CONSTRUCTION

***Maintain* POSITIVE**

Sarawak's developed status aspirations

KEY INVESTMENT HIGHLIGHTS

- **Sarawak state government projects a capital injection of RM100b by 2028, envisioned to elevate state into developed economy status**
- **State's current focus is to look into sick projects, among action plans are to appoint rescue contractors**
- **State is committed to reimplement projects shelved in 2018 and long-term plans stated in PCDS 2030 and to build roads are in place**
- **Maintain POSITIVE on construction sector with encouraging developments seen in Sarawak**
- **Top BUYS for Sarawak play are Cahya Mata Sarawak (BUY, TP: RM1.37) and KKB Engineering (BUY, TP: RM1.50)**

RM100b injection over 8 years. The Sarawak state government is projecting a capital injection of about RM100b by 2028, which is envisioned to elevate the state into a developed economy status. About RM64b will come from the state's annual budget while the state's energy development company Sarawak Energy is expected to pump in about RM40b up to 2026. We note that this is a conservative estimate by the state government as the state's budget averages about RM10b annually. Among other investments would involve "several billion ringgit" from Sumitomo and Samsung for Sarawak's first hydrogen plant, expected to begin construction this year.

Retendering of sick projects. We view that this would mean more infrastructure works are expected to be rolled out in the state. Going by media reports in recent months, we believe that the state government's current focus is to look into sick projects, meaning those that were delayed or abandoned. About 84 sick projects have been identified in Sarawak and among action plans to tackle this are to appoint rescue contractors. This could suggest that quite a number of projects would be retendered, a good opportunity for construction players to replenish their order books.

More jobs in the pipeline. Construction prospects remain bright over the state as it remains committed to reimplement projects shelved in 2018 following a change in Federal Government. Meanwhile, tenders for the state-funded Second Trunk Road which spans 225km, are expected to be called this year, with seven work packages. There will be seven more packages next year. The entire project is expected to cost RM5.84b. Another closely watched plan is the Post Covid-19 Development Strategy where the State Government has committed RM63b for various efforts, among the focus is to develop basic infrastructure, namely roads and bridges, water and electricity supply, and telecommunication network. In June, the state government had said that about 7,530km of new roads needs to be built to connect all rural areas while 3,487km of roads must be upgraded or rehabilitated. This itself would translate to strong job flows over the long term.

COMPANIES IN FOCUS

Cahya Mata Sarawak

Maintain BUY | Unchanged target price: **RM1.37**

Price @ 16th August 2022: RM0.94

- Sole cement manufacturer in Sarawak, stands to benefit from strong project rollouts
- Active cost control measures
- Strong balance sheet with net cash position of RM100.6m

Share price chart



KKB Engineering

Maintain BUY |Unchanged target price: **RM1.50**

Price @ 16th August 2022: RM1.34

- Experienced in civil projects such as roadworks and water pipelines
- Solid outstanding order book of about RM412m which translates into earnings visibility up to FY24
- Strategic relationship with SEDC to tap into vast infrastructure jobs

Share price chart



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A helping hand. Sarawak Premier Tan Sri Abang Johari Tun Openg said yesterday that the state government is finalising an aid to assist construction players, which will focus on prices of raw materials. While this is not a massive headwind for most of the companies under our coverage, this is a much-welcomed move for the industry in mitigating the downside risks.

Maintain POSITIVE. We reiterate our **POSITIVE** recommendation on the construction sector, with the encouraging developments being seen in Sarawak. Our top picks for the Sarawak-themed play are **Cahya Mata Sarawak (BUY, TP: RM1.37)** being the sole cement manufacturer in the state and also **KKB Engineering (BUY, TP: RM1.50**). KKB is an associate company of Cahya Mata, involved in civil construction and steel-related manufacturing. The Sarawak Economic Development Corporation (SEDC) holds 10.7% in KKB through a private placement in Dec-21 and KKB aims to leverage on this and make use of the competitive strength of both KKB and SEDC to expand and tap into the vast business opportunities in Sarawak. We also like Cahya Mata and KKB due to their strong balance sheets and net cash positions of RM100.6m and RM181.6m respectively, which gives them headroom for required financing to take on infrastructure projects.

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 16 Aug 2022 (RM)	Target Price (RM)	Core EPS (sen)		Dividend Yield (%)		Net gearing	Net cash/(debt)
					FY22E	FY23F	FY22E	FY23F		
Gamuda	July	BUY	3.85	4.02	25.9	27.7	3.5	12.4	10.9%	(RM1.1b)
IJM Corp	Mar	BUY	1.80	2.18	10.5	13.8	2.8	2.8	-	RM557.6m
Sunway Construction	Dec	BUY	1.52	1.87	9.6	10.7	2.7	2.7	17.0%	(RM129.8m)
MRCB	Dec	BUY	0.345	0.44	1.7	1.5	2.3	4.5	28.6%	(RM1.3b)
Muhibbah Engineering	June	BUY	0.445	0.67	11.1	14.4	2.6	3.7	4.2%	(RM69m)
WCT Holdings	Dec	BUY	0.455	0.86	6.2	6.6	0.6	0.6	73.3%	(RM2.78b)
Gabungan AQRS	Dec	BUY	0.335	0.56	6.8	9.2	1.7	1.7	29.6%	(RM144.8m)
Pintaras Jaya	Dec	BUY	2.20	3.14	33.0	26.1	4.1	6.4	-	RM82.2m
KKB Engineering	June	BUY	1.34	1.50	8.6	9.7	3.3	3.3	-	RM181.6m
Malayan Cement	June	BUY	2.12	3.00	8.7	9.8	-	-	57.9%	(RM3.32b)
Cahya Mata Sarawak	Dec	BUY	0.94	1.37	19.1	17.1	2.6	2.2	-	RM100.6m

Source: Company, MIDF Research

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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 *rise* 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 *fall* 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