

Out think. Out perform.

## Some construction projects to resume

We gather that some construction projects are allowed to resume works during the government's Movement Control Order (MCO), which has been extended to 12 May 2020. Major projects allowed to resume works next week include the Klang Valley MRT Line 2 (MRT2) above-ground works and Light Rail Transit Line 3. Some building works are also allowed to resume. We remain **UNDERWEIGHT** the sector. Our top picks are SunCon, AME and Taliworks; our top SELLS are Gamuda, IJM Corp and MRCB.

### Some projects allowed to resume with restrictions

Most listed contractors have applied to resume work on their projects last week. Some contractors have received approvals to resume works on certain projects by the Ministry of International Trade and Industries (MITI). MITI imposed some restrictions on the contractors that are allowed to resume works on certain projects: (1) work hours at sites are limited to 8.00 am to 5.30 pm and 5 days a week; (2) health checks at site entrance; (3) provision of worker transportation; (4) practise social distancing; (5) minimal workers at site or limited to 50% of usual requirement; (6) encourage work from home for white-collar workers; and (7) identify supervisor who is responsible to ensure compliance to these requirements.

### SunCon, HSS and YTL approved to resume works

We understand that Sunway Construction (SunCon) has been allowed to resume works on all 10 existing projects including its MRT2 and LRT3 subcontract packages, Tenaga headquarters and 4 building projects for Sunway, which include 2 hospital projects. HSS has received approval to resume all engineering works with the restriction of up to 50% of its staff requirement in the office or construction sites, while others work from home. But some of HSS's construction management works on certain projects have to wait for the contractors to be approved by MITI to resume works. YTL Corp has also received MITI approval to resume works on the Gemas-Johor Bahru Double Tracking project.

### WCT and IJM are approved to resume some projects

WCT is still allowed to only undertake critical works for MRT2 and Pan Borneo Highway since late-March, with no new approvals from MITI yet to resume works for its other projects. IJM has received approvals to resume works on some of its projects but we have not received details on which projects will resume from the management. We maintain our earnings forecasts for the construction companies as we have factored in slower progress billings in 1H20. But we remain cautious on the sector due to weak earnings visibility from the MCO impact and order book replenishment concerns. We reaffirm our **UNDERWEIGHT** call on the sector.

Fig 1: Construction peer comparison

Company Name	Stock Code	Rating	Share Pr	TP	Mkt Cap	Year end	Core PE (x)		Core EPS growth (%)		EV/EBI (x)
							CY20E	CY21E	CY20E	CY21E	
GAMUDA	GAM MK	SELL	3.20	2.04	8.0	Jul	13.8	14.9	(12.8)	(6.9)	12.
IJM CORP	IJM MK	SELL	1.65	1.24	6.0	Mar	29.5	28.3	(27.1)	4.2	11.
MRCB	MRC MK	SELL	0.49	0.31	2.2	Dec	105.9	111.5	(159.6)	(5.0)	34.
WCT	WCTHG MK	HOLD	0.50	0.37	0.7	Dec	10.4	6.9	(42.9)	44.7	10.
SUNWAY CONSTRUCTION	SCGB MK	BUY	1.80	1.94	2.3	Dec	19.6	17.5	(11.3)	12.4	10.
AME ELITE	AME MK	BUY	1.57	1.84	0.7	Mar	12.1	11.1	15.5	8.5	7.1
GABUNGAN AQRS	AQRS MK	HOLD	0.84	0.78	0.4	Dec	10.6	10.8	14.0	(1.9)	10.
PINTARAS	PINT MK	HOLD	2.64	2.33	0.4	Jun	8.2	8.7	8.6	(5.6)	3.4
TALIWORKS	TWK MK	BUY	0.80	1.02	1.6	Dec	18.4	24.4	76.2	(24.3)	13.
HSS ENGINEERING	HSS MK	HOLD	0.43	0.32	0.2	Dec	24.5	23.0	574.3	6.8	9.1
<b>Average</b>					<b>22.6</b>		<b>18.3</b>	<b>18.4</b>	<b>(8.4)</b>	<b>(0.6)</b>	<b>12.</b>
<b>Avg ex Gamuda, MRCB, IJM</b>					<b>6.4</b>		<b>14.8</b>	<b>13.9</b>	<b>(1.6)</b>	<b>14.3</b>	<b>9.1</b>

Source: Bloomberg, Affin Hwang forecasts

Note: Pricing as of close on 24 April 2020

## Sector Update

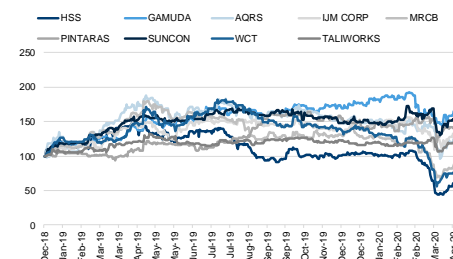
# Construction

**UNDERWEIGHT (maintain)**

### Absolute Performance (%)

	1M	3M	12M
AME	38.9	-12.8	20.8
AQRS	30.5	-28.0	-44.7
Gamuda	23.1	-20.8	-6.4
HSS Eng	44.1	-46.9	-64.0
IJM Corp	19.6	-27.9	-28.3
MRCB	46.3	-31.5	-53.3
Pintaras	17.3	-12.0	3.5
SunCon	33.3	-3.2	-11.8
WCT	47.1	-37.5	-52.8
Taliworks	24.0	-5.3	-18.4

### Relative Performance to KLCI (%)



Source: Affin Hwang, Bloomberg

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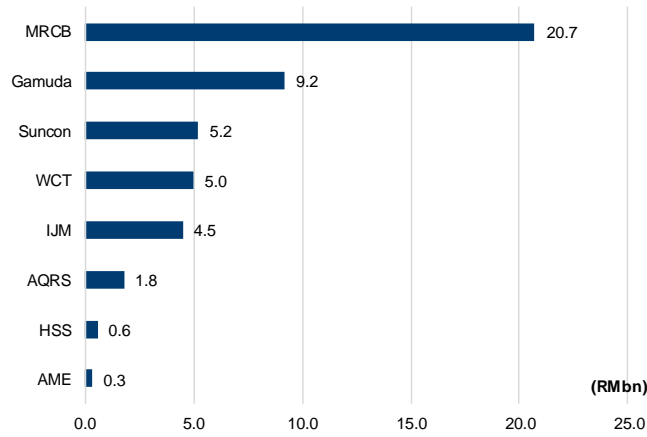
### **Key risks**

Upside risks to our negative sector view: (1) government pump-priming through the revival of key infrastructure projects; (2) pick-up in the award of government projects; and (3) faster-than-expected resumption of works on construction projects.

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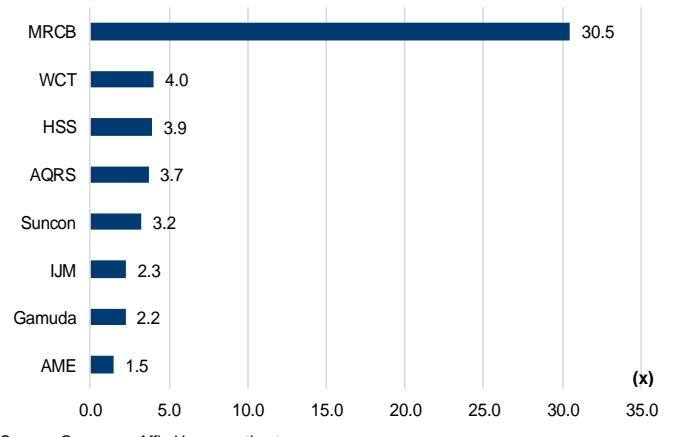
### Key focus charts

**Fig 2: Construction order book at end-2019**



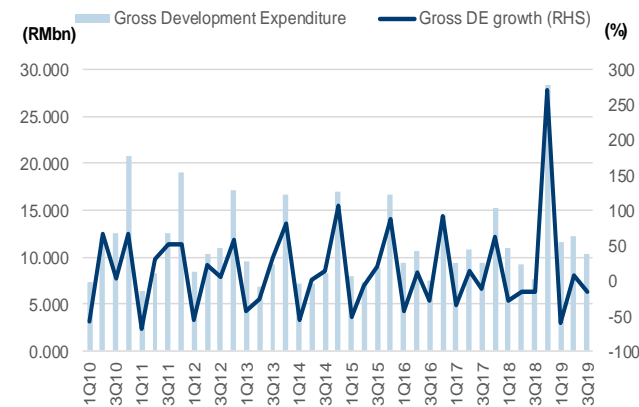
Source: Company, Affin Hwang estimates

**Fig 3: Order book/revenue at end-2019**



Source: Company, Affin Hwang estimates

**Fig 4: Government gross development expenditure**



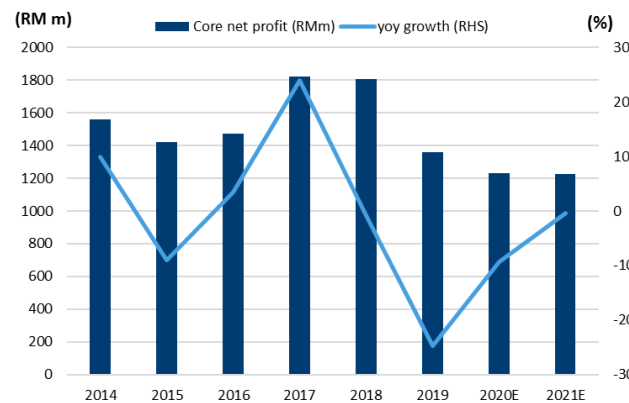
Source: Ministry of Finance

**Fig 5: Infrastructure works to be awarded in 2020 onwards**

Project	Estimated cost (RMbn)
Penang Transport Master Plan (PTMP)	32
Bandar Malaysia infrastructure	21
Klang Valley MRT Line 3 - Circle Line (MRT3)	21
KL-Singapore High Speed Rail - Fast Train	20
Pan Borneo Highway Sabah (PBH)	13
East Coast Rail Link subcontracts	8
Sarawak Water Grid Phase 1	8
Sarawak Coastal Highway	5
Sarawak Second Trunk Road	6
Labuan Bridge	4
Johor Bahru-Singapore Rapid Transit System	3
Others	10
<b>Total</b>	<b>146</b>

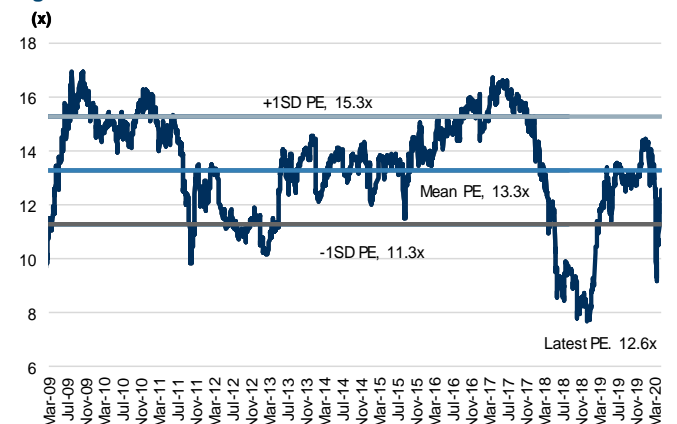
Source: Affin Hwang estimates, various media, eg, The Star and The Edge Financial Daily

**Fig 6: Aggregate construction core net profit and yoy change**



Source: Companies, Affin Hwang forecasts

**Fig 7: KL Construction Index 12-month forward PER**



Source: Bloomberg, Affin Hwang forecasts

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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