

## Malaysia

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**Underweight** *(no change)*
**Highlighted companies**
**Gamuda**
**REDUCE, TP RM3.10, RM3.79 close**

Gamuda has no exposure to the ECRL, after pulling out from bidding on a large scope on grounds of unfavourable contract price and terms. The risk to Gamuda now lies in the ongoing review to rationalise MRT 2's RM32bn cost.

**IJM Corp Bhd**
**HOLD, TP RM1.84, RM1.88 close**

IJM was among the favourites to grab a slice of the ECRL packages; the group offers a geographical and logistical advantage in construction given its operations in Kuantan Port.

**Lafarge Malaysia Bhd**
**REDUCE, TP RM2.76, RM3.03 close**

Lafarge had won a two-plus-two-year contract to supply cement for ECRL, valued at RM270m. Cancellation of ECRL is negative for Lafarge as it wipes out a significant source of infra-related cement demand for 2019.

**Summary valuation metrics**

P/E (x)	Dec-18F	Dec-19F	Dec-20F
Gamuda	12.79	11.91	
IJM Corp Bhd	14.93	13.48	13.01
Lafarge Malaysia Bhd	NA	34.51	29.58
P/BV (x)	Dec-18F	Dec-19F	Dec-20F
Gamuda	1.12	1.10	
IJM Corp Bhd	0.72	0.70	0.68
Lafarge Malaysia Bhd	0.91	0.91	0.88
Dividend Yield	Dec-18F	Dec-19F	Dec-20F
Gamuda	3.05%	3.05%	
IJM Corp Bhd	3.39%	3.65%	3.93%
Lafarge Malaysia Bhd	0.00%	1.65%	1.65%

**Analyst(s)**
**Sharizan ROSELY**

T (60) 3 2261 9077

E sharizan.rosely@cimb.com

**Kamarul ANWAR**

T (60) 3 2261 9092

E kamarulanwar.kamaruddin@cimb.com

# Construction

## Malaysia pulls the plug on the ECRL

- After meeting with China's top leaders, Prime Minister Tun Dr Mahathir Mohamad announced on 21 Aug that the East Coast Rail Link (ECRL) would be cancelled.
- While no local contractor had won ECRL packages, we view the cancellation to be lost opportunities for the deemed beneficiaries: IJM, AQRS and Econpile.
- Cancellation of ECRL is a negative surprise as our base-case scenario was a scaled-down version. Cancellation underscores mega rail contracts' downturn in 2019.

### Cancellation of ECRL confirmed during Mahathir's visit to China

- On 21 Aug, the last day of his five-day official visit to China, Prime Minister Tun Dr Mahathir Mohamad told media delegates that Malaysia would indeed scrap the East Coast Rail Link (ECRL). Also cancelled are the Multi-Product Pipeline and Trans-Sabah Gas Pipeline projects. All three are financed by China. Tun Mahathir cited the government's current fiscal position as the reason for the ECRL's cancellation.

### Compensation to CCCC to be negotiated

- *The Edge Markets* reported that Malaysia will have to pay compensation for cancelling the ECRL, with the final sum to be negotiated soon. Tun Mahathir said the government will negotiate for the lowest cost possible. Note that project owner Malaysia Rail Link Sdn Bhd (MRL) had drawn down RM20bn of loans from financier The Export-Import Bank of China (Exim Bank) as at end-Apr 2018, at 13% physical completion.

### A negative surprise, alternative versions of ECRL had been raised

- We are negatively surprised by this development. Our base-case scenario was for the ECRL to be scaled down, in order to avoid a huge sum of cancellation penalties to main contractor China Communications and Construction Co Ltd (CCCC). However, Tun Mahathir said that China's top leaders understood Malaysia's debt plight.
- An anonymous Malaysia Rail Link (MRL) official quoted in a 22 Aug [report](#) by *The Star* said the MRL had been discussing with the Cabinet and its advisory board, the Council of Eminent Persons (CEP), [alternative schemes](#) for the ECRL that cost less than the original RM55bn-RM67bn price tag.
- The source also noted that RM10bn had been paid to CCCC, the ECRL's main contractor. Another RM9bn worth of works are being claimed. Works on the ECRL have been [suspended](#) since 3 Jul.

### Cancellation was previously not an option

- It was reported in Jun that cancelling the ECRL contract at this stage of progress (RM20bn loan drawn down and at 13% physical completion as of end-Apr) would result in the loan being defaulted on and would trigger a clause that required the loan plus interest to be paid within three months of default.
- Other contingencies include proposals to: 1) reduce the number of stations, 2) realign selected routes, and 3) stretch the project duration from seven to 15 years. It was reported that the RM55bn cost may be reduced by RM5bn-10bn (up to 20%), at least.

### Impact on local companies: IJM, AQRS, Econpile, HSS and Lafarge

- While no civil works packages for the ECRL have been awarded to public-listed local contractors, we view the project's cancellation as an opportunity loss for those seen to have strong chances of securing ECRL jobs. These include IJM Corp (IJM MK, Hold), Gabungan AQRS (AQRS MK, NR), and Econpile Holdings (ECON MK, NR).
- IJM was deemed to have a strong chance of securing the spur line into Kuantan Port. AQRS was likely to grab a sizeable above ground scope leading to the KotaSAS station in Pahang, while Econpile was a favourite to secure piling works jobs.
- For HSS Engineers (HSS MK, NR), it was awarded the feasibility, design, and construction supervision package of the ECRL. As at Jun 2018, the ECRL job's outstanding value of RM130.3m made up 30% of its total non-water order book of RM411m. We estimate that at the minimum, it will have to cancel out RM80m revenue of the outstanding contract value, for the construction supervision works.
- Lafarge Malaysia (LMC MK, Reduce), meanwhile, had secured a two-plus-two-year contract to supply cement for ECRL, valued at RM270m.

### ECRL's cancellation underscores downturn in rail contracts

- We maintain our Underweight rating on the sector. The ECRL's cancellation is a negative surprise considering the recent newsflow that hinted at a likely scaled-down version in order to avoid penalties.
- Cancelling the ECRL, in our view, underscores mega rail contracts' downturn in 2019. We retain Reduce calls on Gamuda and Lafarge and a Hold call on IJM Corp.
- Upside risk is a revival of rail jobs such as the RM45bn MRT 3. In 2H18, key sector events to look to are 1) 11<sup>th</sup> Malaysia Plan mid-term review on 18 Oct, and 2) Budget 2019 on 2 Nov.

**Figure 1: Status of ECRL and its alternative proposals**

Projects	Progress		Alternative proposals under consideration
	Status	(%)	
East Coast Rail Link (ECRL), 688km	Cancelled	14%	> Re-negotiate project cost and EPCC terms awarded to CCCC
> Original cost: RM55bn		(Apr 18)	> Reducing the number of stations
> Cost/km: RM80m			> Stretching project duration from 7 to 15 years
> Est. scaled-down cost: RM30-40bn			> Switch from 1,435m standard gauge to 1,000mm metred gauge
> Hypothetical cancellation cost: RM22bn (as per loan drawn down)			> Reduce land acquisition cost with 1,000mm metered gauge rail line
> Contractor: China Communications Construction Co. (CCCC)			> Prioritise KL-Mentakab-Kuantan-Kerteh line as phase 1
			> Seamlessly connect with existing KTMB metre gauge rail line
			> Utilise the abandoned Kuantan-Kerteh freight rail line (77km)
			> Focus on freight capacity between West (Klang) and East Coast (Kuantan Port)
			> Adopt a cheaper rolling stock with cheaper electrification and signalling system

SOURCES: CIMB RESEARCH, MEDIA REPORTS, CHANNEL CHECKS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2018		
1203 companies under coverage for quarter ended on 30 June 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	62.3%	4.5%
Hold	26.2%	2.5%
Reduce	9.3%	0.8%

### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

**AAV** – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

**Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:**

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

### Recommendation Framework

#### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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