

Construction

Maintain POSITIVE

Plagued by Temporary Setbacks and Ominous Signs (Part 2)

INVESTMENT HIGHLIGHTS

- **Loans continued to sweep the sector**
 - **Rising valuation may also translate into growth.**
 - **Maintain Positive**
- **Loans continued to sweep the sector.** In July, loans continued to fill the construction sector at a staggering rate of RM6.45bn (+17.8%YoY) above the 11-y average of RM4.1bn. (Figure 1). The credit liquidity supported higher valuations such as the sectoral price-to-book and price to earnings ratio. Although separately, the valuations seems to soften, we still believe that it is above our target estimates of 20.0x price-to-earnings (PER) (Figure 2) and 1.15x price-to-book (PBR) (Figure 3). But as we mentioned in our last report (25.09.17) parity of both ratios is visibly unwavering.

FIGURE 1: CREDIT LIQUIDITY

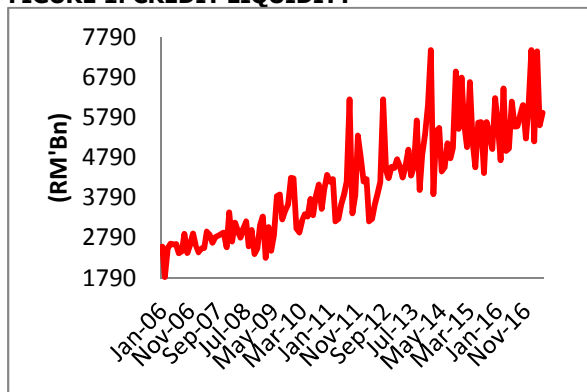


FIGURE 2: PER VS. CONSTRUCTION LOANS

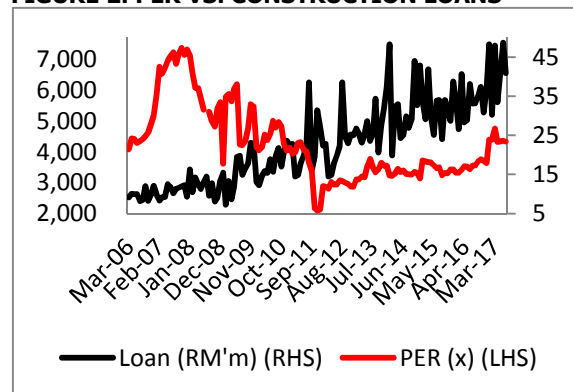
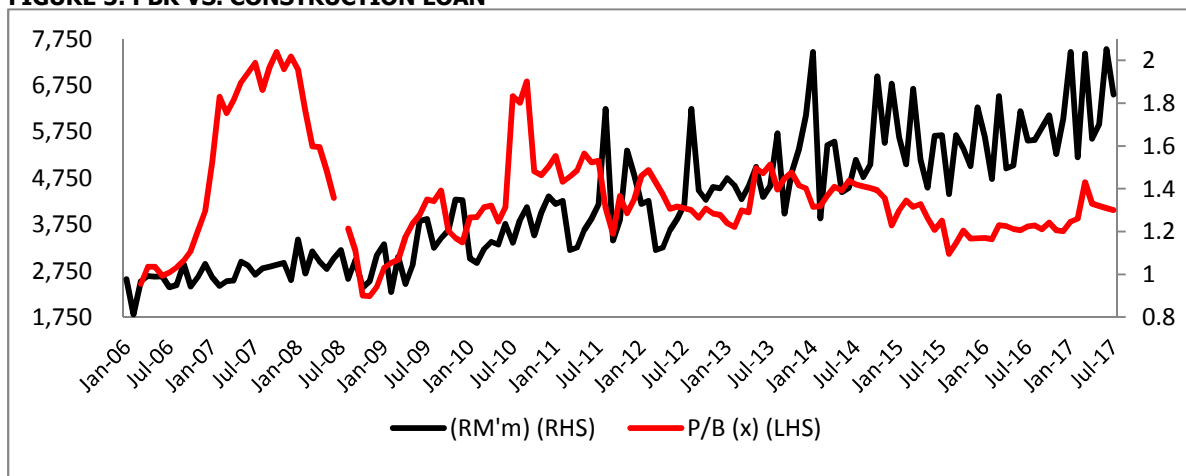


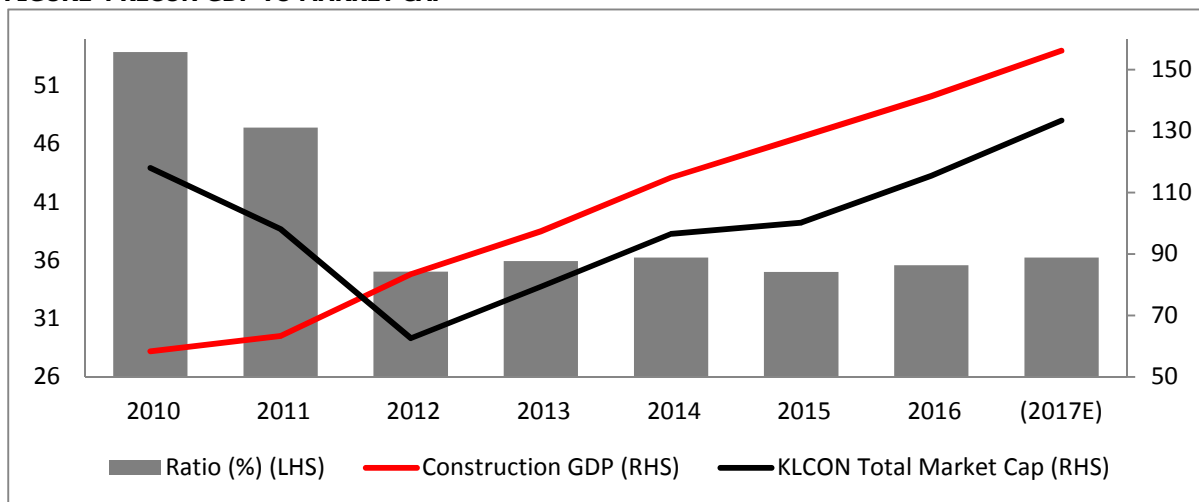
FIGURE 3: PBR VS. CONSTRUCTION LOAN



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- Rising valuation may also translate into growth.** Furthermore, the total market cap of Kuala Lumpur Construction Index/ Malaysia's construction GDP for FY16 is 0.86x – rising speedily to catch-up to its 6-y average of 101%. (Figure 4). The highest recorded ratio was in FY10: 1.56x and FY11: 1.31x where the 12-month's price-to-earnings averaged only 24.5x and 16.1x respectively. (Refer to Figure 4) Possibly, the ratio was influenced surge of credit liquidity which totalled to RM67.4bn (+33.2%YoY) in FY16 and RM39.7bn (+33.6) for year-to-date FY17 (Refer to Figure 1). But peaking valuation may also illustrate growth for the sector. Looking at the construction GDP, we infer that next quarter's prospect for construction sector would be compelling.

FIGURE 4 KLCON GDP TO MARKET CAP



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- Maintain positive.** Despite the negative undertone, we are maintaining a positive stance on the construction sector on the basis on revenue growth (reported in 25.09.17) and construction GDP expansion for the sector. We recommend a hard-nosed look for quality construction companies that would grow its revenue, and maintain its operating margin such as IJM (TP: RM4.00), Muhibbah (TP: RM3.45), Cahya Mata Sarawak (TP: RM4.62) and Gabungan AQRS (TP: RM1.62). We continue to favour the companies due to its competitive advantage and its strong project execution track record.

DAILY PRICE CHART



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**BC3: Sample of Big Caps Construction Sector is represented by Cahya Mata Sarawak, IJM Bhd. Gamuda Bhd. and WCT Holdings Bhd. We exclude Sunway Construction due to the comparability of timeline and its recent status in KL Construction Index and MRCB due to its exposure in property development.*

**SMC3: Sample of small-caps construction companies are represented by Gadang, Vivocom, Gabungan AQRS, Ekovest, Econpile, Kerjaya Prospek, Fajar Baru Builder, Hock Seng Lee, Pintaras Jaya and Muhibbah due to its orderbook and revenue growth.*

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.