

CONSTRUCTION SECTOR

(Overweight)

“Positive Catalyst on 11 MP”

Table 1: Construction Sector Operational Metrics

Purpose (RM billion)	2014	2015F
GDP	6.0%	5.0%
Big Ticket Project of 11 MP	<ul style="list-style-type: none"> • KVMRT2 (RM28 billion) • Pan Borneo Highway (RM27 billion) • LRT3 (RM9 billion) • WCE (RM5 billion) • HSR (RM30-RM40 billion) • Gemas-JB Electrified Double Track (RM8 billion) 	
2015 Top Pick	<ul style="list-style-type: none"> • Gamuda (BUY; TP: RM5.87) • IJM Corp (BUY; TP: RM8.14) 	

Source: M&A Securities

Construction sector's long-term prospects remain bullish anchored by Malaysia Plan (11MP) as the government had lined up a huge sum of construction projects in its bid to reach the coveted 2020 target. The 5-year plan (2016-2020) will be significant milestone for Malaysia to become advanced nation by 2020 with the sector critical contribution will come from several mega infrastructure projects including KVMRT2, LRT3, West Coast Expressway and Pan-Borneo Highway. This will be the earnings catalyst to propel the order book replenishment for construction players which will keep them busy until 2020. In line with this, we reiterate our Overweight call on the sector with Gamuda (BUY, TP: RM5.87) and IJM Corp (BUY, TP: RM8.14) emerge as our top pick.

11MP - positive for construction sector. Prime Minister, Datuk Seri Najib Tun Abdul Razak has successfully revealed 11MP on 21st May 2015. The 5-year plan (2016-2020) is an important landmark for Malaysia to become an advanced nation by 2020 and hence, contains a lot of high impact projects. As expected, construction sector is one of the major beneficiaries for 11MP, with the sector estimated to expand by 10.3% per annum during the 5-year plan. Some of well-known projects that will be implemented during this period include KVMRT2, LRT3, Pan-Borneo Highway, West Coast Expressway, KL-Singapore HSR, Electrified Double Track (Gemas-JB), Pengerang Integrated Petroleum Complex (PIPC), Central Spine Road which will be supported by several government housing initiatives including Project Perumahan Rakyat 1Malaysia (PR1MA). In addition, the government also announced several new projects to be developed under 11MP including i) Malaysia Vision Valley (development of west part of Negeri Sembilan), ii) new sewerage treatment plant and pipe network in Perak, and iii) new airport in Mukah, Sarawak.

To recap, construction sector has contributed between 3%-4% of GDP (2011-2015) during the previous 10th Malaysia Plan (10MP) with average annual growth of 11.1% per annum supported by

massive infrastructure roll out including roads and rail expansion under National Key Results Area (NKRA). Under Greater Kuala Lumpur/Klang Valley development, several new rail routes had been established including ERL extension from KLIA's main terminal to KLIA2, LRT extension from Kelana Jaya to Putra Heights and Sri Petaling to Putra Heights and the commencement of KVMRT1 from Sungai Buloh to Kajang. Moreover, the electrified double-track railway from Padang Besar to Gemas was completed during this period.

Catalyst to boost construction Index. We expect the announcement of 11MP will boost Bursa Malaysia construction index performance positively as witnessed by the previous 10MP announcement (June 2010) where construction index has surged by 4% within 3 months, 16% within 6 months and 21% over the next 12 months respectively. The similar growth pattern also occurred during the announcement of 9MP in March 2006 (3 months: +4%, 6 months: +12%, 12 months: +99%). YTD May 2015, Construction index has jumped by 6% lifted by positive catalyst from 11MP goodies, outperforming FBMKLCI that contracted by 1%.

KVMRT update. KVMRT1 will become operational during 11MP, covering 31 stations with total lengths of 51km. The phase 1 (Sungai Buloh to Semantan) is expected to start operations by 2016 while phase 2 (Semantan to Kajang) will commence operation by 2017. Meanwhile, MRT Corp. announced that the cost of KVMRT2 will be slightly higher at RM28 billion compared to the earlier projection of RM23 billion due to the longer underground length. The underground length of KVMRT2 is around 13.5km, longer than KVMRT1's length of only 9.5km and hence, there will be 11 underground stations to be developed compared to 7 underground stations in KVMRT1. Currently, the propose alignment for KVMRT2 is going on public display starting from May 2015 until August 2015. MRT Corp has hinted that the award for KVMRT2 may be skewed towards existing players in KVMRT1 such as Gamuda, IJM Corp, Gadang, Mudajaya, Sunway, Ahmad Zaki Resources and Naim Holdings.

LRT 3 update. The proposed alignment of LRT3 is now undergoing for public viewing starting from May 2015 until August 2015. According to Prasarana Malaysia Bhd (Prasarana), LRT3 will cover a length of 36km from Bandar Utama, Damansara to Johan Setia, Klang, estimated to cost approximately RM9 billion. The construction of LRT3 is scheduled to begin in 2016 and will be completed by 2020. Among the potential beneficiary for the propose LRT 3 project include Sunway, MRCB, Trans Resources Corp, UEM Builders and Intria Bina which currently have secured major contract packages in the on-going RM7 billion Kelana Jaya and Ampang Lines LRT extension projects.

Top pick. Gamuda and IJM Corp. remain our top pick for construction sector as well as the major beneficiary of 11MP. Gamuda emerges as a strong beneficiary to be appointed as a PDP for KVMRT2 alongside MMC Corp and a frontrunner to grab the tunnelling works worth approximately RM10 billion backed by their solid track record in developing KVMRT1 and their investment in related machinery such as Tunnel Boring Machine (TBM). Furthermore, the successful completion of RM12 billion Ipoh-Padang Besar's electrified double track project by Gamuda could be re-rating catalyst for the impending Gemas-JB electrified double track project. IJM Corp. emerges as a clear winner

Sector Update - Construction (Overweight)

of West Coast Expressway (WCE) after being awarded to undertake Sections 3,4,5,8 and 9 of the highway project out of total 11 packages for RM2.8 billion. We do not rule out IJM Corp's potential to secure part of work package for KVMRT 2 project as the group previously had previously been appointed as the main contractor for Package V5 of KVMRT1 worth RM974 million.

Overweight on Construction. We have an **Overweight** call on construction sector underpinned by the bright long-term outlook via mega infrastructure projects which will be strongly backed by the announcement of 11MP. There are oasis of opportunities for players like Gamuda (BUY, TP: RM5.87) and IJM Corp (BUY, TP: RM8.14) to grab some goodies from the upcoming mega infrastructure project. These players order book could swell up until 2020 and hence, our conviction on the call.

Table 2: Peers comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
IJM CORP	Mar	7.00	41	47	20.6	15.8	1.5	1.4	6	2	8.14	Buy
GAMUDA	Jul	4.96	32	32	16.0	16.0	2.0	1.9	13	2	5.87	Buy
WCT	Dec	1.63	13	14	14.6	12.9	0.9	0.9	5	1	1.76	Hold
BENALEC	Jun	0.64	3	6	15.2	12.8	1.0	0.9	0	0	NR	NR
CREST BUILDER	Dec	1.17	11	8	10.9	14.2	0.4	0.0	6	3	NR	NR
EVERSENDAL	Dec	0.75	8	10	9.7	7.4	0.6	0.6	4	1	NR	NR
KIMLUN	Dec	1.29	15	16	8.5	7.8	0.9	0.8	13	2	NR	NR
MRCB	Dec	1.25	6	9	23.7	15.7	1.4	1.4	8	2	NR	NR
AZRB	Dec	0.67	5	7	14.1	10.1	0.0	0.0	5	NA	NR	NR
YTL CORP	Jun	1.57	14	13	13.3	12.8	1.2	1.1	9	6	NR	NR
Average					14.7	12.5	1.0	0.9	7	2		

Source: Bloomberg, M&A Securities

Table 3: GDP by Kind of Economic Activity (2010-2020)

Sector (RM mil)	2010	2011	2012	2013	2014	2015E	2020E	Avg. Annual Growth (%)	
								10 MP	11 MP
Agriculture	82,882	88,555	89,406	91,097	92,979	93,184	110,707	2.4	3.5
Mining & Quarrying	89,793	85,373	86,751	87,789	90,645	93,673	100,024	0.9	1.3
Manufacturing	192,493	202,960	211,921	219,216	232,868	243,895	312,479	4.8	5.1
Construction	28,213	29,524	34,880	38,646	43,190	47,705	78,022	11.1	10.3
Services	420,382	449,854	479,300	507,935	541,185	571,835	796,722	6.3	6.9
Plus: Import Duties	7,672	8,654	10,004	10,577	11,639	12,425	13,351	10.1	1.4
GDP	821,435	864,920	912,262	955,260	1,012,506	1,062,717	1,411,305	5	6

Source: 11 MP

Table 4: Greater KL/KV Rail Ridership

Passenger (mil)	2010	2011	2012	2013	2014	Avg. Annual Growth
ERL	4	5	5	7	9	22%
KL Monorail	22	24	23	25	24	2%
KTM Komuter	35	36	35	44	47	8%
LRT Ampang Line	52	54	56	60	63	5%
LRT Kelana Jaya Line	58	68	71	79	82	9%
Total	171	187	190	215	225	7%

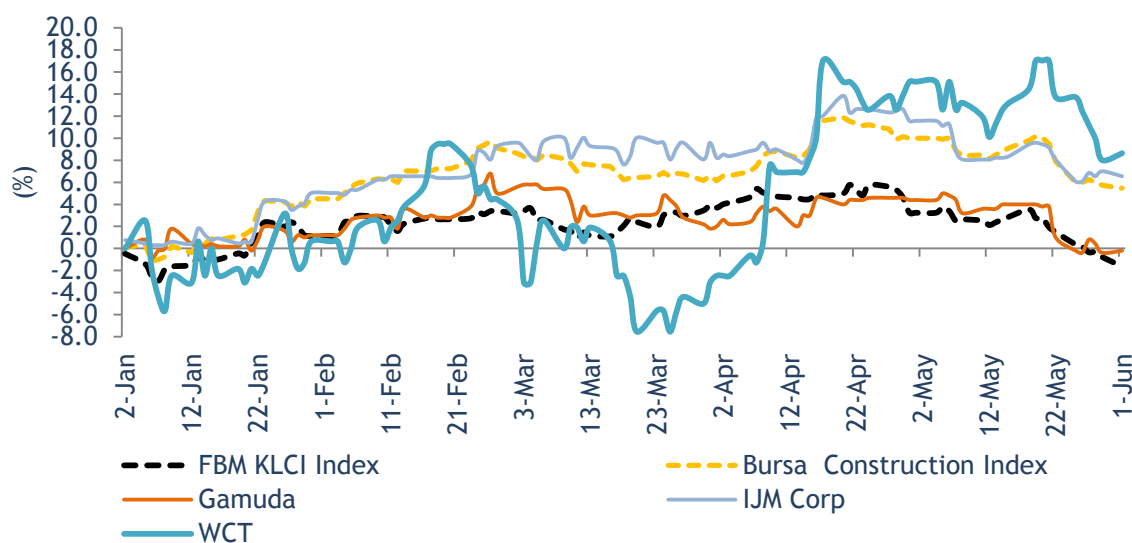
Source: SPAD

Table 5: Bursa Malaysia Construction Index Price Change Post-MP announcement

	3M	6M	12M
10 MP	4%	16%	21%
9 MP	4%	12%	99%

Source: Bloomberg

YTD Performance: Construction Players Share Price vs. FBMKLCI and KLCON Index (January 2015- March 2015)



Source: Bloomberg

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STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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