

# Malaysian contractors exploring opportunities overseas

## Construction sector

**Maintain overweight:** The Asean Master Plan for Connectivity (AMPC) is Asean's flagship infrastructure project and aims to link Southeast Asian countries via a system of rail, roads and ports. Malaysia's progress on AMPC is deemed to be advanced and at the upgrading phase.

The convergence of the Singapore-Kunming Railway with Malaysia's railway connectivity plans is already taking shape with the last leg of the double tracking being awarded to China Railway Construction Corp Ltd.

We expect more clarity on the high-speed rail from Kuala Lumpur to Singapore when the memorandum of understanding is signed by end-June.

The slew of transportation projects amounting to US\$45 billion (RM184.05 billion) will also ensure greater regional and urban connectivity, and is a key focus for Malaysian contractors.

The 2015/2016 Global Competitiveness Index survey ranks Malaysia 25th out of 140 countries and second best in Asean for infrastructure, implying the pipeline of mega projects will wane in the coming years.

While not crucial now, there will be a pressing need to venture overseas. This is not uncharted territory and based on their respective track records, IJM Corp Bhd will be the go-to proxy for India; Gamuda Bhd — Vietnam; WCT Holdings Bhd and Sunway Construction Group

**Indonesia is the largest market for Asean. It's likely to stand a higher chance given similar languages, culture and historical precedence.**

Bhd — the Middle East; and Muhibbah Engineering (M) Bhd — Cambodia.

Collectively, our universe (companies under our coverage) contributed 41% of the total projects completed overseas from 1986 to 2015. Malaysian contractors are already

exploring opportunities overseas where Indonesia is the largest market for Asean. It is likely to stand a higher chance given similar languages, culture and historical precedence.

Consensus earnings for financial year 2016 forecast (FY16F) and FY17F are on average down by 10% and 4% respectively over the past one year.

We have also seen the strongest share price performance for Sunway Construction and Kimlun Corp Bhd, which also has the best earnings delivery coupled with upgrades in earnings. Hence, we are now seeing a higher correlation between share prices and earnings but only for upgrades.

We think this will be more crucial once the majority of key projects

are rolled out this year, implying that execution is the next important milestone to monitor.

Our two key transportation infrastructure picks with potential for cross-border opportunities are Gamuda and Sunway Construction. Gamuda remains the best transportation infrastructure proxy, and is present in almost all large-scale local projects.

Its proven project delivery partner role for the largest project in Malaysian history, the mass rapid transit (MRT), is a much-needed feather in the cap.

Sunway Construction is the only contractor with a track record in MRT, light rail transit and bus rapid transit works. — *Alliance DBS Research, June 27*