Malaysia construction

Sector outlook

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Malaysia

Infrastructure

Gamuda	**GAM MK**
Rec	**BUY→O-PF**
Market cap	US$2.2bn
3M ADV	US$3.7m
Price	RM3.72
Target	**RM3.50→RM3.90**
Up/downside	+4.8%

SunCon	**SCGB MK**
Rec	O-PF
Market cap	US$0.6bn
3M ADV	US$0.3m
Price	RM1.90
Target	RM2.18
Up/downside	+14.7%

IJM	**IJM MK**
Rec	U-PF
Market cap	US$1.7bn
3M ADV	US$2.0m
Price	RM1.95
Target	RM1.95


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Digging deep

Case for high multiplier jobs rises amid narrowing debt headroom

With slim debt headroom post Covid-19 stimulus, we see even greater urgency for the country to carefully sequence infra. spending. Amid a lack of medium-term policy, we examine projects for readiness and funding availability, and see MRT3 as among the projects likely to be prioritised. We incorporate expectations Gamuda will reprise this role but estimate this to be partly priced-in given its strong price surge (40% since March). We lower our GAM rating from BUY to O-PF, albeit at a higher target price of RM3.90 (+40 sen). Our sector top pick is SunCon (O-PF, target price RM2.18).

With razor thin spending headroom funding availability comes to the fore

- **Digging deep.** With a c.RM45bn direct injection for stimulus, government debt to GDP may edge up to 55%, ie. the self-imposed debt ceiling. The task at hand may be to raise the debt ceiling temporarily. In the interim, we see a more cautious stance on non-essential infrastructure or those with a low multiplier effect.
- **Some leeway in off-balance sheet projects.** Some projects funded via special-purpose vehicles are not shackled directly by this debt limit. These include the Mass Rapid Transit (MRT), Pan Borneo Highway (Sarawak). See Figure 1 for projects by type of funding. Over time, we see the government formulating a debt ceiling (including-off balance sheet) to assuage rating agencies.
- **Also more likely.** The case for partially government funded/private finance initiative jobs will rise, we think. One such example is Iskandar Bus Rapid Transit, which complements the Rapid-Transit System Link and features as pipeline of awards.

Project readiness for quick wins—MRT3 fits the mould

- **Looking inward.** With the G2G negotiation of the KL-Singapore high speed rail (HSR) moved back to end-2020, local projects may fill the gap.
- **Fits the mould.** While some projects are still in the planning stage or have seen no material progress, the MRT3 fits the mould as having a high multiplier effect (MRT typically 2.5-3.5x) & with reviews long underway (since last year). For a list of projects combed and status see Figure 4.
- **State projects.** In Sarawak, focus areas such as water infrastructure programmes are seeing increased state budget allocations. Meanwhile, fiscal constraint casts doubt on the RM10bn guarantee for Penang's Bayan Lepas light rail transit (LRT) as this adds c.70bps to the 77.4% government total liabilities to GDP ratio (Dec 2019).

Execution still the near-term focus given decent order-books

- **Moving beyond restart.** Poor 1H20 financial performance for firms is inevitable due to the movement control order (MCO), though work has restarted, including MRT Line 2 and LRT 3 restarted. Firms are in discussion for a time extension to reduce pressure to accelerate work, aside being disciplined on costs to defend margin pressure.
- **Not hard-pressed.** Gleaning key listed firms, order-book visibility over revenue of a solid 2-3 years (Figure 8), and thus we do not see steep margin compromise just to restore order-books. Despite 1H20 interruptions, contractors restored order books in areas of property projects and overseas. IJM and AQRS ended a period of a job lull (Figure 6).
- **Not with scale.** Packages recently for East Coast Rail Link (ECRL) were on specific job specifications (versus by entire stretches) thus lower scale economies. Yet another phase, Phase A (Kota-Bharu Dungun), should progress towards awards in 2H20.

Prefer GAM over IJM for now

- **Stay Neutral.** At a 14.9x forward PE, the KLCON has partially recovered versus end-2019. At 0.7 std. above its 5-year mean PE, the valuation commensurate with expectations of some pump-priming (Figure 9). For us, HSR remains a luxury for now, and a return would be an upside surprise. We maintain our Neutral sector view.
- Incorporating MRT3, our Gamuda SOTP-derived target price increases from RM3.50 to RM3.90 which equates to an Outperform rating (previously BUY). The more-pricey IJM (PE basis) remains at Underperform. Our sector pick remains SunCon (target price RM2.18), underpinned by the relative safety of internal jobs.
- **Risks.** On 12 June, the Edge reported the Prime Minister is preparing for a snap election by year-end. If true, this may contribute to uncertainty. Conversely, an acceleration of projects would be read as a positive.

Getting a bang for its buck—the government has to think outside the box

Ceiling of 55% for self-imposed debt limit

Federal government debt to GDP stood at 52% according to finance minister, Tengku Zafrul. However, given needed funding under the stimulus programmes, Malaysia's 55% self-imposed debt limit may be reached; seeking parliament approval could be on the cards to raise the bar temporarily. In the near term, we believe this will compel the focus to be on projects with high multiplier effect, with non-essential infrastructure sequenced.

Some projects have less obstacles from a funding point of view

Some projects funded off-balance sheet

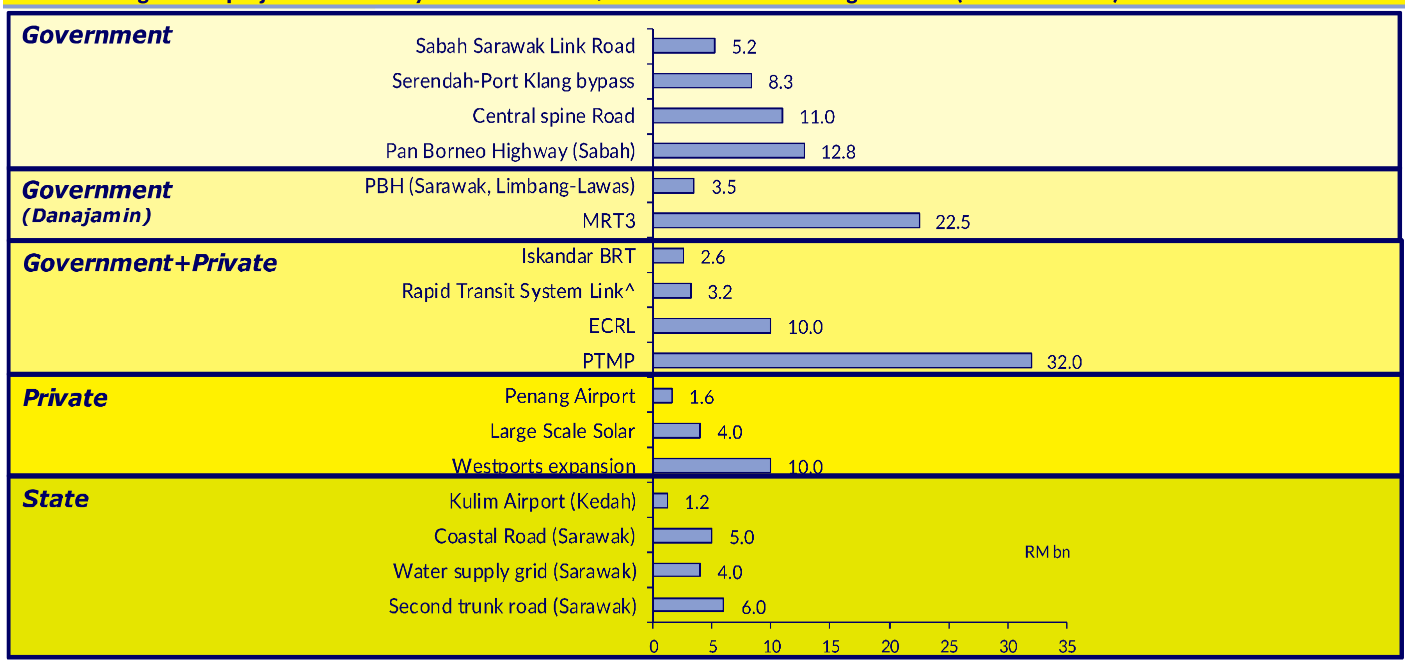
Still, some projects are financed off-balance sheet from special funding vehicles, or SPV which include guarantees on Danainfra-funded projects (MRT, Pan Borneo Highway Sawarak). These are not directly shackled by the statutory debt limit. As off-balance sheet items are also not scrutinised during Budget setting, there could be more expediency in relative terms to roll-out these projects, in that sense.

RTS/BRT expected to be partially government funded

In addition, projects that involve partial private financing could also alleviate the upfront need for the government in terms of infrastructure spending. Some of these examples will include ECRL (Sukuk + China Exim Bank soft loan), Iskandar bus rapid transit, BRT (RM1 bn from government), and could potentially involve also the Johor-Singapore Rapid Transit System link (RTS). ECRL has already seen at least RM230 mn of awards alone in 2020 to listed companies, while RTS and BRT (combined RM5.7 bn) would be counted among construction award pipeline in our view.

Figure 1

Identified large-scale projects that have yet to be awarded/still in the midst of being awarded (not exhaustive)



Source: CLSA, companies. Note: Project value above shown as best estimate of total project cost. PTMP is seeking funding assistance via federal government guarantee for the Penang LRT.. ECRL portion shown above refers to the 40% of civil works portion of RM25 bn in the renegotiated ECRL that is earmarked for Malaysian firms. ^RTS seeking privatisation was an option quoted by ex-transport minister, Anthony Loke, to media in May 2019. PBH = Pan Borneo Highway.

Longer-term policies still being shaped

Longer-term policies still taking shape

Longer-term policies are not yet clear. Finance minister reiterated Budget 2021 to be tabled October or Early November, while Prime Minister had given the reassurance that implementation of all projects allocated in Budget 2020, including the ECRL and MRT2 will resume. More visibility would be helpful in willingness towards more concession based projects, or commitment towards improving modal share of public transport. Likewise government has yet to state official position on previous government's bid to buy Gamuda's highways. Given the fiscal constraints, we think it may be more prudent to now consider that the highway bid is off.

Rating agencies conducting the policing

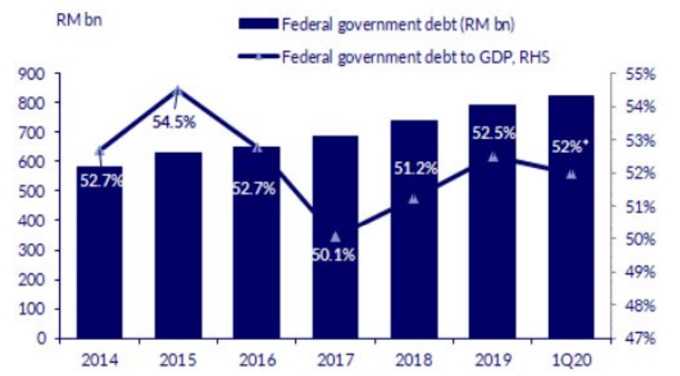
Rating agencies are effectively check and balance as they monitor total debt and liabilities to GDP. To be fair, not all such liabilities need government to service obligations. Given the pressure for medium term consolidation on debt, however, this may shape infrastructure priorities towards more basic options, potentially phased out projects, with operational profits being the goal to reduce the further drag on country's debt burden. Over time, we expect to see country also drawing up plans to ring-fence spending including off-balance sheet liabilities.

Progress of projects also sees off-balance sheet debt likely to rise

At time of writing, Danainfra debt outstanding (which is government guaranteed) was RM67.6 bn (from RM52.7 bn in 2018); this comprises mainly MRT funding (with up to RM13 bn for Sarawak portion of Pan Borneo Highway). Guarantees for ECRL may also start to inch up as reportedly Malaysia Rail Link is tapping the market for bonds (from its RM9.75bn programme, source: the Star, 13 May). Funding projects off-balance sheet is usually more expensive (versus Malaysian government securities) and is as such the hidden cost.

Figure 2

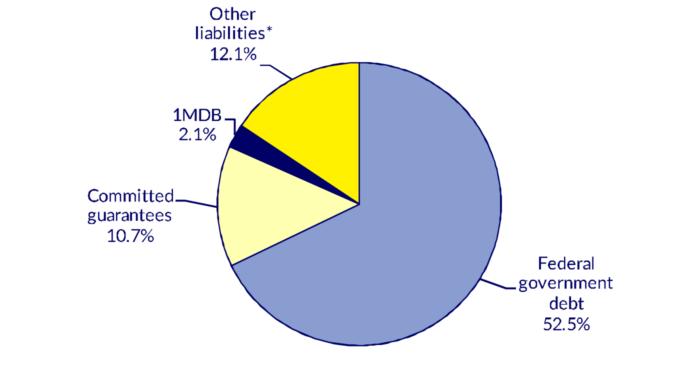
Federal government debt and federal government debt to GDP ratio trends



Source: CLSA *Note: based on Finance Minister quoting latest federal government debt to GDP. Country's limit is 55% to GDP.

Figure 3

Breakdown of government debt and liabilities (Dec 2019) of RM1,169.3bn



Source: CLSA. Note: Adds up to 77.4%. *Other liabilities include guarantees on PPP, PFI, and Pembinaan BLT.

Readiness: determining more promising projects for rollout

Examining which projects are closer to roll out

We posited in *Malaysia Infrastructure (Rebuilding construction)* that Malaysia risks multiplier effect in economy fading if it drags its feet in unveiling catalytic projects. Projects that are already in detailed design phase/undergoing review would be - all things equal - more ripe-pickings. This pipeline includes MRT3, Iskandar BRT, RTS and PTMP. In comparison, those still only in feasibility studies stage/with no known material updates include Putrajaya Rail Link, Serendah-Port Klang Rail bypass etc.

Figure 4

Status of projects with ongoing awards/potential future awards based on CLSA's estimates

Project	Funding	Status	Total sum (RM bn)	Remarks
In awards phase/calling for tenders				
East Coast Rail Link	China EXIM bank soft loan/sukuk	Ongoing awards for Phase B; phase A awards expected by year end	10.0*	Expected to complete by 2026
Pan Borneo Highway (Sabah)	Federal funded	3 packages to tender in 2020. Of the other remaining 20 (of 35 packages), these will be awarded between 2021-2025	12.8	15 of 35 packages to be completed 2023. Latest reported as 22% complete for PBH (Sabah) (Jan 20)
Large Scale Solar	Concession based	Competitive bidding opened	4.0	Total tender for 1GW
Central spine road	Federal	46% was in planning stage (Feb2019). 6 packages with 3, 4 and 5 prioritised.	11.0	To develop east coast economic region
Water supply Grid program (Sarawak)	State funded	Some RM2.55 bn have be awarded for stressed areas	4.0	In May 20, allocation was raised from RM2.8 bn
Sarawak coastal road	State funded	7 of 11 bridges awarded, by our count	5.0	2024 estimate (5 years)
Review known to be ongoing/detailed design phase				
Rapid Transit System Link	Possibly with private funding	Final extension to July 2020	3.2	Cross border system connecting Singapore and Johor. Original completion timeline 2024
MRT3	Expected to be Danainfra	Previous government had a timeline of completing study by mid-2020	Estimated 22.5	Loop line for the greater KL/Klang Valley Integrated Transit System. Initial completion date 2027
Iskandar BRT	Partial Federal (RM1 bn reportedly)	Detailed design consultants appointed	2.6	Dedicated lanes for buses with connection to Bukit Chagar (stop for RTS), to be ready by 2022
Penang Transport Master Plan	State funded	It is unclear if government would be extending any guarantee for LRT	32 (without revision)	15 years. Priority on reclaiming islands
High Speed Rail	Each country for its own civil works	Discussion with Singapore postponed till end-Dec 2020	68 (may include systems)	Originally 2026 completion
Feasibility studies/no known material updates				
Serendah-Port Klang Rail bypass	Federal funded	Feasibility study that was planned to take 6 months was to go ahead in 2020	8.3	Feasibility study partly funded by Budget 2020
Second trunk road	State funded	Design stage and some compensation to landowners	6.0	A road that runs between the coastal road and the Pan Borneo Highway
Putrajaya Rail Link	Putrajaya Corp/ Federal Territories Ministry	Reportedly requires 6 months to a year before project development with option of LRT (instead of monorail)	2.0	Completes a cricle connecting Sg Buloh, Kajang and Putrajaya
PBH Sarawak (Limbang to Lawas)	Federal funded	Approved by previous government	3.5	-
Kuching Autonomous Rail	State funded	Planned to be operational by 2025. Alternative to a more expensive Kuching LRT	5.0	Ease traffic congestion in Kuching.
Sabah-Sarawak link road	Federal funded	The 425km link road was to have begun first package (90km) in Oct 2020	5.2	Connecting Sabah and Sarawak without passing through Brunei
Northern Corridor Expressway/projects	State funded	2 phases of expressway (East Coast Expressway) and RM300 mn manufacturing and logistics hub	2.0	Catch up on development for the state

Source: CLSA *Refers to Malaysia civil works portion whereby 40% of RM25 bn of estimated civil works are up for grabs.

(i) MRT3 fits the mould

Well into reviews

With MRT3 having been placed under reviewed for cost, a decision by mid-2020 was to have been forthcoming, per previous government's timeline. We understand that discussions veer towards lesser underground stretches (older iteration from the original blueprint for MRT3) and thus a lower price tag. An article in the Edge (13 May 2019) had suggested that the will be halved from the original RM45 bn to RM22.5 bn. The MRT line 1 and 2, according to MRT Corp, has the capacity to generate 2.5 to 3.5 times multiplier effect to the economy. Line 3 would also improve ridership via integration (line 1 ridership of 208,000 per day, Oct 2019).

Could be built in phases if according to original blueprint

Based on the initial proposals under the Greater KL/Klang Valley plan, MRT3 would have been built in 2 phases (back then first phase was to connect Ampang area with Midvalley, Martrade and Sentul, while phase 2 connected Ampang with Sentul East). The flexibility of building in phases may alleviate budget strain if needed. Previously to help rein in cost, the Pakatan Harapan government had also mooted the idea of a "Rail plus Property"model, where property developers rope in for the funding of infrastructure. If MRT3 materialises, some of the companies that have earlier been involved in viaduct related work are as follows:

SunCon and IJM, both of which we cover, have previously reprised their roles for viaducts in the MRT project

Figure 5

Viaduct contractors under MRT Line 1 and 2 (commonly known as WPC, or work package contractors)

	MRT Line 1	MRT Line 2
Ahmad Zaki	✓	✓
Sunway Construction	✓	✓
IJM	✓	✓
Mudajaya	✓	✓
MTD Construction	✓	✓
Syarikat Muhibah & Perniagaan & Pembinaan	✓	
Gadang Engineering	✓	
UEM Construction	✓	
S.N. Akmida Holdings Sdn Bhd		✓
WCT Berhad		✓
Apex Communications Sdn Bhd		✓
Acre Works Sdn Bhd		✓
MRCB		✓

Source: CLSA, MRT Corp

(ii) RTS and BRT

RTS discussions moved back by just three months

Negotiations for the RM3 billion RTS link have been pushed back, but seen as a final extension to July 2020 due to the Covid-19. Earlier this project was subjected to a cost cutting exercise, shedding 36% of the price tag, and will be using the light rail transit (LRT) system.

Iskandar BRT project could see construction by early 2021

This project works hand in glove with the RTS, given that this transport solution traverses 51 km of trunk lines and includes 39 stations in Johor and integrates with the RTS. We estimate that the construction of the RM2.6 billion Iskandar BRT could be by early next 2021. RM1 billion is to be forked out by the government, and the remainder by the private sector, we understand.

Bayan Lepas LRT guarantee will impinge another c.70bps to the 77.4% total liabilities to GDP ratio

(ii) Penang Transport Master Plan

Due to fiscal constraint, this casts some doubt that Perikatan Nasional would also be able to devote resources to assist funding the Bayan Lepas LRT via a government guarantee. Based on a RM8 bn price tag, this is equivalent to additional 70 bps (all else equal) to the 77.4% total debt and liabilities to GDP (end-2019). While we believe the Penang state government still prioritises the project, we have assumed that the LRT would be placed on the backburner particularly since funding cost would likely rise without a federal government guarantee. We believe in the near term, the focus on this project will zoom into the reclamation of the 3 islands.

Still challenges to be ironed out but crucially work has restarted

Companies adapting to restart but 1H20 will be expectedly weak in terms of performance

Given the movement control order, performance for firms will undeniably be weak in 1Q20 and likely worse in 2Q20 – despite construction sector given green light since early May, challenges lied in local council approvals (for some), not to mention Covid-19 testing requirement. In companies listed in Figure 6 below, only three companies have reported 1Q20 results which give glimpse of damage of March. SunCon and Econpile (N-R) saw QoQ construction profits sink 43% and 85%, while Mudajaya (N-R) recorded a loss quarter for construction.

Jury is still out on applying for extension of time

Strict clampdown from authorities on safety distancing, including site closures for non-compliance, imply efficiency is still just recovering. Companies look to being disciplined on overheads to defend margins. We believe firms may prudently pursue extension of time in projects to reduce pressure to accelerate work, aside being disciplined on overheads to defend margins. Companies also have to weigh the option to trigger force majeure clauses for extension of time given that may have repercussions on the right to claim additional costs.

No significant supply chain hurdles; major rail-related work has restarted

While only the underground portion for MRT line 2 was given green light for work during movement restriction, above-ground portions have now recommenced; workers in the projects are housed in 4 centralised labour quarters (Gamuda) to minimise operations risk. The LRT3 project which has been slow in progress but should pick up had a target for 40% completion (27%, Feb 2020). As an aside, we understand that there has not been much supply chain disruption on re-mobilising.

Some contractors have still managed job replenishment

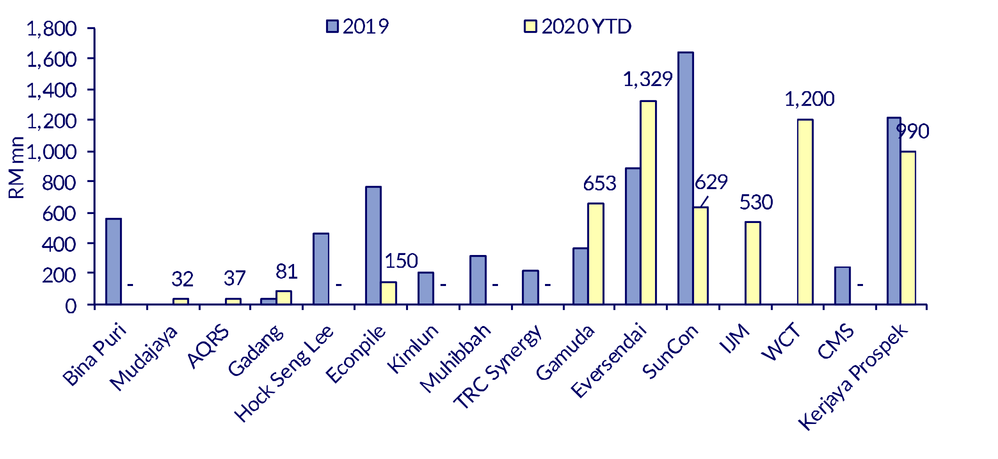
Some private and overseas jobs restoration in 1H20

Naturally, the emphasis of firms have been in tackling the movement control order and cashflow management, a less priority in order book restoration. Despite also compounded by government change, firms still manage to clinch some awards in 1H20. Figure 6 below shows job wins in YTD2020, versus 2019, mostly from private sector such as property development projects. Some contractors such as Gamuda and SunCon also had overseas haul, vindicating more focus abroad.

Companies that have managed to emerge from a lull include IJM and WCT and AQRS after a quiet 2019

Figure 6

Job order wins by selected construction firms (note not "apple-to-apple" as we compare 2020YTD with 2019)



Source: CLSA, companies, BURSA announcement. Compilation based on calendar year

ECRL: at least 16% complete; entering awards for phase A as well

Kota-Bharu-Dungun stretch approval obtained. Work to roll-out from mid-2020

Overall, it is expected that 40% or cRM10 bn of the civil works (RM25 bn) is available for local contractors. Of these, at least RM1.7 billion has been awarded (Nov 2019), and more job awards are set to trickle on. Recently in May, the green light for the Kota Baru-Dungun realignment (phase A) was given, which comprises 6 stations. MRL chairman is sanguine that preparatory works and earthworks for this stretch to kick off by mid-2020.

Figure 7

Awards for ECRL (announced recently in 2020 and disclosed by listed companies)

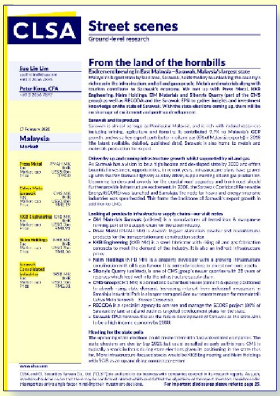
Contractor	Value (RM mn)	Remarks
Gadang	81	Worth RM24.1 mn and RM57.1 mn respectively
AQRS	37	22 months for subgrade, drainage and culvert works
Ho Hup Construction	103 (2 packages)	30 months for subgrade, drainage and culvert works
HSS Engineers	13	Kota Bharu-Dungun detailed design

Source: CLSA, Company

Excluding consulting work, recent awarded packages for earthworks are around the RM100m range and below. We observe that they have been awarded by job trade, i.e. specialisation such as in earthworks/drainage. In our view, a catalyst to contractors would be in the form of awards for a larger stretch, which would likely be more favourable to margins.

State funded projects add to pipeline for Sarawak-based companies

Water and road projects come to the fore in Sarawak


CLSA Street scenes
Ground-level research
From the land of the hornbills

Some of the Sarawak-specific projects were previously highlighted as part of CLSA's Sarawak trip earlier this year by head of research Lim Sue Lin in *Malaysia Street scenes (From the land of the hornbills)*. Replenishment opportunities also abound for potential Sarawak-based contractors, especially with increased allocation towards the Sarawak Water Grid Supply Programme (to RM4.0bn from RM2.8bn). Awards for the RM5 bn coastal road has been underway (with selection of awards for bridges shown below), and the RM6 bn second trunk road is in planning stage; both these projects are state-funded.

Figure 8

Sarawak coastal road awards progress for bridges

Bridges	Awarded/reported cost (RM mn)	Completion	Awarded to
Batang Lupar	866	4 years	Expected to be awarded
Muara Lassa	598	Feb 2023	Awarded
Batang Paloh	567	Feb 2023	Hock Seng Lee
Batang Saribas bridge	496	June 2023	To be awarded
Bintulu-Jepak	466	April 2023	CMS - CCCC JV
Batang Rejang	321	Feb 2023	Awarded
Batang Igan	306	4 years	Expected to be awarded
Batang Sadong	211	Completed	KACC Construction
Batang Rambungan	142	4 years	Expected to be awarded
Batang Samarahan	94	Completed	Perkerjaan Piasau Konkerit
Sungai Krian	75	Feb 2022	Awarded

Source: CLSA, companies

Sector valuations

Recovered from a valuation multiple perspective

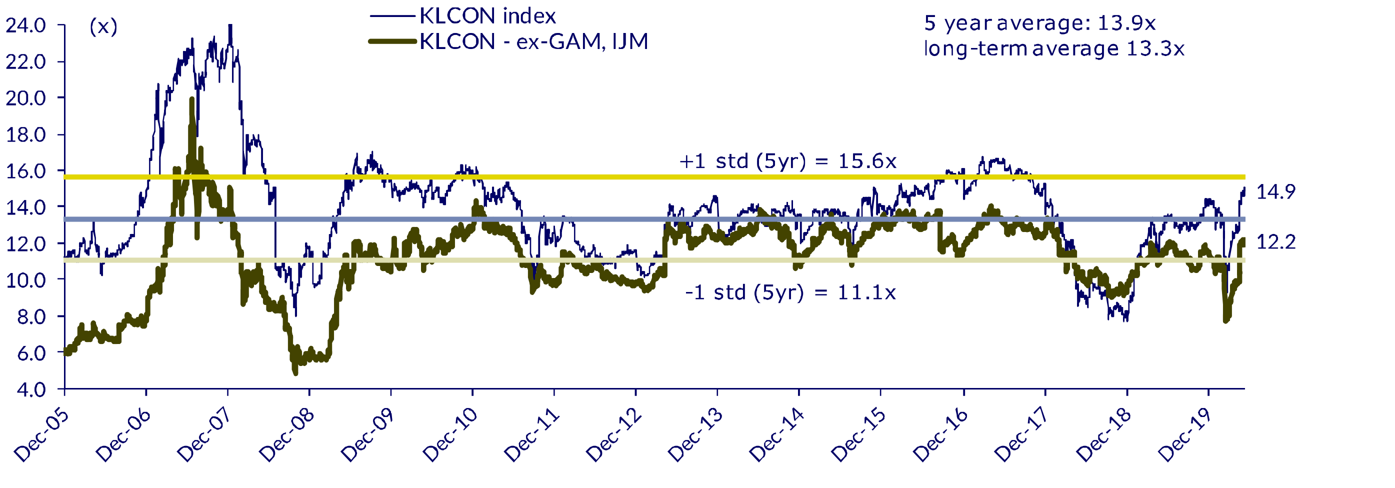
Subsequent the recovery of the market in March, the construction sector going by the KLCON-index suggests that valuation multiples have recovered versus Dec 19, now at 14.9x forward PE. Based on our broad calculations (fig 9), mid-to-small cap names (ex-GAM and IJM) have equally enjoyed a recovery, and valuations gap with the broad sector is currently at long-term averages. Based on our observations (fig 9), investors have been more-inclined to pay a premium for large caps during bullish patches.

Neutral sector view maintained

However, at 0.7 std. above mean valuations, we believe this implies stock prices reflect to some extent, of a willingness to pump-priming the economy, punctuated by expectation that high speed rail discussions have been re-opened. Given the limited fiscal headroom, we believe that project rollout will have to be more selective; thus, we maintain our neutral position for the sector.

Figure 9

Long-term forward PE for KLCON Index, and KLCON ex-IJM and GAM



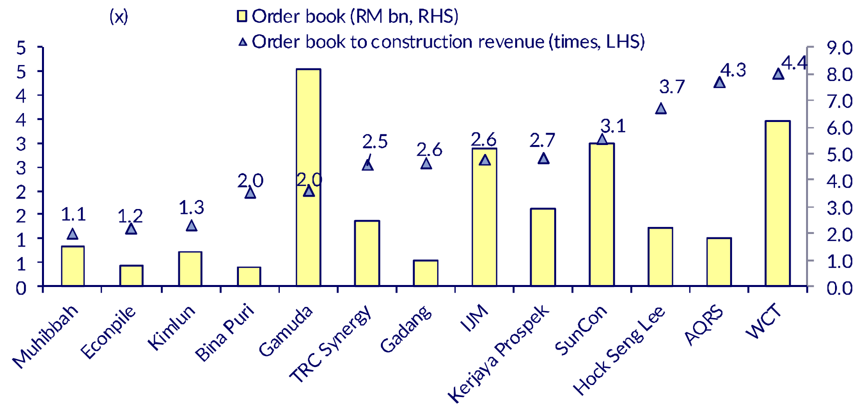
Source: CLSA, Bloomberg

Clustered within range of 2x-3x visibility of outstanding order book to annual construction revenue

Outstanding construction order book to annual construction revenue (most recent full year), remains decent in our view, with most companies clustered within the range of 2-3x, as seen in Figure 10. Some of the firms that have lower multiples in this respect reflect those that are involved in building materials/piling, which have shorter cycles typically.

Figure 10

Construction companies ranked by ratio of order-book to construction revenue



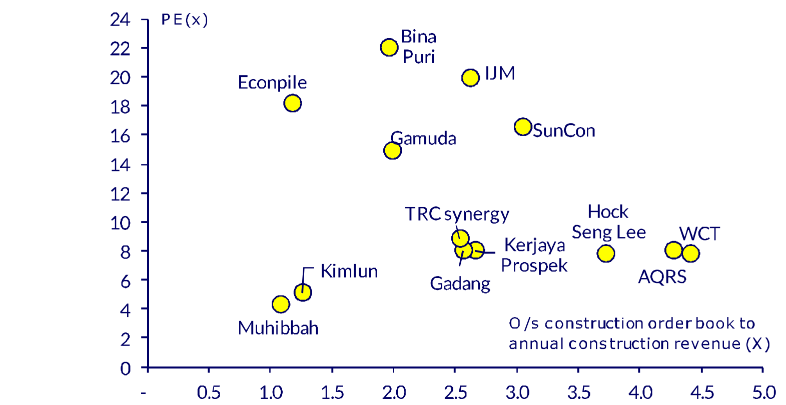
Source: CLSA

Figure 11 below showcases the respective valuation of companies if we measure the visibility of its order book versus PE multiples (FY21, Bloomberg consensus). Large cap stocks are trading at slightly higher PE for comparable level of revenue visibility vis-à-vis smaller peers.

Similar-sizing contractors to analyze valuation multiples for revenue visibility

Figure 11

Plotting construction PE vs order-book visibility (outstanding order book to annual construction revenues)



Source: CLSA

Gamuda (O-PF: RM3.90)

Incorporate MRT3

We think that Gamuda-MMC would once again be front runner in the MRT3 deal, and incorporate the deal into our numbers at RM11.2bn (assuming Gamuda's share at 50%). At present, we assume a turnkey contract model (without project delivery partner) and a pre-tax margin of 6%.

Equation changes for PTMP given constraints at federal government level

However, we tone down contribution expectation from PTMP, as we think it is constrained to focus on the reclamation of islands for now (impact to FY22). With likely less funding needed to be set aside for PTMP, we believe Gamuda may also not aggressively push for sale of toll roads (as we are concerned on gearing initially). Thus we remove a one-time extraordinary gain this year (RM1.1bn), which also explains rise of earnings in FY21 and FY22 from inclusion of tolled-highway profits.

Figure 12

Gamuda – revisions to earnings

Gamuda	FY19	20CL	21CL	22CL
Net profit (previous)	709	1,668*	601	669
Net profit (revised)	709	629	805	827

Source: CLSA *Includes one-off gain of RM1.1bn which we have now removed.

Figure 13

Gamuda - SOTP

Segment	Basis	Stake (%)	SOTP (RM mn)	Basis of valuation
Construction	12x PE	100	4,150	Previously RM3,139 mn. 12x being within mid-cycle valuations
Property	12x PE		1,807	Discount at 40% to reflect the tepid property market
Malaysian Highways			2,362	Using the government offer price
Water supply O&M	DCF	80	774	
Co. net cash and marketable securities/(debt)		-	2,052	Includes conversion of warrants/Esos
SOTP			**11,146**	
Fully-diluted no. of shares (m)			2,880	Includes warrants and ESOS that are dilutive
Target Price (RM)			**3.90**	**Previously RM3.50**

Source: CLSA,

SunCon (O-PF: RM2.18)

Internal jobs allure

We envisage SunCon to clinch RM2 bn or orders for 2020. Internal replenishment potential continues to stream from integrated development projects in Klang Valley (such as Sunway Velocity Two, Sunway South Quay) as well as hospital construction projects, which helps its visibility. SunCon is also seen to be among beneficiary on rail project rollouts. Risk to this view would be slower launches of projects by parent.

Figure 14

SunCon: valuation

Earnings (21CL) RM mn	15.4x, 1 sd above 3-year sector mean of 13x	170.1
Multiple applied		15.4
Total		2,619.4
Number of shares (unit million)		1,29
Value per share (RM)		2.03
Net cash per share (RM)	50% benefit accorded	0.15
Target price (RM)		**2.18**

Source: CLSA

We prefer the less-expensive Gamuda

IJM (U-PF: RM1.95)

IJM's construction division has been relatively sluggish in job replenishment, and hasn't shown solid margins. Catalyst in this regard would be clinching sizeable job wins in the ECRL. In the meantime, as effects of higher depreciation kicked in for a full quarter in its port operations, a decline in throughput on a weaker environment would also present risks to the downside.

Figure 15

IJM: SOTP valuation

Malaysia	Basis	SOTP (RM m)	
Construction	10x sustainable profit	768	Within mid cycle, and reflects lower profitability and replenishment
Concrete products (industry)	10x sustainable profit	750	
Malaysia expressway concessions and port	DCF	2,736	
Property	10% haircut to RNAV	4,305	
Plantations	56% ownership	560	
WCE Holdings	26% ownership	104	
Overseas concession assets		690	
Revised gross asset value (RGAV)		9,913	
Company level net cash/(debt)		(1,235)	
Revised net asset value (RNAV)		8,676	
Number of shares (m)		3,629	
RNAV/share (RM)		2.40	
Target price @ 20% discount (RM)		**1.95**	

Source: CLSA, IJM

Figure 16

Peer comparison

	Rec	Target Price (RM)	Price (RM)	Mkt cap (US$m)	ADT (US$m)	PE CY19 (x)	PE CY20 (x)	Yield CY19 (%)	Yield CY20 (%)	EV/EBITDA CY19 (x)	EV/EBITDA CY20 (x)
KLCI-listed peers											
IJM MK	U-PF	1.95	1.95	1,666	2.02	17.2	15.5	2.3	2.6	10.4	9.5
GAM MK	O-PF	3.90	3.72	2,202	3.69	16.6	13.8	3.7	3.9	13.7	11.5
SCGB MK Equity	O-PF	2.18	1.90	577	0.31	18.1	33.0	3.7	2.1	11.0	16.1
HSL MK Equity	N-R	-	1.07	143	0.04	9.9	8.6	2.5	2.1	5.0	5.4
KICB MK Equity	N-R	-	0.77	68	0.19	4.2	5.6	5.4	4.2	4.8	5.3
MUHI MK Equity	N-R	-	1.03	119	1.21	3.9	4.7	6.1	5.0	8.6	7.3
GKEN MK Equity	N-R	-	0.69	91	0.54	8.3	8.6	4.7	3.9	3.3	5.0
TRC MK Equity	N-R	-	0.35	40	0.14	6.3	10.5	5.2	2.9	-	-
WCTHG MK Equity	N-R	-	0.55	193	1.25	8.4	8.9	3.3	2.9	14.3	14.3
GADG MK Equity	N-R	-	0.49	92	1.42	6.9	8.1	2.8	1.4	4.5	4.6
Weighted average						15.4	15.4	3.4	3.3	11.3	10.7

Source: CLSA

Valuation details - Gamuda Bhd GAM MK

We value Gamuda's construction division based on 10x sustainable earnings, while applying 12x sustainable earnings for its local property project (with a 40% discount). We use DCF to value expressway and water supply operation and maintenance concessions. Our target price for Gamuda is based on a estimated fully-diluted RNAV/share.

Investment risks - Gamuda Bhd GAM MK

Execution risk on its construction projects could lead to cost overruns whilst slowdown of the Vietnam economy will dampen demand for its property launches in Hanoi and Ho Chi Minh City. We are concerned on the EPS dilution from the potential more than 20% increase in share base from the warrant and ESOS exercise although we have factored this into our valuations. Risk to the upside is some of the mega projects are revived, such as MRT3. The ability to replenish jobs before the MRT2 civil works complete is also paramount. Prolonged Covid-19 could also slacken work efficiency.

Valuation details - IJM Corp Bhd IJM MK

Our valuation for IJM reflects PE-based valuations for its construction and industrial divisions and an RNAV-based valuation for its property segment, with an 8.8% WACC and DCF for its concessionaire stakes as well as a discount of 10%.

Investment risks - IJM Corp Bhd IJM MK

With a near-record-high order book, the key risk is execution of the project to ensure profitability and completion according to schedule. Slower property demand due to weaker consumer sentiment has affected IJM's property sales, and the risks would be a sustained slowdown or further margin pressure. Rising labour costs could put pressure on construction profit margins. Regulatory risks related to toll-road and port concessions are not uncommon. Prolonged Covid-19 could also slacken operating efficiency.

Valuation details - Sunway Construction Group Bhd SCGB MK

We value SunCon using the price-earnings multiple approach. Its target price is derived from 15.4x 21CL earnings, which is at one standard deviation above 10-year mean PE for the KLCON index. We accord an above-sector average PE given its flow of internal jobs and strong balance sheet.

Investment risks - Sunway Construction Group Bhd SCGB MK

The investment risks for SunCon mainly stem from construction risk. Specific risks to our estimates would be lower-than-expected margins (below 5-8%) or the amount of projects secured falls below our expectation, either due to an inability to secure projects or caused by a delay on project roll-out. The increase in steel prices beyond anticipated will also creep into margins as SunCon hedges steel needs for a future six-month period. On the pre-cast segment, risks to our earnings will be the timing of a margin recovery currently in doldrums due to competition. Prolonged Covid-19 could also slacken operating efficiency.

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Companies mentioned

Acre Works Sdn Bhd (N-R)
ahmad zaki (N-R)
Apex Communications Sdn Bhd (N-R)
AQRS (AQRS MK - RM0.89 - BUY)
Bina Puri (N-R)
Cahya Mata Sarawak (N-R)
CCCC (N-R)
China Exim Bank (N-R)
CMS-CCCC JV (N-R)
Econpile (N-R)
Eversendai (N-R)
Gadang holdings (N-R)
Gamuda (GAM MK - RM3.72 - O-PF)
George Kent (N-R)
Hock Seng Lee (N-R)
HSS (N-R)
IJM (IJM MK - RM1.95 - U-PF)
Iskandar Waterfront (N-R)
KACC Construction (N-R)
kerjaya Prospek (N-R)
KICB (N-R)
Kimlun (N-R)
MRCB (N-R)
MTD construction (N-R)
Mudajaya (N-R)
Muhibbah (N-R)
Pekerjaan Piasau Konkerit (N-R)
S.N. Akmida Holdings (N-R)
SunCon (SCGB MK - RM1.90 - O-PF)
Syarikat Muhibbah & Perniagaan & Pembinaan (N-R)
TRC Synergy (N-R)
UEM Construction (N-R)
WCE (N-R)
WCT (N-R)

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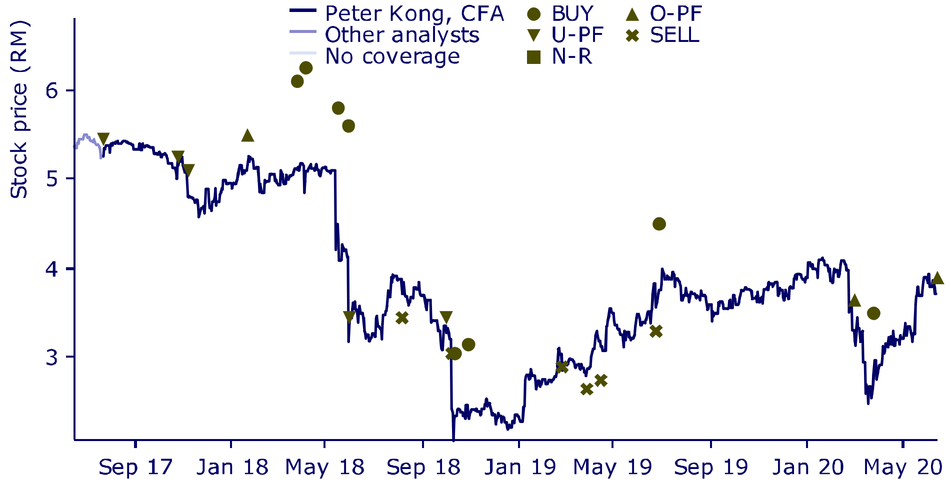
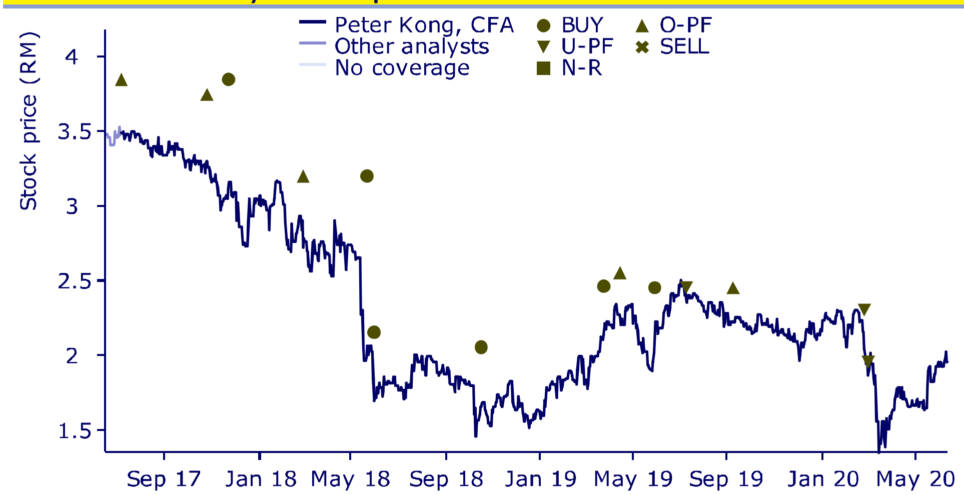
Recommendation history of Gamuda Bhd GAM MK



Date	Rec	Target	Date	Rec	Target
LATEST	O-PF	3.90	01 Oct 2018	U-PF	3.45
26 Mar 2020	BUY	3.50	06 Aug 2018	SELL	3.45
02 Mar 2020	O-PF	3.65	31 May 2018	U-PF	3.45
28 Jun 2019	BUY	4.50	30 May 2018	BUY	5.60
24 Jun 2019	SELL	3.30	17 May 2018	BUY	5.80
15 Apr 2019	SELL	2.75	06 Apr 2018	BUY	6.25
28 Mar 2019	SELL	2.65	26 Mar 2018	BUY	6.10
25 Feb 2019	SELL	2.90	22 Jan 2018	O-PF	5.50
29 Oct 2018	BUY	3.15	08 Nov 2017	U-PF	5.10
12 Oct 2018	BUY	3.05	26 Oct 2017	U-PF	5.25
08 Oct 2018	SELL	3.05	23 Jul 2017	U-PF	5.45

Source: CLSA

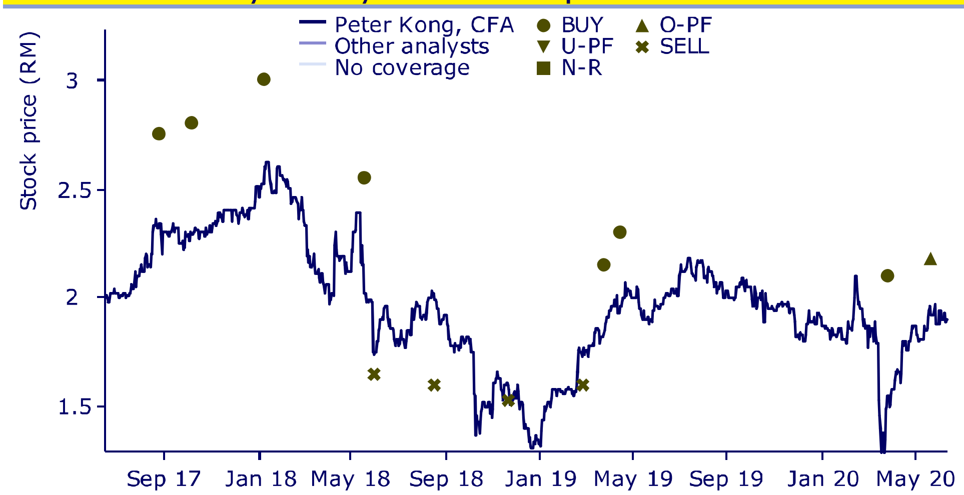
Recommendation history of IJM Corp Bhd IJM MK



Date	Rec	Target	Date	Rec	Target
02 Mar 2020	U-PF	1.95	17 Oct 2018	BUY	2.05
26 Feb 2020	U-PF	2.30	31 May 2018	BUY	2.15
09 Sep 2019	O-PF	2.45	22 May 2018	BUY	3.20
10 Jul 2019	U-PF	2.45	28 Feb 2018	O-PF	3.20
30 May 2019	BUY	2.45	23 Nov 2017	BUY	3.85
15 Apr 2019	O-PF	2.55	26 Oct 2017	O-PF	3.75
25 Mar 2019	BUY	2.46	07 Jul 2017	O-PF	3.85

Source: CLSA

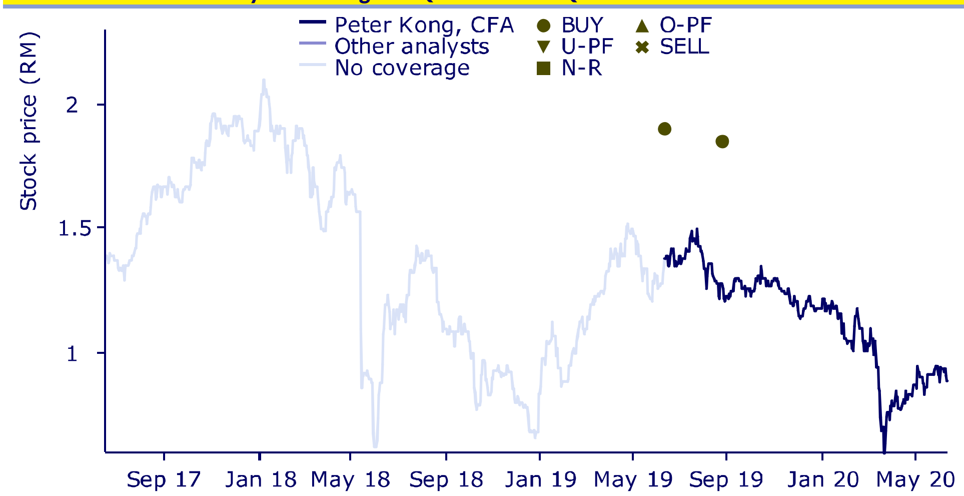
Recommendation history of Sunway Construction Group Bhd SCGB MK



Date	Rec	Target	Date	Rec	Target
22 May 2020	O-PF	2.18	17 Aug 2018	SELL	1.60
27 Mar 2020	BUY	2.10	31 May 2018	SELL	1.65
15 Apr 2019	BUY	2.30	18 May 2018	BUY	2.55
25 Mar 2019	BUY	2.15	08 Jan 2018	BUY	3.00
26 Feb 2019	SELL	1.60	06 Oct 2017	BUY	2.80
21 Nov 2018	SELL	1.53	25 Aug 2017	BUY	2.75

Source: CLSA

Recommendation history of Gabungan AQRS Berhad AQRS MK



Date	Rec	Target	Date	Rec	Target
26 Aug 2019	BUY	1.85	12 Jun 2019	BUY	1.90

Source: CLSA

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