CONSTRUCTION SECTOR — *Maintain* POSITVE

News flows over the weekend…

DEVELOPMENT

- The Federal Government will provide additional funds for the Penang Government to carry out LRT project
- Allocation of RM1.2b for socioeconomic development in Negeri Sembilan
- Malaysian firms in talks with potential partners on feasibility of RM60b HSR

OUR VIEW

- **Penang LRT**. There is now certainty on the implementation of the Penang light rail transit (LRT) project though more clarity is needed on the nitty gritty, which will be ironed out when the Prime Minister discusses the matter with the state government within the next fortnight. Transport Minister Anthony Loke said the Federal Government agreed in principle for the first route to be from Bayan Lepas to Komtar but the implementation and others will be detailed later. It was previously reported that the 26.8km elevated Komtar-Bayan Lepas line with 23 stations would cost RM9.5b and this would have been funded by proceeds from the Penang South Islands (PSI) reclamation project, which has just received the Environmental Impact Assessment (EIA) approval last month. Now that the Federal Government will fund the Penang LRT, the state government is considering to scale down the PSI project or postponing it. In light of these new developments, these are some matters that will need to be sorted out between both the Federal and State Governments, and also its project delivery partner SRS Consortium Sdn Bhd, of which 60% is held by **Gamuda (BUY, TP: RM5.04)** and the remaining 40% held equally by Loh Phoy Yen Holdings Sdn Bhd and Ideal Property Development Sdn Bhd.
- **Some of the questions that arise from the announcement**:
    1. Is the Federal Government fully funding the entire LRT project or only the first phase? Are there considerations for the five other proposed lines under the Penang Transport Master Plan, namely the Ayer Itam Line (13km, 13 stations), Tanjung Tokong Line (7km, 8 stations), George Town-Butterworth Line (18km, 8 stations), Raja Uda-Bukit Mertajam Line (28km, 21 stations), and its extension to Kepala Batas (13km, 10 stations) and lastly the Permatang Tinggi-Batu Kawan Line (14km, 15 stations) and the extensions to Bukit Tengah/Seberang Jaya (15km, 17 stations) and to Nibong Tebal (11km, 6 stations)? In total, these would be 146km of rail and 121 stations.
    2. Will it be a federal project or does it remain a state project? If the former, will the Federal Government re-evaluate the project in terms of the cost, alignment and stations?
    3. How will all these affect the proposed PSI project?
- **Negeri Sembilan developments.** The RM1.2b allocation will include RM600m for an exit road from a proposed new toll to the Seremban Central Ring Road, RM280m for construction of Education Ministry facilities and RM160m for a road and a bridge to link Bukit Pelandok and Sungai Pelek. These are basic infrastructure projects that will generate job flows to benefit both large and small construction outfits.
- **KL-Singapore HSR feasibility**. The Edge Malaysia Weekly reported that two out of the five companies shortlisted by the government are in talks with potential partners on the feasibility of carrying out the mega rail project, which was suspended in 2018 and subsequently terminated in 2021 during the height of the Covid-19 pandemic that saw Malaysia compensating Singapore RM320.3m. It reported that **Berjaya Corp (not rated)** had high-level discussions with China's Sinohydro Corp, a hydropower engineering and construction firm while **YTL Corp (BUY, TP: RM0.83)** is said to be trying to rope in China rolling-stock manufacturer CRRC Corp. The other three shortlisted are MMC Corp, **WCT Holdings (BUY, TP: RM0.58)** and **MRCB (BUY, TP: RM0.40)**. We note that all these are still very

preliminary at this stage. Recall that the Government is open for the HSR revival as long as it is funded by the private sector.

- New flows on basic infrastructure jobs and talks/proposals of mega infrastructure projects are sure to jolt excitements in the construction sector that has been rather muted over the past years, relative to other sectors. We expect FY23 to be a better year for contractors, especially given the boost by Budget 2023, with a slew of infrastructure works and public utilities that would translate to stronger job flows this year. We still think that the highlight this year will be the rollout of MRT3, which has been delayed since Dec-22 due to a review by the Government to bring the cost down from RM50b to RM45b. Our preferred names are still those with robust balance sheets and considerable overseas presence, such as **Gamuda (BUY, TP: RM5.04)**, **Sunway Construction (BUY, TP: RM2.00)** and **IJM Corp (BUY, TP: RM1.90)**.

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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