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# Construction sector kept as 'overweight'

> HLIB Research expects strong revival in job flows next year, driven by mega rail projects

PETALING JAYA: Hong Leong Investment Bank (HLIB) Research is maintaining its "overweight" valuation on the construction sector, as it expects a strong revival in job flows next year, driven by several mega rail projects.

In a note yesterday, its analyst Jeremy Goh said these mega rail projects include the East Coast Rail Link, Kuala Lumpur-Singapore High-Speed Rail and Mass Rapid Transit 3 (MRT3).

He said the significance of these mega rail projects to the construction sector should not be underestimated, noting that job wins hit a high of RM28 billion in 2012, and RM56 billion in 2016, when the MRT1 and the MRT2 were rolled out.

"Our top picks are centred on the upcoming influx of mega rail projects. We favour Gamuda Bhd (buy, target price: RM6.36) given its strong track record with civil rail projects (Northern Double Track, MRT1 and MRT2).

"We also like George Kent (M) Bhd (buy, target price: RM3.73) as the only local player with an expertise in rail-related systems."

Moreover, Goh said, most contractors within the research house's coverage continue to exhibit healthy order book levels with cover ratios exceeding two times.

He said while 2017 year-to-date (January-August) sector job wins have normalised downwards as expected, the sum of RM15 billion is still on track to meet its full-year target of RM25 billion with the LRT3 awards starting to roll out.

As such, Goh said, the research house remains positive on the sector's outlook despite the higher than expected proportion of results disappointment.

For the recent 2Q17 results season, Goh said, six out of the 13 contractors under HLIB Research coverage (46%) reported core earnings that were below expectations, four (31%) were within and three (23%) were above. Of the six results, half were revenue driven.

Kimlun had a timing gap for its manufacturing deliveries between its completed Singapore jobs and commencement of MRT2, whereby HSL experienced delays in kicking off its Kuching Wastewater System job due to ground conditions, Goh said.

Others include Edgenta, which incurred higher depreciation and amortisation charges following its acquisition of KFM and UEMS.

While IJM's construction division grew, Goh said the overall group earnings were held back by plantations which suffered from high production cost and tax. Lastly, Mitrajaya suffered cost overruns for its projects at Refinery and Petrochemical Integrated Development (Rapid), which dented margins.

Meanwhile, for the few results upside, Goh noted that they were all margin driven.