

Construction Sector
(Overweight)

“Seal the Deal on KVMRT2 PDP”

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

MMC Gamuda KVMRT (PSD SSP) Sdn Bhd (MMC-Gamuda JV) has inked the PDP agreement with MRT Corp. For that role, it set to receive a fee of 6% of the actual cost of construction of RM28.0 billion or equating to RM1.68 billion for the whole 6 years construction period. We expect this to be a main gate of KVMRT2 project which may rejuvenate the catalyst for construction sector for 2H2015 onwards. The tender for KVMRT2 is expected to be called in 4Q2015 followed by the award of contracts by mid-2016. 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.

Finalization of PDP agreement. According to the news report, MRT Corp. announced the signing of agreement with MMC- Gamuda JV which has officially been appointed as the PDP for KVMRT Line 2 (KVMRT2). MMC-Gamuda JV is entitled to be paid a fee of 6% of the actual cost of the construction of KVMRT2, only if they are able to meet the key performance indicators (KPIs) set by MRT Corp.. However, the failure to comply with the KPIs will cause a deduction of 6% fee based on quantum agreed by both parties. The estimated construction cost of the KVMRT2 is RM28 billion and the JV would receive around RM1.68 billion based on 6% fee for being the PDP. The KPIs for the entitlement of 6% fee include; i) the delivery of the project within the agreed target cost and the target delivery date, ii) compliance with safety, iii) health and environment requirements, iv) compliance with agreed quality standards and timely response to public complaints, and v) implementation of stakeholder management.

Details of KVMRT2. 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 for KVMRT1. Currently,

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the propose alignment for KVMRT2 is going on public display starting from May until August 015. The estimated cost for tunnelling portion is RM12.0 billion (KVMRT1: RM8.0 billion) and elevated portion would comprise the remaining RM16.0 billion (KVMRT1: RM15.0 billion). KVMRT2 will stretch total length of 52.2km, covering Sri Damansara, Kepong, Batu, Jalan Sultan Azlan Shah, Jalan Tun Razak, Kuchai Lama, Seri Kembangan and Cyberjaya. The completion date for Phase 1 of KVMRT2 project is scheduled on 31 July 2021, while the completion date for the whole of KVMRT2 Project is scheduled on 31 July 2022.

Bustling 2H2015 onwards. We opine the timely finalization of PDP agreement will be a precursor and preamble of KVMRT2 contracts which may energise the construction sector for 2H2015 onwards. The tender for KVMRT2 is expected to be called in 4Q2015 followed by the award of contracts by mid-2016. Besides, we reiterate our view that MMC-Gamuda JV has the advantage to grab the tunnelling works worth RM12.0 billion backed by their solid track record in developing KVMRT1 and their investment in related machinery such as Tunnel Boring Machine (TBM). We assume if the MMC-Gamuda JV secured the tunnelling portion, Gamuda will strongly added RM6.0 billion into its construction orderbook which currently stands at RM1.3 billion, only left for the tunnelling work portion of KVMRT1. Encouragingly, MRT Corp has hinted that the award for KVMRT2 work package may be skewed towards existing players in KVMRT1 such as IJM Corp, Gadang, Mudajaya, Sunway, Ahmad Zaki Resources and Naim Holdings.

Overweight on Construction. 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 high income 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.

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	6.84	41	47	20.6	15.8	1.5	1.4	6	2	8.14	Buy
GAMUDA	Jul	4.81	32	32	16.0	16.0	2.0	1.9	13	2	5.87	Buy
WCT	Dec	1.39	13	14	14.6	12.9	0.9	0.9	5	1	1.76	Hold
BENALEC	Jun	0.60	3	6	15.2	12.8	1.0	0.9	0	0	NR	NR
CREST BUILDER	Dec	1.07	11	8	10.9	14.2	0.4	0.0	6	3	NR	NR
EVERSENDI	Dec	0.96	8	10	9.7	7.4	0.6	0.6	4	1	NR	NR
KIHLUN	Dec	1.32	15	16	8.5	7.8	0.9	0.8	13	2	NR	NR
MRCB	Dec	1.12	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		

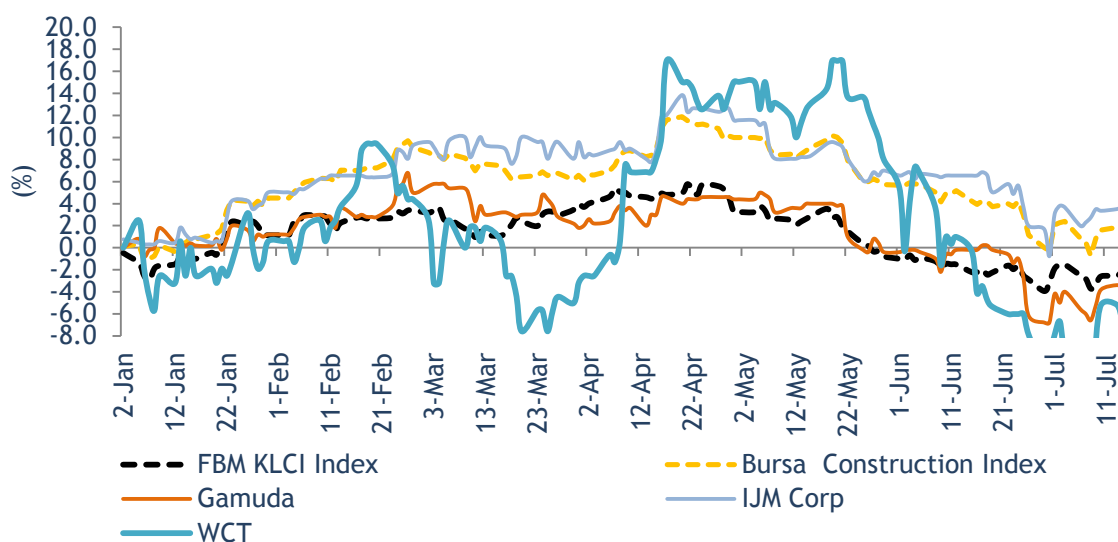
Source: Bloomberg, M&A Securities

Table 3: Different Between KVMRT1 and KVMRT2

	KVMRT 1	KVMRT 2
Coverage	Sg. Buloh-Kajang	Sg. Buloh-Serdang- Putrajaya
Total Length	51 km	52.2 km
Underground	10 km	13.5 km
Elevated	41 km	38.7 km
Underground Stations	7	11
Elevated Stations	24	25
Estimated Cost (RM bil)	23.0	28.0

Source: Various sources

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