

Construction Sector

(Overweight)

“2016, a Sterling Year”

Table 1: Construction Sector Operational Metrics

Purpose (RM billion)	2015	2015F
GDP	5.0%	4.3%
Big Ticket Project of 11 MP	<ul style="list-style-type: none"> KVMRT2 (RM28 billion) Pan Borneo Highway (RM27 billion) LRT3 (RM9 billion) WCE (RM5 billion) HSR (RM30-RM40 billion) Gemas-JB Electrified Double Track (RM8 billion) 	
2016 Top Pick	<ul style="list-style-type: none"> Gamuda (BUY; TP: RM5.94) IJM Corp (BUY; TP: RM4.00) 	

Source: M&A Securities

Construction sector is expected to deliver blistering performance in 2016 driven by strong contract flows anchored by the roll out of several large projects including the kick-off of KVMRT2 and LRT3. Other big ticket list award will come from Pan-Borneo highway, and subcontract package for RAPID’s project. With burgeoning contract awards and solid prospects, we reiterate our Overweight call on the sector with Gamuda (BUY; TP: RM5.94) and IJM Corp (BUY; TP: RM3.80) emerge as our top pick.

KVMRT2 ready to roll

MRT Corp has officially confirmed that the MMC Gamuda KVMRT (T) Sdn Bhd (MGKT) has won the underground works for MRT Sungai Buloh-Serdang-Putrajaya (SSP) Line worth RM15.47 billion. The underground works package involves the design, construction and completion of tunnels, underground stations and associated structures such as portals and escape shafts for the SSP Line’s 13.5km underground alignment from Jalan Ipoh North Escape Shaft to Desa Waterpark South Portal.

Construction sector - Set to propel the growth in 2016

The government has unveiled Budget 2016 on 23rd October 2015 which is the beginning of 11th Malaysia Plan (11MP) program to achieve a high income nation status by 2020. It reiterates its stance during 2016 Budget Recalibration in January 2016 to remain committed to achieve the targeted private investment totalling RM215 billion with the implementation of major projects including Klang Valley Mass Rapid Transit (KVMRT) and Light Railway Transit (LRT), Pan-Borneo Highway, Malaysian Vision Valley, Cyber City Centre (CCC), RAPID Pengerang and High-Speed Rail (HSR). Construction sector’s contribution to GDP is estimated to expand by 10.3% per annum during the 5-year plan (2016-2020).

Contract awards to skew towards listed construction company

Cumulatively, contract flows were strong in FY15 after reaching RM25.0 billion in value that grew by impressive 18% y-o-y, thanks to the robust pick up in 1Q15 contract awards of RM6.1 billion (>300% y-

o-y) as well as 3Q15 of RM5.7 billion (+96% y-o-y) that offset weaker numbers in 2Q15 of RM5.2 billion (-26% y-o-y) and 4Q15 of RM8.0 billion (-18% y-o-y) respectively. As at FY15, the contract awards for 4 stocks under our coverage remained strong with WCT (BUY; TP: RM1.93) pocketed RM3.0 billion awards followed by SCG (BUY; TP: RM1.70) with RM2.40 billion and IJM Corp. (BUY; TP: RM3.80) with 2.18 billion. Big ticket item dished out in FY15 includes RM1.2 billion Phase 1 of New Deep Water Terminal at Kuantan Port, RM1.6 billion Putrajaya Parcel F and RM755 million TRX's infrastructure and roadway works. In addition, Penang State Government has officially appointed SRS Consortium led by Gamuda (BUY; TP: RM5.80) (60% stake) and 2 local firms, Ideal Property Development Sdn Bhd (20% stake) and Loh Phoy Yen Holdings Sdn Bhd (20% stake) to undertake the PDP role in Penang Transport Master Plan (PTMP).

For non-coverage stocks, MRCB emerged as the clear winner after bagging a total of RM2.39 billion contract value in FY15 where large contract portion came from RM1.60 billion award from the government to regenerate Bukit Jalil Sport Complex. On the other hand, Muhibbah Engineering was handed RM1.84 billion where 83% came from RAPID projects. Among the other top contributor to the overall FY15 contract value were Eversendai with RM1.43 billion, Bina Puri with RM1.39 billion, Malton with RM911 million and WZ Satu with RM728 million.

Value of project awards - CIDB

According to Construction Industry Development Board (CIDB), the total value of project awarded in FY15 was RM96 billion (-43% y-o-y) comprising RM16.58 billion of government projects and RM79.52 billion of private contractor project. Residential project was the largest contributor in FY15, accounting 38% of the total value followed by non-residential (35%), Infrastructure (22%) and social amenities (5%). We notice a decline in contract awards in FY15 mainly due to lack of major project award. Note that FY15 project value of RM96 billion accounted only 57% of 2014 value (RM168 billion). However, we expect the figures to pick up in 2016 driven by several mega infrastructure projects including the big ones like KVMRT2 and LRT3.

LRT 3 update

MRCB-George Kent JV, a 50:50 joint venture between MRCB and George Kent were awarded the PDP role for LRT3 project by Prasarana Malaysia Bhd (Prasarana). We are positive on the recent development of LRT3 project covering 36km from Bandar Utama in Damansara to Klang that cost RM9 billion. Therefore, we only expect the contract roll-out in 1H16 and works to kick-off in 2H16. Among the potential beneficiary for the LRT 3 project include SCG (BUY; TP: RM1.70), IJM Corp (BUY; TP: RM3.80), Gadang, Bina Puri, AZRB and Mudajaya which currently have secured major contract packages in the on-going MRT and LRT extension projects.

Construction industry - resilient impact of lower oil prices

Based on historical trend, we opine that the construction industry in Malaysia has been principally resilient to fluctuations in global oil prices. As witnessed, the construction sector's contribution to GDP has grown steadily during the lower period of global oil prices except for 1998 Asian financial crisis where Brent crude oil was down by 36% y-o-y to USD11 per barrel causing a 24% y-o-y drop in construction sector's contribution to GDP to RM7.2 billion. After the 1998 crisis, we can see that the industry has become more resilient to the fluctuation in oil prices like in 2008 US subprime crisis

which has caused a drastic decrease in Brent crude oil price to USD46 per barrel (-51% y-o-y). During this time the construction sector has managed to register a sturdy growth of 4% y-o-y to RM16.4 billion. We notice a similar resiliency trend by the sector especially after Brent has touched a low of USD36 per barrel in mid-December 2015 and hence, construction sector's contribution to GDP continued to post an upward growth in 2015 to RM46.7 billion (+8% y-o-y).

Bursa Malaysia Construction Index Analysis

The construction sector bellwether index (refer table 3) as at YTD February 2016 showed negative performance. It dropped by 2.39% YTD, in line with disappointing FBMKLCI YTD performance which fell by 2.23%. It ended February 2016 at 269.65, 11.23% lower y-o-y. YTD, Kimlun share price has outperformed its peers after gaining by 10.87% followed by Fajarbaru at 3.85%, Muhibbah Engineering at 3.17% and IJM Corp at 1.48%. The worst performer YTD was MRCB after its share price dipped by 11.72% followed by Melati Ehsan at 10.59%.

Challenges

1) Lethargic property market outlook

The construction industry in Malaysia can be categorized into large pool of diversified and pure-play industry players. A diversify construction player usually operates in various type of business including property business. For this category of player, the major concern is the sluggish outlook on property sector impacted by the cooling measures introduced by the government in Budget 2014 in addition to the implementation of GST in April 2015 and oversupply issues. As observed, these have resulted in slower earnings contribution from property business as endured by most of industry players including the stocks in our coverage namely Gamuda and WCT. Gamuda only achieved full year FY15 property sales of RM1.2 billion (-33% y-o-y) while WCT's sales had declined to RM373 million (-19% y-o-y) as at FY15.

2) Government intervention will add pressure in highly competitive industry

The industry players comprising both the listed and non-listed companies are facing a highly competitive pressure which would result in higher pricing in securing a contract. Furthermore, any government intervention to award certain large scale project to foreign company will dampen the new job prospect for local players.

Overweight on Construction

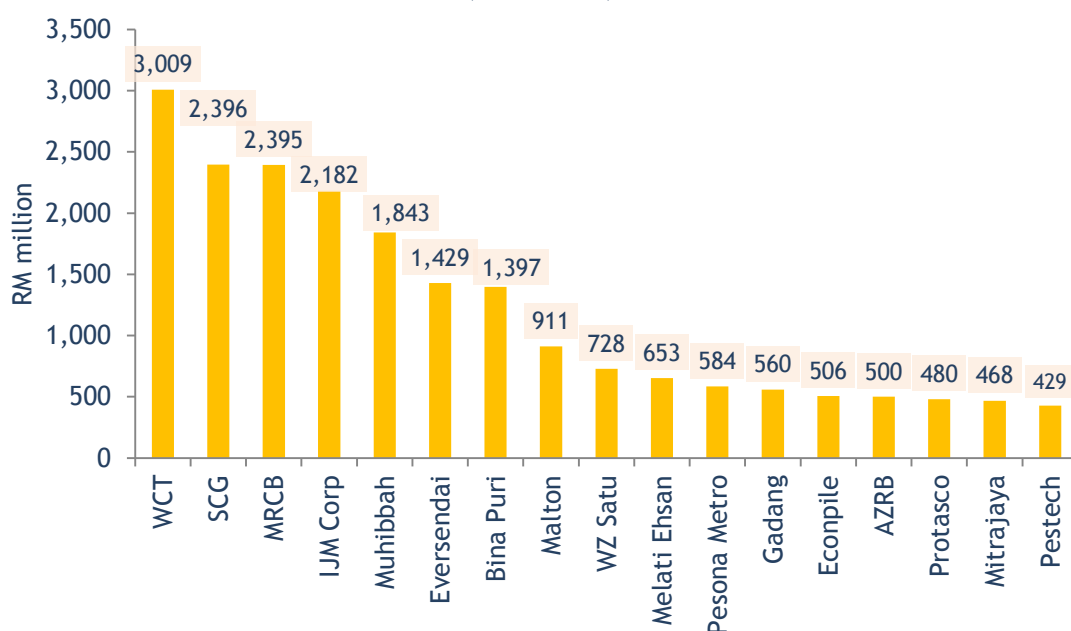
Construction sector's long-term prospects remain bullish anchored by Malaysia Plan (11MP) as the government had lined up a huge sum of construction projects in its bid to reach the coveted 2020 high income target. The 5-year plan (2016-2020) will be significant milestone for Malaysia to become advanced nation by 2020 with the sector critical contribution will come from several mega infrastructure projects including KVMRT2, LRT3 and Pan-Borneo Highway. This will be the earnings catalyst to propel the order book replenishment for construction players which will keep them busy until 2020. In line with this, we reiterate our **Overweight** call on the sector with Gamuda (BUY, TP: RM5.94) and IJM Corp (BUY, TP: RM4.00) emerge as our top pick.

Table 2: Peers comparison (Calenderised)

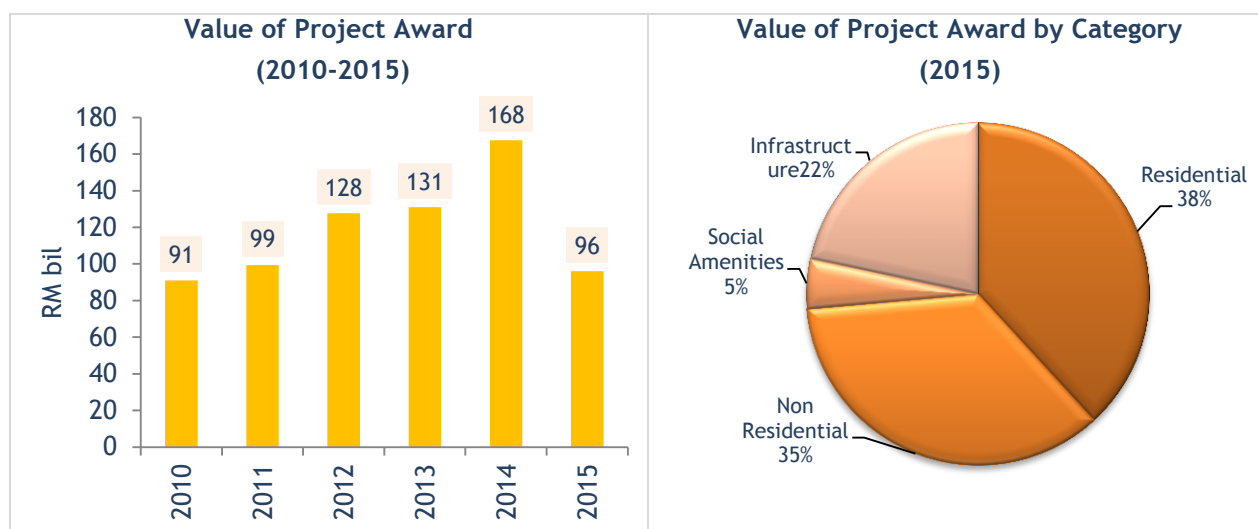
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
IJM CORP	Mar	3.53	19	21	17.4	17.1	1.4	1.3	11	2	4.00	Buy
GAMUDA	Jul	4.92	27	31	17.9	15.7	1.7	1.6	10	2	5.94	Buy
WCT	Dec	1.69	11	13	15.8	12.7	0.8	0.8	9	1	1.93	Buy
SCGB	Dec	1.62	11	12	15.3	13.3	3.9	3.3	33	2	1.92	Buy
BENALEC	Jun	0.53	7	9	8.2	6.2	0.7	0.3	0	1	NR	NR
CREST BUILDER	Dec	0.85	8	NA	10.2	NA	NA	NA	8	4	NR	NR
EVERSENDAL	Dec	0.73	9	9	8.4	8.6	0.6	0.6	6	2	NR	NR
KIMLUN	Dec	1.83	20	23	9.0	8.0	1.1	1.0	16	2	NR	NR
MRCB	Dec	1.25	5	6	26.6	20.8	1.1	1.1	16	2	NR	NR
AZRB	Dec	0.71	NA	NA	NA	NA	NA	NA	6	3	NR	NR
YTL CORP	Jun	1.64	13	14	12.4	11.5	1.1	1.0	7	6	NR	NR
Average					14.1	12.7	1.4	1.2	11	3		

Source: Bloomberg, M&A Securities

Selected Project Award to Listed Company
(As at 2015)



Source: Company, M&A Securities

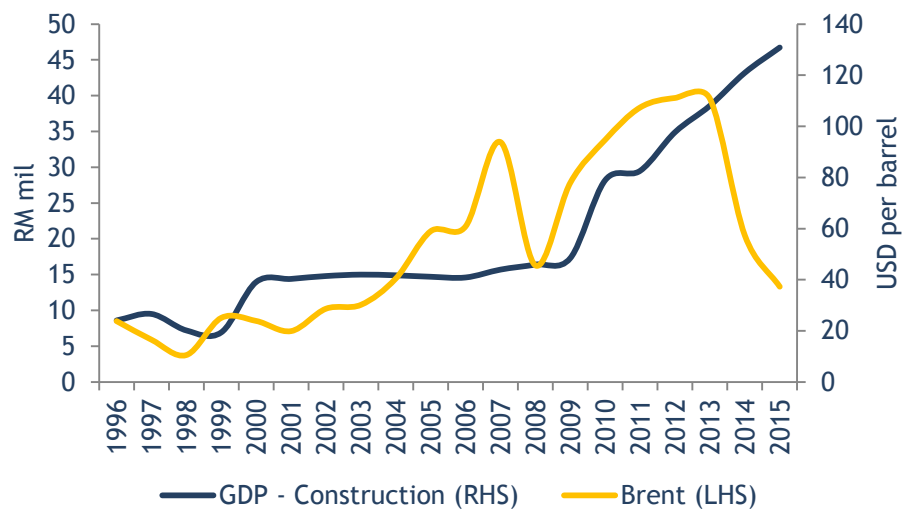


Source: CIDB, M&A Securities

Table 3: YTD Share Price Performance (Construction Sector)

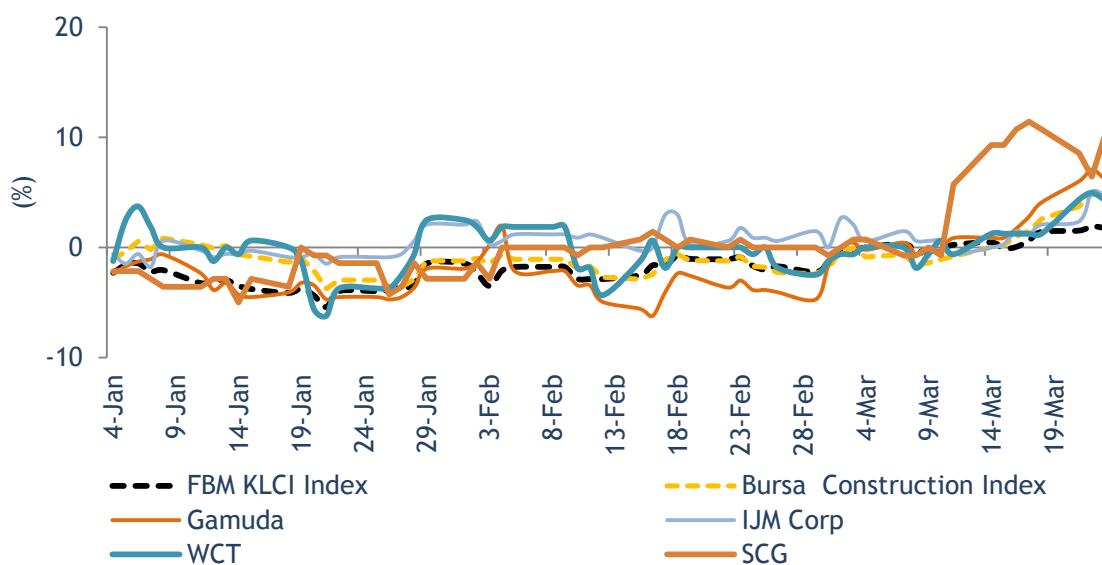
Stock (RM)	SP (Feb 2016)	SP (Dec 2015)	YTD Gain (%)	Stock (RM)	SP (Feb 2016)	SP (Dec 2015)	YTD Gain (%)
Gamuda	4.44	4.66	-4.72%	Pesona Metro	0.36	0.40	-10.00%
IJM	3.43	3.38	1.48%	AZRB	0.58	0.64	-9.38%
WCT	1.57	1.61	-2.48%	Pestech	6.32	6.86	-7.87%
MRCB	1.13	1.28	-11.72%	CMS	5.00	5.13	-2.53%
Muhibbah	2.28	2.21	3.17%	Econpile	1.02	1.09	-6.42%
Eversendai	0.69	0.77	-10.39%	Mitrajaya	1.15	1.20	-4.17%
YTL Corp	1.57	1.57	0.00%	Fajarbaru	0.54	0.52	3.85%
Kimlun	1.53	1.38	10.87%	Mudajaya	1.12	1.18	-5.08%
Bina Puri	0.42	0.43	-2.33%	Gadang	2.07	2.12	-2.36%
Malton	0.75	0.76	-1.32%	Protasco	1.53	1.61	-4.97%
WZ Satu	1.21	1.35	-10.37%	Bursa Msia Construction Index	269.65	276.24	-2.39%
Melati Ehsan	0.76	0.85	-10.59%	FBMKLCI	1,655	1,693	-2.23%

GDP - Construction vs. Brent Oil Prices
(1996-2015)



Source: EPU, Bloomberg, M&A Securities

YTD Performance: Construction Players Share Price vs. FBMKLCI
(January 2016-YTD)



Source: Bloomberg

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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