

Headline	` Foreign-led MRT3 ` talk hits construction stocks		
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'Foreign-led MRT3' talk hits construction stocks

> Selldown could be indicative of downward repricing, Gamuda still expected to play role: KAF

PETALING JAYA: KAF Research said the selldown of construction stocks could be indicative of a downward repricing of market expectations towards smaller or subcontract roles for local construction players, should a foreign contractor emerge as the winning bidder.

The KL Construction Index continued its downtrend hitting a low of 317.94 points, before closing 0.48 points lower to 318.63 points yesterday.

"Specifically for Gamuda, the negative reaction could be triggered by fears of its reduced prospects for MRT3 and the associated loss of PDP income under this new tender structure," it said.

However, it still expects Gamuda to emerge with a role in MRT3, backed by its local expertise and track record, particularly in dealing with the limestone formations with karstic features that occupy most of Kuala Lumpur.

"Gamuda also has a leg up on its rivals in that it can redeploy its tunnel boring machines currently used for the MRT2 for future MRT3 works, with associated

savings in mobilisation costs. The same applies for its skilled workforce, some of whom are trained at the group's tunnel training academy, the first in the region," it said.

From an earnings standpoint, any potential loss of PDP income from MRT3 may be mitigated by a subcontracting role for tunnel works and possibly, parts of the elevated sections, albeit at lower amounts and margins relative to MRT1 and MRT2.

KAF Research expects Gamuda's bids for one of the main subcontracting packages under ECRL to be intact and reaffirmed its "buy" call with an unchanged target price of RM6.50.

HLIB Research concurred that Gamuda is in a prime position to secure tunneling works for MRT3, as the only contractor with the expertise in the country.

It also has much understanding of tunneling within the Klang Valley's karstic limestone formations," it added.

Gamuda's stock price has been on a downtrend ever since news of the scrapping of the project delivery partner model for MRT3 broke. Its share price closed one sen lower to RM4.80 yesterday, with some 20 million shares traded.

HLIB Research said Gamuda is maintaining its RM10 billion orderbook replenishment guidance over the next two

years, which includes jobs such as the MRT3 and East Coast Rail Line (ECRL).

To recap, MRT Corp said in its notice of tender that it is calling for local construction and infrastructure development companies to participate in a tender to select a turnkey contractor to build and finance, on a turnkey basis.

"With the winning consortium required to fund MRT3, this would help remove the government's funding burden. We understand that this new structure for the MRT3 is likely to attract interest from both Japanese and Chinese consortiums," said HLIB Research.

Due to the shorter elevated portion compared with MRT1 and MRT2, HLIB Research said it is likely that fewer viaduct packages would be dished out thus contractors who have undertaken viaduct works for MRT1 and MRT2 should stand out, namely IJM Corp Bhd, Sunway Construction Group Bhd, Ahmad Zaki Resources Bhd, Gadang Holdings Bhd and Mudajaya Group Bhd.

The research house maintained its "buy" call on Gamuda with an unchanged target price of RM6.36. It views the recent share price retracement as a good opportunity to accumulate. It maintained its "overweight" call on the construction sector.