

CONSTRUCTION

Maintain POSITIVE

KL-Singapore HSR back to the drawing board

KEY INVESTMENT HIGHLIGHTS

- **KL-Singapore HSR RFI briefing draws the crowd as construction players explore long-term catalysts for the sector**
- **RFI participants given the freedom to draft proposals, from tweaking to proposing new alignments and determining the number of stations**
- **Project to be on PFI basis, but RFI participants can propose and justify the need for government support and risk sharing**
- **Preferred names are Gamuda (BUY, TP: RM5.04), IJM Corp (BUY, TP: RM1.93) and Sunway Construction (BUY, TP: RM2.09)**

Starting from scratch again. MyHSR Corp held a briefing yesterday for the construction and rail industry players on the request for information (RFI) for the proposed revival of the Kuala Lumpur-Singapore High Speed Rail (HSR), laying out the overview of the process, timeline and requirements. Save for the timeline of the RFI, there is nothing cast in stone and interested parties are encouraged to put forth their best proposal. The firms or consortiums participating in the RFI are free to tweak or even propose their own alignments and number of stations, as long as both ends of the track are KL and Singapore.

Funding. As announced by the government previously, the mega rail project will be carried out through the private finance initiative (PFI). The approach is ultimately for the project to be fully funded by the private sector without any government guarantee or funding. The onus is then on the private sector to assume the funding risk and also for the project delivery. Despite that, participants of the RFI may propose and justify the need for any financial support they may require from the government or any risk sharing mechanism. The end game is to determine the "sweet spot" of the PFI.

Speed. The design speed of the KL-Singapore HSR has to be 350km/h or any speed that meets the definition of HSR as guided by the International Union of Railways (UIC). On its website, the UIC considers a commercial speed of 250km/h as the principal criterion of a HSR.

Other pre-requisites. The concessional structure of the project will be a design-finance-build-operate-transfer (DFBOT). MyHSR Corp also set forth three minimum selection criteria for RFI participants to ensure that they have the experience in:

1. *Ongoing or completed construction of any railway project or any linear infrastructure projects such as highways.*
2. *Ongoing or completed design and installation of rail systems of HSR project*
3. *Operation of HSR project or any railway projects*

Refer to tables below for a summarised version of the timeline and requirements of the RFI.

COMPANIES IN FOCUS

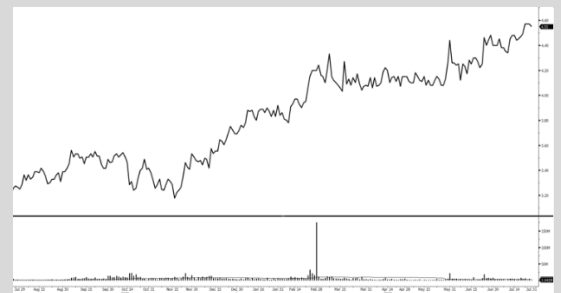
Gamuda Bhd

Maintain BUY | Unchanged target price: **RM5.04**

Price @ 27th July 2023: RM4.55

- Record high construction order book at RM21.5b
- Strong overseas operations, now contributing 44% of core net profit
- MRT3 main contender

Share price chart



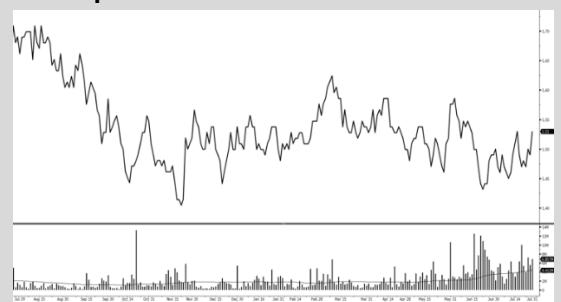
IJM Corp Bhd

Maintain BUY | Unchanged target price: **RM1.93**

Price @ 12th July 2023: RM1.53

- Solid outstanding order book of RM5.0b
- Pursuing opportunities in Sarawak and Nusantara
- Also one of the MRT3 contenders, with tenders submitted for all three main packages

Share price chart



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Strong interest. The proposed revival of the mega project, which was previously priced at about RM70b before it was axed in 2021, has garnered the interests of many firms, as evident by the packed auditorium at the Ministry of Finance in Putrajaya, with more than 700 in attendance, including foreign missions. Most of the top Malaysian construction firms and conglomerates had representatives present but the spotlight was definitely on the Chinese construction and rail firms, with representatives from at least 20 companies.

Catalysing economic growth. More than just a faster mode of transportation, MyHSR's vision of the KL-Singapore HSR is one that would elevate the nation's economy through a holistic development plan for the entire southern corridor. It has previously identified a strong base of stand-alone assets along the corridor namely 52 MSC status assets, 36 industrial parks and 117 tourist key sites and assets, all of which will benefit from the KL-Singapore HSR connectivity.


Maintain POSITIVE. We expect the earliest timeline to determine the certainty that the project would be carried out could be by 2HCY24 before tenders are called, if any. That however, does not steer us away from our **POSITIVE** recommendation on the construction sector, backed by expectations on improving job flows driven by Budget 2023 and the upcoming Budget 2024, developments in Sarawak and development plans in Nusantara, that many Malaysian firms are eyeing. We expect the MRT3, being a major catalyst for the sector, to be awarded to tender winners by 4Q23, after going through a year of delay since Dec-22 following a review of its cost to bring the price tag down by 10% to RM45b. It would take about a year post-award for actual construction works to begin, considering the timeline for related land acquisitions and the tender process for second tier jobs. Our top picks remain the larger capitalised players namely **Gamuda (BUY, TP: RM5.04)** for its solid overseas expansion plans especially in Australia, **IJM Corp (BUY, TP: RM1.93)** for making inroads in Nusantara and **Sunway Construction (BUY, TP: RM2.09)**, which has already achieved 63.9% of its RM2b orderbook replenishment target as of May-23. The three firms are also among the main contenders of the MRT3 packages. 

Table 1: RFI requirements

	RFI Requirements
Route	KL to Singapore; or within the Southern Corridor of Malaysia with a connecting option to Singapore
Speed	350km/h or HSR speed as defined by UIC (250km/h)
Alignment	Participants allowed to tweak/propose new alignment
No. of stations	No fixed number participants to suggest number and locations (<i>previously 8 stations - KL, Putrajaya, Seremban, Ayer Keroh, Muar, Batu Pahat, Iskandar Puteri, Jurong East</i>)
Funding	PFI, but participants allowed to propose and justify the need for government's financial support/risk sharing
Consortium/JV structure	No requirements, but structure, financial strength and credentials have to be stated clearly
Concession structure	DFBOT
Experience pre-requisite	Construction of rail project or infrastructure projects like highways; design and installation of HSR project and operation of HSR or any rail project
Concept proposal	Vision and strategy; Technical info; Project cost info, Commercial info; Consortium Structure

Source: MyHSR, MIDFR

Table 2: KL-Singapore HSR RFI and RFP timeline

		Activities	Date/Duration
Step 1	RFI for concept proposal	RFI document preparation	-
		Purchase of RFI documents (RM20K)	12/7/23 - 2/8/23
		RFI documents ready for collection	11/8/2023; 14/8/23
		RFI participants develop concept proposal	3 months
		RFI closing date	15/11/23
		Evaluation of proposals	3 months
		Outcomes of RFI presented to Steering Committee (SC)	TBC
		SC makes recommendation to government	
		Decision on proceeding with request for proposal (RFP)	
Step 2	RFP for detailed proposal (only for shortlisted firms/consortiums)	RFP document preparation	TBC
		Launch of RFP	
		Shortlisted participants develop detailed proposal	
		RFP closes	Minimum 6 months
		RFP results presented to SC	
		SC makes recommendation to government	
		Selection of successful detailed proposal	
		Contractual negotiation process	TBC
Award of contracts			

Source: MyHSR, MIDFR

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 27 Jul 2023 (RM)	Target Price (RM)	Core EPS (sen)		Dividend Yield (%)		Net gearing (%)	Net cash/(debt) (RM'm)
					FY23E	FY24F	FY23E	FY24F		
Gamuda	July	BUY	4.55	5.04	31.8	30.2	9.9	2.4	5.4	(588.3)
IJM Corp	Mar	BUY	1.53	1.93	8.4	9.2	3.1	3.1	18.2	(1,997.7)
Sunway Construction	Dec	BUY	1.74	2.09	10.9	12.5	2.9	2.9	1.5	(12.4)
MRCB	Dec	BUY	0.385	0.42	1.5	1.6	2.4	2.4	37.2	(1,690.9)
Muhibbah Engineering	June	NEUTRAL	0.685	0.61	3.8	5.6	0.0	0.0	3.9	(68.8)
WCT Holdings	Dec	BUY	0.46	0.52	4.4	5.3	1.0	1.0	67.3	(2,623.4)
Gabungan AQRS	Jun-24	BUY	0.31	0.37	3.6	4.2	2.7	2.7	33.2	(167.5)
Pintaras Jaya	Dec	BUY	1.74	1.88	3.1	20.4	3.2	3.2	-	106.8
KKB Engineering	June	BUY	1.36	1.58	8.7	9.3	3.8	3.8	-	214.1
Malayan Cement	June	BUY	3.22	3.74	7.4	7.1	0.0	0.0	51.9	(3,045.5)
Cahaya Mata Sarawak	Dec	BUY	1.06	1.50	16.0	21.5	2.0	2.0	-	548.8

Source: Companies, MIDF Research

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology