



Quick Take

Prospects for the construction sector are brightening with Prime Minister Datuk Seri Ismail Sabri Yaakob's announcement of a Cabinet approval on the long delayed MRT3 project and an additional RM15bil allocation for the flood mitigation project.

MRT3

As a part of the Klang Valley Mass Rapid Transit (KVMRT), MRT3 was envisaged to be a circle line, which would integrate all existing radial lines of the Klang Valley Integrated Urban Rail Network. In May 2018, the government announced that the development of the Circle Line was being shelved until the country's financial situation improved. During the tabling of Budget 2021 on 6 November 2020, the government announced the revival of the MRT3 Circle Line project.

On 4 March 2022, the Cabinet approved the MRT3 project.

Preliminary plans for the MRT3 will cover some 50km and include 31 stations. Out of these, 10 are MRT interchange stations encompassing LRT and KTM Komuter lines.

Flood mitigation project

Due to the floods during the Northeast Monsoon in Dec 2021– early 2022, the Cabinet has decided to improve and expedite flood mitigation projects with an additional funding of RM15bil for 2023F–2030F, significantly more than the RM1.0bil annually allocated under the 12th Malaysia Plan.

Pan Borneo Highway

The Cabinet has also approved the expansion of the Pan Borneo Highway project on 4 March 2022. Work progress on the project has reached 52% so far and is expected to be completed by October 2024. The first phase of the Sabah segment involved 15 packages. To improve the link, the government has also agreed to award 19 additional work packages involving an alignment of 367km with a construction period of five years.

Meanwhile, the first phase of the Sarawak segment involving a range of 786km has achieved 78% completion so far. Going forward, the government plans to implement the Sarawak-Sabah Link Road project and the Trans Borneo Highway project.

Impact to stocks under our coverage

- **Gamuda**

We believe Gamuda will be the strongest contender for all three of the above projects due to the following:

- Gamuda is a tunnelling expert with regional presence. Gamuda (in a consortium with Laing O'Rourke) was recently awarded a tunnelling project – the single largest project ever overseas – in Australia worth RM6.5bil on 1 March 2022. Gamuda (via a 60:40 JV with Wai Fong Construction) was also awarded its first tunnelling project in Singapore (Defu station) worth RM1.45bil on 22 February 2022.
- Gamuda, via a JV with MMC Corporation, also has prior experience in the MRT1 (as a project delivery partner) and the MRT2 (as the turnkey contractor). It built the whole underground portion of the MRT1.
- Gamuda has also completed the world's first dual-purpose Stormwater Management and Road Tunnel (SMART), which was activated for about 22 hours to divert 5 million m³ of rising waters of the Klang River during a heavy downpour in mid-December 2021.
- Gamuda, via a JV with NAIM, won part of the RM1.57bil Pan Borneo Highway project, i.e., the WPC04 Pantu Junction to Batang Skrang ranging 89.43km in 2016.

- **Kimlun Corp**

Kimlun had previously supplied segmental box girders and tunnel lining segments for both the MRT1 and MRT2. Furthermore, Kimlun, via a JV with Zecon Bhd, won part of the RM1.46bil Pan Borneo Highway project, i.e. the WPC03 Serian Roundabout to Pantu Junction (SPJ) ranging 75.01km in 2016.

- **IJM Corp**

IJM has extensive experience working on both the MRT1 and MRT2 projects. To recap, it was awarded the following projects by Mass Rapid Transit Corp (MRT Corp).

- RM1.20bil project (packages V5 & S5) to build a viaduct guideway of 5.4km and 4 elevated stations for the MRT1;
- RM1.81bil project (packages V203 & S203) to construct a 6.4km viaduct guideway and 4 elevated stations for the MRT2.

- **Sunway Construction (SunCon)**

SunCon has also worked on the MRT1 and MRT2 projects, comprising the following projects:

- RM1.17bil project (package V4) to construct a 6.5km viaduct guideway for 3 elevated stations for the MRT1;
- RM1.43bil project (packages V201 & S201) to build a 4.9km viaduct guideway and 3 elevated stations of the MRT2.

- **Econpile**

We believe the award of the MRT3 project may also benefit Econpile. It received a RM43.5mil project to undertake bored pile works for the MRT2 in October 2016.

Overall, we expect the award of MRT3 contracts to revitalise the growth of the construction sector. Nevertheless, we are maintaining a **NEUTRAL** stance on the sector pending the announcement of further details.

EXHIBIT 1: VALUATION MATRIX

	Rec.	Price (RM)	FV (RM)	Mkt Cap RMmil	FYE	EPS (sen)		PE (x)		ROE* (%)	DPS* (sen)	DY* (%)
						FY22F	FY23F	FY22F	FY23F			
GAMUDA	HOLD	3.16	3.28	7,943	Jul	23.1	23.9	14.4	13.9	6.6	-	-
KIMLUN	HOLD	0.74	0.75	262	Dec	8.3	10.3	9.7	7.9	nm	1.0	1.4
SUNCON	HOLD	1.51	1.69	1,952	Dec	11.7	12.7	13.5	12.5	11.0	5.3	3.5
Simple Average								12.5	11.4			

*FY21

Source: Company, AmlInvestment Bank Bhd estimates

Share prices as at 4 March 2022

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