest MRT3 contract, followed by CMC302 and CMC301 at RM13.94b and RM2.79b respectively. We note that the figures, including MRT Corp's projections, will only be finalised after the tender exercise. 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. We do not discount the possibility that the actual size of the contracts may be even higher. Recall that MRT2 has 44.2km of elevated portion and

COMPANY IN FOCUS

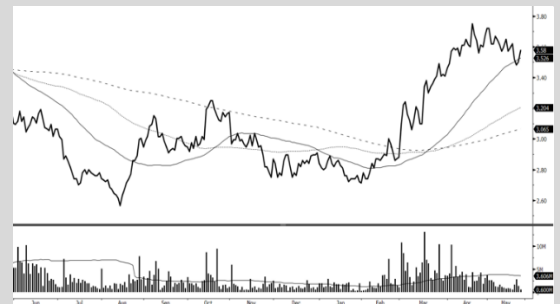
Gamuda Bhd

Maintain TRADING BUY | Unchanged target price: **RM3.89**

Price @ 27th May 2022: RM3.58

- 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 | Revised target price: **RM2.18**

Price @ 27th May 2022: RM1.80

- Strong portfolio of undertaking rail projects
- Solid outstanding order book of about RM4.26b which translates into earnings visibility up to FY24
- Strong contender for jobs in MRT3

Share price chart



13.5km of underground portion, as compared to 39km elevated and 11.2km underground for MRT3.

Financing requirements. All tenderers must submit a financing proposal in ringgit which entails the financing for the initial two years of construction works worth at least 10% of the contract value and a minimum moratorium period of two years. As reported previously, 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. 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. The project will be primarily funded through a green sukuk of RM50b that will be raised by the Government, to cover the construction cost of RM31b, land acquisition cost of RM8.4b and contingency funds of RM11b.

Battle of the giants. Both **IJM Corp Bhd (BUY, TP: RM2.18)** and **Sunway Construction Bhd (BUY, TP: RM1.87)** have voiced its interest to tender for CMC302 and CMC301, with the former being their main target as it is the larger contract of the two elevated packages. It will be interesting to watch as both are viable contenders for the package. Both companies have hit the ground running to strategise for their respective tenders as they would each need a partner, due to the compulsory Bumiputera involvement. As for CMC303, we expect **Gamuda Bhd (TRADING BUY, TP: RM3.89)** to be the main beneficiary, due to the significant portion of the underground works, of which Gamuda – the largest construction player in Malaysia in terms of market cap – is a tunnelling expert. Meanwhile, checks with **Kerjaya Prospek Group Bhd (Not Rated)** also revealed that it may participate in the tender. The Group, which is mainly involved in the construction of commercial and residential buildings, has plans to expand its capabilities in infrastructure projects, among others.

Tender requirements. In general, tenderers are allowed to form a JV or consortium consisting a maximum of three companies. A tenderer is allowed to submit only one tender for each package, either as a single entity or as a JV/consortium partner. CMC301 and CMC302 are only open to local Malaysian contractors. There must be Bumiputera contractor participation for JVs or consortiums of at least 50%. They must possess a valid Sijil Taraf Bumiputera issued by the Pusat Khidmat Kontraktor. The effective Bumiputera ultimate beneficial owners' shareholding shall be at least 31%. The Companies Act 2016 defines beneficial owner as the ultimate owner of shares and does not include a nominee of any description. Foreign contractor participation is allowed only for CMC303, limited to a maximum of 49% equity in a JV/consortium. Bumiputera contractor participation is also mandatory, with at least 33%, while the effective Bumiputera ultimate beneficial owners' shareholding is at least 20%. We dive down into the nitty-gritty of the requirements in Table 2.

A recap of the mega project. 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 and an underground portion of 10.7km. 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. Titivangsa 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.

Important dates. MRT Corp will be holding mandatory tender briefings for registered tenderers on June 8 for CMC301 and on June 10 for CMC302 and CMC 303. The tender submission deadlines are on Aug 2 for CMC303 and Aug 30 for CMC302 and CMC303. All submissions must be made by noon.

Potential beneficiaries. We reiterate our view that **Gamuda (TRADING BUY, TP: RM3.89)**, will seize the lion's share of MRT3, which is CMC303. It is as good as shovel ready for the project, premised on its JV outfit MMC-Gamuda with vast experiences in MRT1 and MRT2. Earlier this year, Gamuda was 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. Recall that on April 4, Gamuda received a conditional offer from Amanat Lebuhraya Rakyat to take over its four highway toll concessions for RM5.48b. The Group will receive cash proceeds of RM2.3b, which will allow it to strengthen its balance sheet to a net cash position of RM584m, placing it in a favourable position for the upfront financing requirement for the MRT3 job. Other potential front runners are construction giants **IJM Corp (BUY, TP: RM2.18)** and **Sunway Construction (BUY, TP: RM1.87)**, both of whom have vast experience in rail projects such as the LRT and MRT. Other potential beneficiaries include **WCT Holdings (BUY, TP: RM0.86)**, **Gabungan AQRS (BUY, TP: RM0.56)**, **MRCB (NEUTRAL, TP: RM0.36)** and **Malayan Cement (BUY, TP: RM3.00)** as the building materials beneficiary.

Maintain POSITIVE. The Government’s commitment in pushing through mega infrastructure projects, starting with the MRT3 is a positive development for the sector. The multiplier effect from construction activities is among the largest for any economy and as far as MRT3 is concerned, the expected multiplier effect is 3.5. We noticed that MRT Corp has kept to its projected timeline of events since the Government’s approval of MRT3 in March and we are confident that the tenders would be awarded in 4QCY22 as expected and for construction activities to kick off in 1QCY23. This will keep the construction players busy until 2030 with strong order book replenishments and the much-needed earnings visibility.


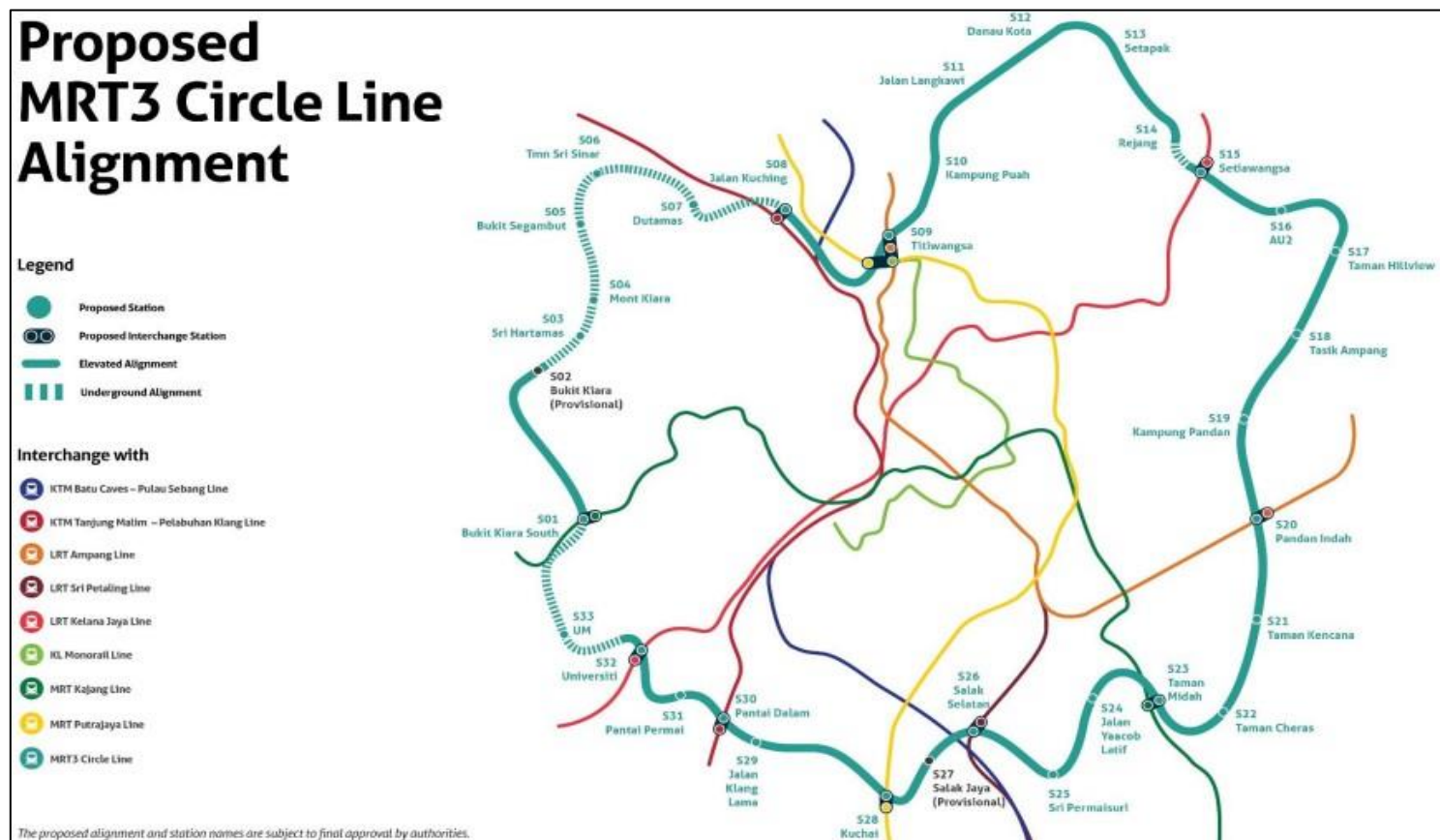
The revival of MRT3 has injected much optimism into the sector and we believe this may be a prelude to other potential revival of mega projects that were canned after a change of Government in 2018. One such project is the Kuala Lumpur – Singapore HSR where Transport Minister Datuk Seri Dr Wee Ka Siong has initiated discussions with his Singapore counterpart, S. Iswaran. The Governments of Malaysia and Thailand have also agreed to set up a joint special committee to fine-tune matters for a proposed KL-Bangkok HSR. All factors considered, we maintain our **POSITIVE** recommendation on the construction sector. Our top picks for the sector are **Gamuda (TRADING BUY, TP: RM3.89)**, **IJM Corp (BUY, TP: RM2.18)**, **Sunway Construction (BUY, TP: RM1.87)** and **Malayan Cement (TP: RM3.00)**. 

Figure 1: Proposed MRT3 alignment



Source: MRT Corp

Table 1: MRT3 attributes

Length	50.2km (39km elevated and 11.2km underground (estimated))
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. Phase 2: 2030.

Source: MRT Corp, MIDF Research

Table 2: MRT3 tender requirements

Tenders	Proven technical capabilities in the past 15 years	Financial Capacity	Estimated project value	Upfront financing estimates (10%)
CMC301	i. Railway civil infrastructure projects of at least RM500m in contract value; and ii. At least two (2) elevated rail transit stations with 2km of viaducts in a single project; and iii. At least one (1) rail depot with heavy maintenance facilities.	i. Shareholders Fund (based on latest financial year) must not be less than:- • CMC301 – RM100m • CMC302 – RM250m • CMC303 – RM300m ii. Cumulative EBITDA over the latest 5 preceding years must be positive <i>*For JV/Consortium, the financial capacity evaluation will be based on weighted average according to the JV/Consortium equity.</i>	RM2.79b	RM279m
CMC302	i. Railway civil infrastructure projects of at least RM2b in contract value; and ii. At least three (3) urban tunnelling projects utilising Slurry/Mixed Shield or Multimode or Earth Pressure Balance (EPB) Tunnel Boring Machines (TBMs) greater than 6m diameter in rock and mixed face conditions with a minimum tunnelling length of 1.5km (twin bored); and iii. At least six (6) elevated rail transit stations with 8km of viaducts; and iv. At least one (1) rail depot with heavy maintenance facilities.		RM13.94b	RM1.39b
CMC303	i. Railway civil infrastructure projects of at least RM3b in contract value; and ii. At least three (3) urban tunnelling projects utilising Slurry/Mixed Shield or Multimode and Earth Pressure Balance (EPB) Tunnel Boring Machines (TBMs) greater than 6m diameter in rock and mixed face conditions, including at least a single project with a minimum tunnelling length of 3km (twin bored); and iii. At least three (3) underground rail transit stations in a single project; and iv. At least six (6) elevated rail transit stations with 8km of viaducts.		RM14.29b	RM1.43b

Source: MRT Corp, MIDF Research

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 27 May 2022 (RM)	Tgt Price (RM)	Core EPS (sen)		Dividend Yield (%)		Gearing (Debt-to-equity)	Net cash/(debt)
					FY22E	FY23F	FY22E	FY23F		
Gamuda	July	TRADING BUY	3.58	3.89	25.9	27.7	2.1	2.1	54.7%	RM584m*
IJM Corp	Mar	BUY	1.80	2.18	6.7	10.5	13.1	2.8	56.0%	RM594.9m
Sunway Construction	Dec	BUY	1.62	1.87	9.6	10.7	2.7	2.7	35.8%	(RM129.8m)
WCT Holdings	Dec	BUY	0.51	0.86	6.2	6.6	-	-	101.3%	(RM2.6b)
Pintaras Jaya	June	BUY	2.50	3.14	33	26.1	4.1	6.4	12.0%	RM82.2m
Muhibbah Engineering	Dec	BUY	0.54	0.78	11.1	14.4	2.6	2.6	92.1%	(RM110.3m)
Gabungan AQRS	Dec	BUY	0.31	0.56	6.8	9.2	1.7	1.7	57.9%	(RM144.8m)
MRCB	Dec	Neutral	0.345	0.36	1.2	1.6	2.4	4.8	43.7%	(RM1.25b)
Malayan Cement	June	BUY	2.46	3	8.7	9.8	-	-	30.5%	(RM3.32b)

Source: Company, Bloomberg, 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