

Construction Sector

(Overweight)

“Goodies from Budget 2016”

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 (RM10 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: RM5.80) IJM Corp (BUY; TP: RM3.74) 	

Source: M&A Securities

We are positive on Budget 2016 which has met our anticipation of sizeable new development projects which will focus much on public infrastructure related works. The rolling out of several large scale projects as detailed in the 11th Malaysia Plan (11 MP) marks significant milestone to support the growth of the construction industry in Malaysia with the kicking off of big ticket project such as KVMRT2 and LRT3. This supports our conviction of Overweight call on construction sector. With burgeoning contract awards and solid prospects, we reiterate our Overweight call on the sector with Gamuda (BUY; TP: RM5.80) and IJM Corp (BUY; TP: RM3.74) emerge as our top pick.

Construction sector - winners of Budget 2016

The government has unveiled Budget 2016 on 23rd October 2016 which is the beginning of 11th Malaysia Plan (11MP) program to achieve a high income nation status by 2020. Construction sector’s contribution to GDP is estimated to expand by 10.3% per annum during the 5-year plan (2016-2020). As expected, construction sector emerged as one of the winners from the announcement of Budget 2016 as the government reiterate its stands to improve public infrastructure project.

The gross development expenditure for 2016 is projected to be RM52 billion, 6% higher than the estimate RM49 billion allocated for Budget 2015 to be supported by several high impact projects including KVMRT2, LRT3 and Pan Borneo Highway. Briefly, below is the list of the project announcement under budget 2016;

Table 2: Selected Project under Budget 2016

Project	Value (RM bil)	Remarks
KVMRT2 (Sg Buloh-Serdang-Putrajaya)	28.0	Construction to commence in 2Q16 and completed by 2022
LRT3 (Bandar Utama-Damansara-Johan Setia)	10.0	Construction to commence in 2016 and completed by 2020
BRT (KL-Klang)	1.5	NA
BRT (Kota Kinabalu)	1.0	NA
Pan Borneo Highway (Sarawak)	16.1	Expected to be completed by 2021 and will be toll-free
Pan Borneo Highway (Sabah) - Phase 1	12.8	Construction to commence in 2016 and will be toll-free
RAPID	18.0	Investment in 2016
Jalan Tun Razak Traffic Dispersal	0.9	
KL-Singapore HSR	NA	Continue negotiation with Singapore government
Malaysia Vision Valley (Nilai-Port Dickson)	5.0	Investment in 2016
Cyber City Centre (Cyberjaya)	11.0	Investment in 5 years
Aeropolis KLIA	7.0	NA
Damansara-Shah Alam Highway	NA	NA
Sungai Besi-Ulu Klang Highway	NA	NA
Pulau Indah Highway	NA	NA
Central Spine Road Highway	NA	NA

Source: Budget Speech 2016, M&A Securities

Potential Beneficiaries

For our stock coverage, we expect MMC-Gamuda JV to be a strong contender for the underground works of KVMRT2, backed by their solid track record in developing KVMRT1 and their investment in related machinery such as Tunnel Boring Machine (TBM). Hence, this would be the key catalyst to boost Gamuda (BUY; TP: RM5.80) construction orderbook which now stands at RM1.0 billion, entirely related to KVMRT1's underground remaining portion. Besides, IJM Corp (BUY; TP: RM3.74) and WCT (HOLD; TP: RM1.43) is also eying for potential work package from KVMRT2 as well as LRT3. Sunway Construction Group (SCG) (BUY; TP: RM1.40) emerges as the strong contender for the upcoming BRT project based on existing track record in developing BRT Sunway Line project valued at RM453 million. Thus, we believe the rolling out of construction projects will continue to accelerate in 2016 to refill the construction players' orderbook.

Latest development KVMRT1 and LRT Line Extension

On the updates on KVMRT1, government announced that Phase 1 of the KVMRT1 (Sungai Buloh-Semantan) will become operational by December 2016 while Phase 2 (Semantan-Kajang) will be completed by mid-2017. The government also hinted that LRT Ampang Line extension will commence operation by March 2016 while LRT Kelana Jaya Line extension (Kelana Jaya-Putra Height) will be fully operational by mid-2016.

Overweight on Construction

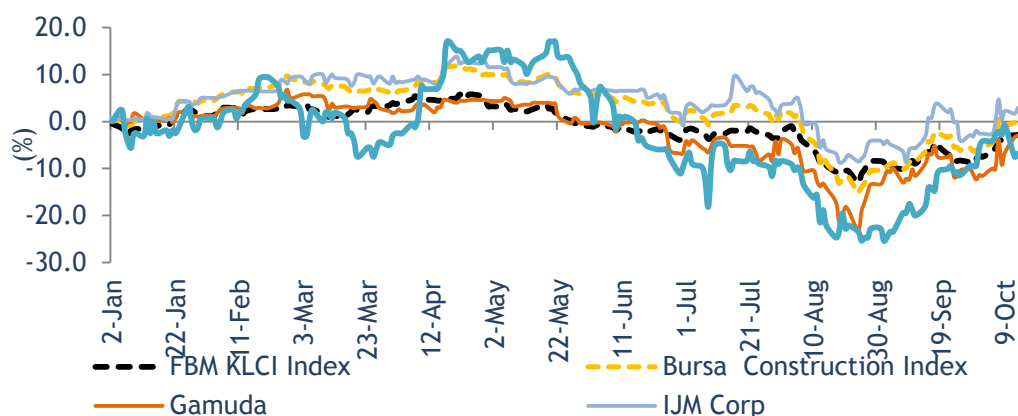
We maintain our **Overweight** call on construction sector as the goodies from Budget 2016 will to boost the sentiment for the industry players in the long term. Several implementations of mega infrastructure projects including KVMRT2, LRT3 and Pan Borneo Highway will be the key catalyst to propel the order book replenishment for construction players and hence, supporting our conviction of brighter outlook for construction sector moving forward. Gamuda (BUY, TP: RM5.80) and IJM Corp (BUY, TP: RM3.74) emerge as our top pick for the sector.

Table 3: 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	3.42	40	46	17.0	14.6	1.3	1.2	6	2	3.74	Buy
GAMUDA	Jul	4.62	31	30	15.4	15.7	1.9	1.8	13	3	5.80	Buy
WCT	Dec	1.38	12	14	11.7	10.1	0.7	0.6	5	2	1.43	Hold
SCGB	Dec	1.32	10	10	11.3	12.2	3.7	3.1	NA	NA	1.40	Buy
BENALEC	Jun	0.59	2	5	17.0	12.6	0.8	0.7	-2	0	NR	NR
CREST BUILDER	Dec	0.99	7	8	15.3	12.4	NA	NA	6	4	NR	NR
EVERSENDI	Dec	0.81	10	11	10.3	8.9	0.8	0.8	5	1	NR	NR
KIMLUN	Dec	1.32	15	16	8.7	8.1	0.9	0.8	10	3	NR	NR
MRCB	Dec	1.21	5	7	21.0	14.9	1.1	1.1	19	2	NR	NR
AZRB	Dec	0.66	5	7	12.7	9.1	NA	NA	4	3	NR	NR
YTL CORP	Jun	1.54	14	13	13.8	12.4	1.1	1.1	8	6	NR	NR
Average					14.0	11.9	1.4	1.3	8	3		

Source: Bloomberg, M&A Securities

YTD Performance: Construction Players Share Price vs. FBMKLCI (January 2015-YTD)



Source: Bloomberg

M&A Securities

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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