

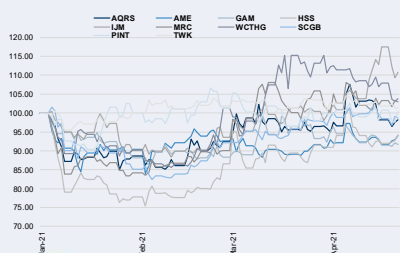
Sector Update

"Tenders for MRT3 project are expected to start in 2H21"

Absolute performance (%)

	1M	3M	12M
AME	3.7	3.2	49.7
AQRS	0.8	11.0	-19.6
GAM	-6.7	-0.6	11.5
HSS	3.4	16.3	40.7
IJM	7.4	15.3	11.2
MRC	1.1	20.0	2.1
PINT	2.3	1.1	2.7
SCGB	1.1	9.0	3.4
TWK	-1.8	4.4	4.4
WCTHG	-11.5	14.9	12.5

Relative performance (%)



Source: Bloomberg

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Construction

NEUTRAL (maintain)

MRT3 to kick off soon

- MRT Corp called construction companies interested in participating in the Klang Valley MRT Line 3 (MRT3) project for a briefing on Monday
- The change to a hybrid project structure involving Private Finance Initiative (PFI) provides opportunities for construction and property companies with strong balance sheets to participate in the MRT3 project
- Fast-tracking the MRT3 project tenders for 2H21 will improve prospects for contractors to expand their order books. Maintain our NEUTRAL call. Top sector BUYs are Gamuda, SunCon, HSS and AME

RFI for elevated civil and station works

MRT Corp conducted a briefing on Monday (19 April) for construction companies that are interested to participate in the elevated civil and station works for the MRT3 project. Only construction companies that had successfully completed in the past 10 years or are currently constructing a railway/elevated/bridge/highway project with at least RM500m in value were qualified to attend the briefing and submit a Request for Information (RFI) by 7 May 2021 (Part 1) and 25 May 2021 (Part 2). Tenders for elevated civil and station works are scheduled to be called in 2H21. We estimate the above-ground works could cost RM13.5bn. We believe the incumbent contractors for MRT2 such as **SunCon**, **IJM Corp**, **MRCB**, **WCT**, **Gadang** and **Mudajaya** have competitive advantages for the MRT3 above-ground works.

Competition from foreign contractors is possible

We gather that foreign contractors that are locally incorporated with the required track record are also allowed to participate in the RFI and upcoming tenders. This could increase the competition for the local contractors. State-owned Chinese contractors such as China Communications Construction Co. (CCCC) are undertaking elevated civil works either with local partners or as subcontractors for the SUKE and DASH expressways, Light Rail Transit Line 3 (LRT3) and MRT2. But we believe the local contractors would be competitive in the tenders although there could be pressure on profit margins.

Project structure changes

MRT Corp will conduct briefings soon for companies interested in the MRT3 transport-oriented development (TOD) and underground tunnelling works. There are PFI opportunities to participate in TOD on government land near MRT3 stations. We believe **MRCB** and **Sunway** are potential interested parties with the balance sheet to undertake large-scale TOD projects. We estimate the MRT3 tunnelling works is worth about RM19.4bn and the **MMC Gamuda** Joint Venture (JV) is a potential beneficiary, being an incumbent undertaking MRT2 tunnelling works. Prospects to replenish order books are improving with the potential revival of mega infrastructure projects such as the MRT3 though we remain **NEUTRAL** on the sector. Top sector BUYs are **Gamuda**, **SunCon**, **HSS** and **AME**. Key upside risk: faster-than-expected roll-out of infrastructure projects; key downside risk: political uncertainty.

Peer Comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMb)	Year End	Core PE (x)		Core EPS growth (%)		EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)	RNAV/share	Sh Pr discount to RNNAV
							CY21E	CY22E	CY21E	CY22E						
GAMUDA	GAM MK	BUY	3.50	4.05	8.8	Jul	15.9	13.8	7.1	14.8	13.7	1.1	6.0	0.7	4.05	13.6
IJM CORP	IJM MK	HOLD	1.88	1.72	6.8	Mar	27.7	24.9	(14.8)	11.2	9.0	0.6	2.1	1.6	2.46	23.6
MRCB	MRC MK	HOLD	0.48	0.45	2.1	Dec	111.4	36.4	n.m	>100	30.2	0.5	0.4	3.6	0.90	46.7
WCT	WCTHG MK	SELL	0.54	0.50	0.8	Dec	22.8	17.3	n.m	31.7	12.0	0.3	1.1	1.1	1.25	60.1
SUNWAY CONSTRUCTION	SCGB MK	BUY	1.82	2.22	2.3	Dec	19.3	16.2	32.1	19.2	11.3	3.5	18.2	3.8	2.22	18.0
AME ELITE	AME MK	BUY	2.26	2.60	1.0	Mar	14.5	12.7	14.1	14.5	10.6	1.3	9.2	1.5	3.25	30.5
GABUNGAN AQRS	AQRS MK	BUY	0.66	0.74	0.4	Dec	13.0	8.8	71.1	48.5	13.3	1.3	5.1	6.1	0.92	28.8
PINTARAS	PINT MK	BUY	2.66	3.10	0.4	Jun	8.6	7.7	22.6	11.1	3.5	1.2	13.8	6.0	2.33	NA
TALIWORKS	TWK MK	BUY	0.83	0.96	1.7	Dec	25.3	23.5	0.0	7.3	16.1	1.9	7.4	8.0	1.20	30.8
HSS ENGINEERING	HSS MK	BUY	0.61	0.82	0.3	Dec	19.0	15.2	55.9	25.2	10.5	1.3	6.6	0.9	NA	NA
Average					24.6		20.5	17.3	12.0	18.3	11.7	1.3	3.8	3.3		

Source: Bloomberg, Affin Hwang forecasts - closing prices as of 21 April 2021

RFI for elevated civil and station works

Tenders for MRT3 above-ground works to open in 2H21

MRT Corp conducted a briefing on MRT3 above-ground works

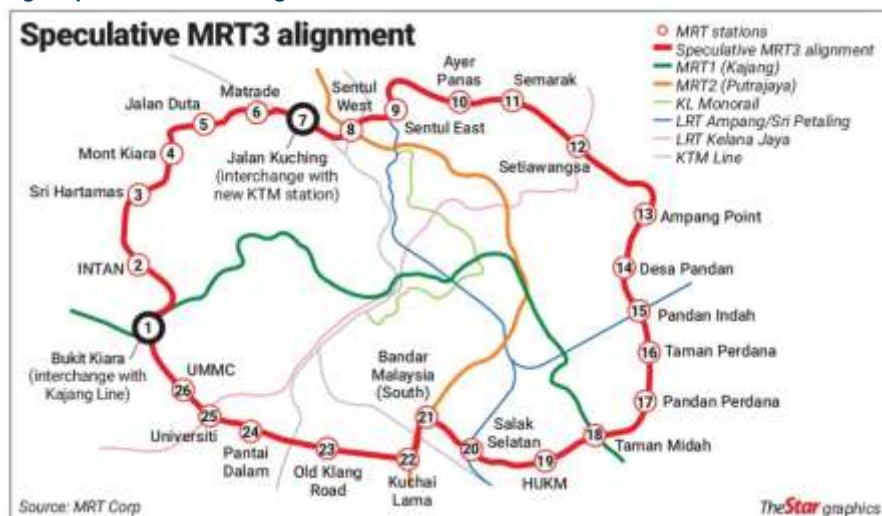
MRT Corp called the construction companies interested to participate in the Klang Valley MRT Line 3 (MRT3) project's elevated civil and station works to attend a request for information (RFI) briefing on Monday (19 April). The process to kick start the MRT3 project is fast-tracked to just 1 year with RFI submission scheduled for 7 May 2021 (Part 1) and 25 May 2021 (Part 2). This is ahead of the expected finalisation of the MRT3 route and financing scheme in May/June. Tender offers are scheduled to open in 2H21. Construction works are expected to commence in early 2022.

Lower construction cost for MRT3 with shorter underground section

Proposed hybrid structure and longer route

MRT Corp intends to have a hybrid funding model and remains the project owner and manager. RFI for the elevated civil and station works is open to anyone who has executed at least one land transport infrastructure project with a minimum value of RM500m. The project cost has not been determined since the alignment (several proposed alignments are being evaluated) and project design have not been finalized, but the indicative project cost is at least RM30bn and 10-30% of the project cost could be funded under PFI schemes. The indicative route is about 50 km in length, with at least 30 stations (about 10 interchange stations) and about 40% of the route could be underground. The previous proposal in 2018 for the MRT3 project costs about RM45bn, partly due to 80% of the route being underground but with a shorter total length of 40 km for the line.

Fig 1: Speculative MRT3 alignment



Source: The Star, MRT Corp

Construction cost will depend on alignment and project specifications

We estimate a construction cost of RM32.9bn for MRT3

Based on the revised MRT2 project cost of RM0.97bn/km for tunnelling works and RM0.45bn/km for above-ground works, we estimate the MRT3 tunnelling works (about 20 km) to cost RM19.4bn and above-ground works (about 30 km) to cost RM13.5bn, for a total of RM32.9bn. The total construction cost would vary depending on the number of stations, construction scope and specifications, and the complexity of the project implementation, which would depend on the final alignment.

Competition from foreign contractors is possible

Potential implementation in 5 phases over 10 years

Extended implementation period and increased use of IBS

According to MRT Corp, MRT3's competitive costing is supported by the emphasis on the building information modelling (BIM) and industrialised building system (IBS) method, as well as smaller modularised MRT3 stations compared with its predecessors. Foreign partners, if any, must have the requisite knowledge or conduct a technology transfer such that local players would be able to undertake the entire project in the future. The MRT3 project will be executed across 5 phases split among 10 interchange stations, which will allow each section to operate independently before the entire circle is completed. The MRT3 project is expected to be completed in 10 years.

Competition from foreign contractors is possible

The government is likely to ensure high local participation in MRT3

We gather that foreign contractors that are locally incorporated with the required track record are also allowed to participate in the RFI and upcoming tenders. But we believe the government will likely safeguard the interests of the local construction and supply chain players and ensure a high local content to maximise the economic benefits. In addition, MRT Corp has proposed a hybrid model to finance the project, which is expected to have a multiplier effect of 3.5 (every RM1 of spending will generate 3.5x more in returns).

Project structure changes

MMC Gamuda JV is likely to secure main contractor role

Prefer incumbent contractors with established track record

It is uncertain if MRT Corp will appoint a main turnkey contractor for the MRT3 project. To recap, MMC Gamuda JV was appointed the Project Delivery Partner (PDP) and tunnelling contractor for the MRT1 and MRT2 projects. However, the PDP contract was switched to a turnkey contractor contract with the total contract value reduced to RM30.5bn from RM39.4bn previously following negotiations between the government and MMC Gamuda JV in 2018.

Potential 4-5% upside to Gamuda's FY22-23E earnings from MRT3

We believe the MMC Gamuda JV is in a strong position to secure the main contractor role for the MRT3 project, given its excellent track record in executing the previously awarded MRT lines. Prospects for the JV to win the tunnelling contract are also good as it is the only incumbent local contractor with a track record in MRT tunnelling works and owns 12 tunnel-boring machines (competitive cost advantage). We have assumed a MRT3 turnkey contract value of RM21bn in our earnings forecasts for Gamuda (50% share of works). Hence, if the contract value is RM32.9bn and MMC Gamuda JV wins the contract, we estimate there is potential upside of 4-5% to our FY22-23E earnings assuming an unchanged average PBT margin of 6.7%.

SunCon, IJM, MRCB and WCT could win MRT3 above-ground contracts

Construction companies undertaking the MRT2 above-ground works will have the track record to participate in the RFI and potentially the tenders to be called for the MRT3 elevated civil and station works. Such contractors under our coverage are SunCon, IJM Corp, MRCB and WCT. We believe these companies have competitive advantages in bidding for the MRT3 above-ground works.

Fig 2: Listed construction companies awarded MRT2 works

Award date	Project	Contractor	Value * (RMm)
01-Apr-16	KVMRT Line 2 Package V201 (Sg Buloh-Persiaran Dagang)	Sunway Construction	1,213
25-Mar-16	KVMRT Line 2 Package V202 (Persiaran Dagang-Jinjang)	Ahmad Zaki	1,440
12-May-16	KVMRT Line 2 Package SY203 (electric trains and depot equipment)	HAP Consortium	1,620
29-Mar-16	KVMRT Line 2 Package SBG201 (box girders for V201-V205)	SPC Industries Sdn Bhd	199
29-Mar-16	KVMRT Line 2 Package SBG202 (box girders for V206-V210)	Acre Works Sdn Bhd	170
31-Mar-16	KVMRT Line 2 Underground Work Package	MMC-Gamuda	15,470
12-May-16	KVMRT Line 2 Package SY201 (signal and train control system)	Bombardier-Global Rail	458
12-May-16	KVMRT Line 2 Package V210 (Persiaran APEC-Putrajaya Sentral)	MRCB	648
12-May-16	KVMRT Line 2 Package V203 (Jinjang-Jln Ipoh)	IJM Corp	1,470
06-May-16	Package DPT 203: Serdang depot	TSR Capital	90
29-Aug-16	KVMRT Line 2 Package SSP-SY-204 (System Work Package)	George Kent - CCCC (49:51)	1,007
12-Aug-16	KVMRT Line 2 Package V202 (Relocation of telecommunication works)	UEM Edgenta	87
10-Nov-16	KVMRT Line 2 Package V204 (Bandar Malaysia's south portal to Kampung Muhibbah)	WCT Holdings	896
10-Nov-16	KVMRT Line 2 Package V208 (Taman Pinggiran Putra to Persiaran Alpina)	MTD Construction Sdn Bhd	679
19-Dec-16	KVMRT Line 2 Package V207(Universiti Putra Malaysia to Taman Pinggiran Putra)	Mudajaya Group Berhad	559
13-Mar-17	KVMRT Line 2 Package V206 (Serdang-UPM)	Gadang	952
13-Mar-17	KVMRT Line 2 Package V209 (Persiaran Alpina-Persiaran APEC)	Acre Works Sdn Bhd	716
13-Mar-17	KVMRT Line 2 Package V205 (Kg Muhibbah-Serdang Jaya)	TRC Synergy	858
13-Mar-17	Elevated stations and other associated works in Damansara Damai, Sri Damansara West and Sri Damansara East	Sunway Construction	212
21-Dec-17	KVMRT2 Package V201 to V210: design, supply, installation, testing and commissioning of noise barriers and enclosures	Muhibbah Engineering	189
Sub-total			28,934

* Initial contract award value before revision in 2018-19.

Source: Company, theedgemarkets.com and various media sources

MRCB and Sunway are potential TOD bidders for MRT3

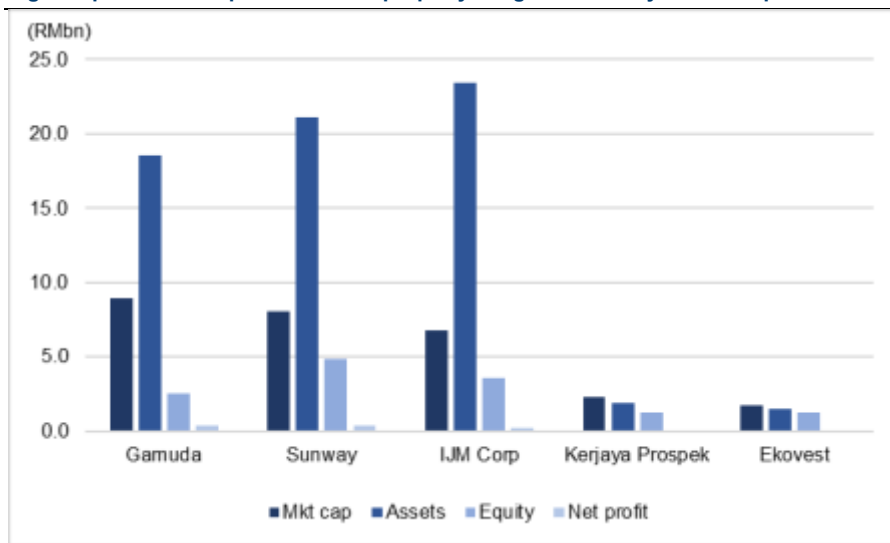
Potential PFI for transport-oriented developments linked to MRT3

MRT Corp will conduct briefings soon with construction and property companies that are interested to participate in the MRT3 transport-oriented development (TOD) and underground tunnelling works. There are PFI opportunities to participate in TOD on government land near MRT3 stations. We believe MRCB and Sunway are potential interested parties with the balance sheet to undertake large-scale TOD projects. MRCB is involved in the KL Sentral transport hub development while Sunway is developing the Sunway Velocity high-rise mixed development project.

Possible M&A among construction/property conglomerates

The PFI concept for project implementation could encourage M&As among construction/property conglomerates to beef up their balance sheets to undertake PFI projects. Sunway acquired a 4.95% stake in IJM Corp this year. This has sparked speculation of a possible M&A to create the largest construction/property conglomerate in terms of market cap, earnings, equity and assets. However, Sunway indicated that the acquisition of the IJM stake is an investment in securities and there are no M&A plans currently.

Fig 3: Top 5 market cap construction/property conglomerates by market cap



Source: Companies, Bloomberg

Maintain NEUTRAL call;
Top BUYs are Gamuda,
SunCon, HSS and AME

Top sector BUYs are Gamuda, SunCon, HSS and AME

We reiterate our NEUTRAL call on the Construction Sector as we believe the current risk-reward is balanced. **Gamuda** is our top large-cap sector BUY, given its competitive advantage in bidding for the MRT3 project and improved prospects to win infrastructure projects in Australia. Gamuda, together with local partners, has been shortlisted for 3 projects in Sydney involving tunnelling works for the MRT and a motorway. Among the mid-caps, we prefer **SunCon** given its net cash position and strong track record in undertaking public transport and building projects. Our top small-cap BUYs are **HSS** (leading engineering consultant in Malaysia) and **AME** (integrated industrial property developer/contractor). Other sector BUYs in our coverage include **Pintaras Jaya**, **Taliworks** and **Gabungan AQRS**.

Fig 4: Peer comparison for construction companies

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMb)	Year End	Core PE (x)		Core EPS growth (%)		EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)	RNAV/share	Sh Pr discount to RNNAV
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TALIWORKS	TWIK MK	BUY	0.83	0.96	1.7	Dec	25.3	23.5	0.0	7.3	16.1	1.9	7.4	8.0	1.20	30.8
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Average					24.6		20.5	17.3	12.0	18.3	11.7	1.3	3.8	3.3		

Source: Bloomberg, Affin Hwang forecasts - closing prices as of 21 April 2021

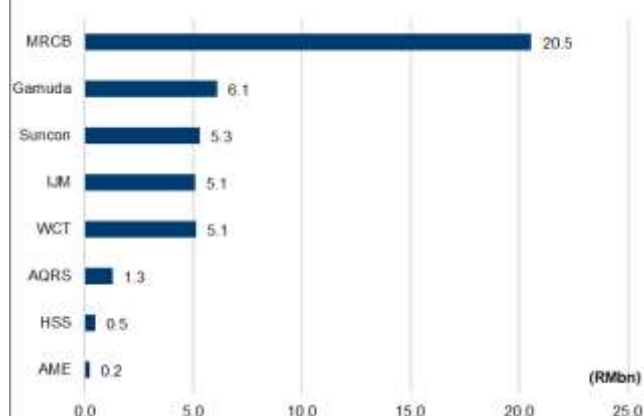
Key concern is political uncertainty

Key risks

Our key downside concern for the sector is the current political uncertainty. The key upside risk is an acceleration in the implementation of mega infrastructure projects, which will drive construction order book expansion for the contractors.

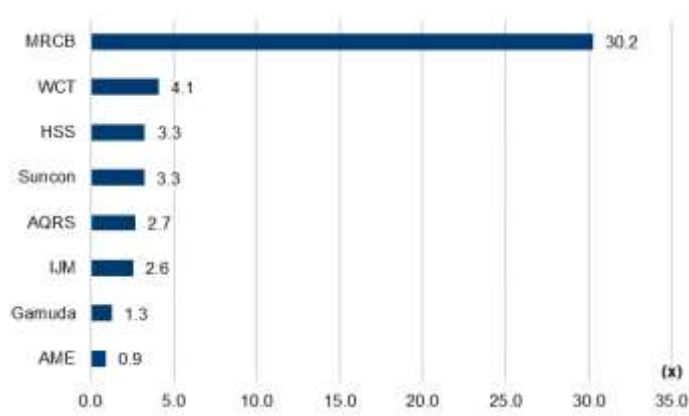
Key focus charts

Fig 5: Construction order book as at 31 December 2020



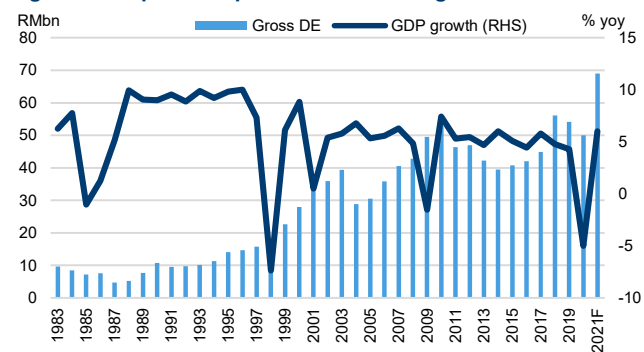
Source: Company, Affin Hwang

Fig 6: Order book/revenue as at 31 December 2020



Source: Company, Affin Hwang

Fig 7: Development expenditure and GDP growth



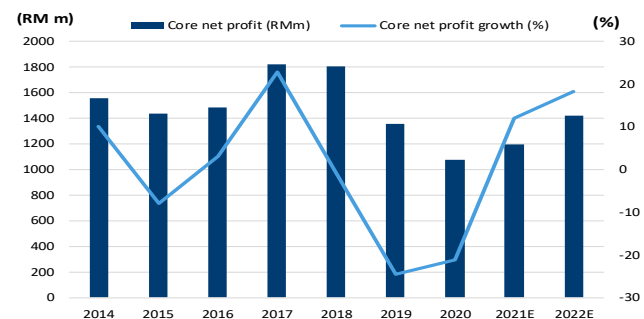
Source: Ministry of Finance

Fig 8: Infrastructure works to be awarded in 2020 onwards

Project	Cost (RMbn)
Penang Transport Master Plan (PTMP)	32
Bandar Malaysia infrastructure	21
Klang Valley MRT Line 3 - Circle Line (MRT3)	21
Pan Borneo Highway Sabah (PBH)	10
East Coast Rail Link subcontracts	8
Sarawak Water Grid Phase 1	8
Sarawak Coastal Highway	5
Sarawak Second Trunk Road	6
Rasau Water Treatment Plant	4
Labuan Bridge	4
Joho Bahru-Singapore Rapid Transit System (RTS)	4
Iskandar BRT	3
PJD Link	3
Papar Dam, Sabah	2
Total	130

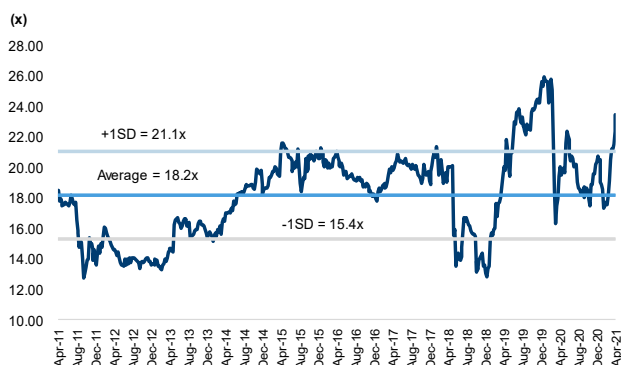
Source: Affin Hwang estimates, various media, eg. The Star and theedgemarkets.com

Fig 9: Construction core net profit and yoy change



Source: Company, Affin Hwang

Fig 10: Construction sector 12-month forward PER



Source: Affin Hwang estimates, Bloomberg

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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