

# CONSTRUCTION

**Maintain POSITIVE**

## Gearing Up For 2HCY24

### KEY INVESTMENT HIGHLIGHTS

- Stronger job flows in 2HCY24; RM180b of jobs in the pipeline
- 40% or RM36b of projects under RM90 DEVEX to be rolled out by mid-2024
- Phase 1B of Pan Borneo Sabah contracts (RM15.7b allocation) to be finalise by Jul-24
- Other 2HCY24 jobs include KL Sentral redevelopment, Penang LRT, Sabah-Sarawak Link Road (Phase 2)
- Maintain POSITIVE on sector. Preferred names are Gamuda (BUY, TP: RM5.98), IJM Corp (BUY, TP: RM2.57) and Malayan Cement (BUY, TP: RM5.33)

**Stronger job flows in 2HCY24.** The second half of 2024 is set to be driven by stronger job flows with the expected implementation of government projects in line with the allocation under Budget 2024, which had set aside RM90b for development expenditure (DEVEX). We had the honour of hosting the Deputy Works Minister YB Datuk Seri Ahmad Maslan for our luncheon talk "Awaiting Take-Off of Construction Sector" last Thursday. He estimated that about 40% or RM36b of the DE is expected to be rolled out by mid-2024. The Deputy Minister said there were an estimated RM180b worth of jobs in the pipeline, RM90b from the DEVEX and RM90b from the private sector.

### Updates from the luncheon talk...

#### 1. Projects on the radar.

According to YB Datuk Seri Ahmad Maslan, the RM36b of projects that may potentially be rolled out are schools, hospitals, clinics, and roads. He further explained that all projects will go through the open tender process or selective pre-qualification for the open tender process and that there are no more direct negotiations. Decision makers for projects under RM100m are the tender committees for respective ministries while projects between RM100m and RM300m will be decided by the Finance Minister II. For projects above RM300m, these will be decided by the Finance Minister I, who is also the Prime Minister.

#### 2. Pan Borneo Sabah (Phase 1B)

The evaluation process is ongoing for the remaining 15 packages under Phase 1B, which saw the participation of more than 300 companies. There are a total of 19 packages under Phase 1B of which four are in the early stages of construction. The remaining 15 packages are valued at more than RM10b. JKR Sabah is currently assisting the Works Ministry to finalise the second stage of procurement, which is expected to be by Jul-24. Recall that under Budget 2024, RM15.7b was allocated for Pan Borneo Sabah (Phase 1B).

### COMPANIES IN FOCUS

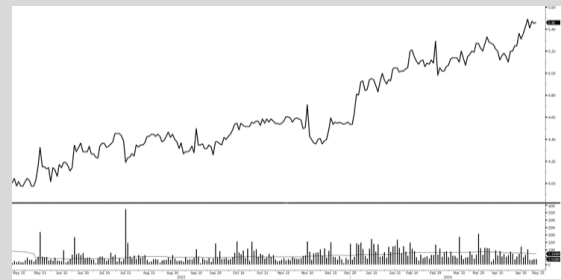
#### Gamuda Bhd

**Maintain BUY** | Unchanged target price: **RM5.98**

Price @ 10<sup>th</sup> May 2024: RM5.46

- Bulging construction order book at RM24.1b
- Strong overseas operations, now contributing 64% of core net profit
- Order book replenishment target of RM25b in two years

#### Share price chart



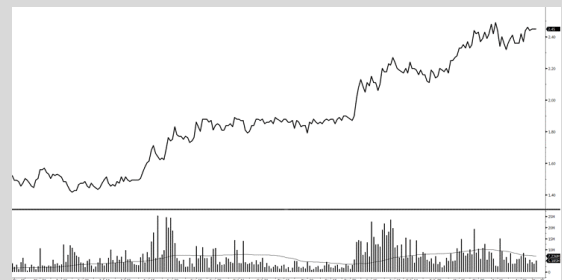
#### IJM Corp Bhd

**Maintain BUY** | Unchanged target price: **RM2.57**

Price @ 10<sup>th</sup> May 2024: RM2.45

- 3QFY24 core earnings of RM300.5m have already surpassed FY23 figures
- Solid outstanding order book of RM6.6b
- Pursuing opportunities in Sarawak and Nusantara

#### Share price chart



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### 3. Flood mitigation projects.

It must be noted that flood mitigation projects come under the purview of the Drainage and Irrigation Department (DID) under the Ministry of Energy Transition and Water Transformation (PETRA) and not the Ministry of Works. One of the causes of the delays were due to the reshuffling of minister portfolios in Dec-23. Under Budget 2024, the government had allocated RM11.8b for 33 flood mitigation projects. News flows are scarce on the flood mitigation projects but on the same day of the luncheon talk last week, it was reported that the Federal Government had allocated RM1.69b to the Selangor DID to implement five high priority flood mitigation projects in the Klang, Petaling and Sepang districts.

### **What else can be expected in 2HCY24?**

#### 1. KL Sentral redevelopment

The redevelopment project, which is expected to cost over RM1.0b, will be undertaken by **MRCB (NEUTRAL, TP: RM0.63)**. Transport Minister Anthony Loke announced on Friday that the project is expected to kick off by the end of 2024, one that serves to ease traffic congestion due to the rapid growth of the city's transportation hub over the past 20 years. Negotiations are still ongoing between the Public Private Partnership Unit (UKAS) and MRCB. The Cabinet approved in principle the project in Aug-23 where MRCB will bear the cost entirely and in return, be given the rights to develop the surrounding area, allowing it to construct condominiums or commercial buildings.

#### 2. Mutiara LRT Line (Penang LRT)


Approved by the Cabinet in Mar-24, construction is expected to begin in 4QCY24 and to be completed by 2030. SRS Consortium Sdn Bhd, a 60% subsidiary of **Gamuda (BUY, TP: RM5.98)** has been offered Segment 1, which is expected to be a 23.5km line from the upcoming Silicon Island to Komtar, which we estimate to cost RM8.23b. SRS Consortium has up to Sep-24 to finalise negotiations on contract value and other details with project developer and asset owner MRT Corp. Segment 2 is the alignment from Komtar to Penang Sentral in Butterworth, which may come up to about RM2.0b while Segment 3 is for the turnkey systems and rolling stocks. Segment 2 and 3 will be opened for tenders. The total alignment of the Penang LRT will be 28km, with a total of 22 elevated stations. Budget 2024 allocated RM10b for the project.

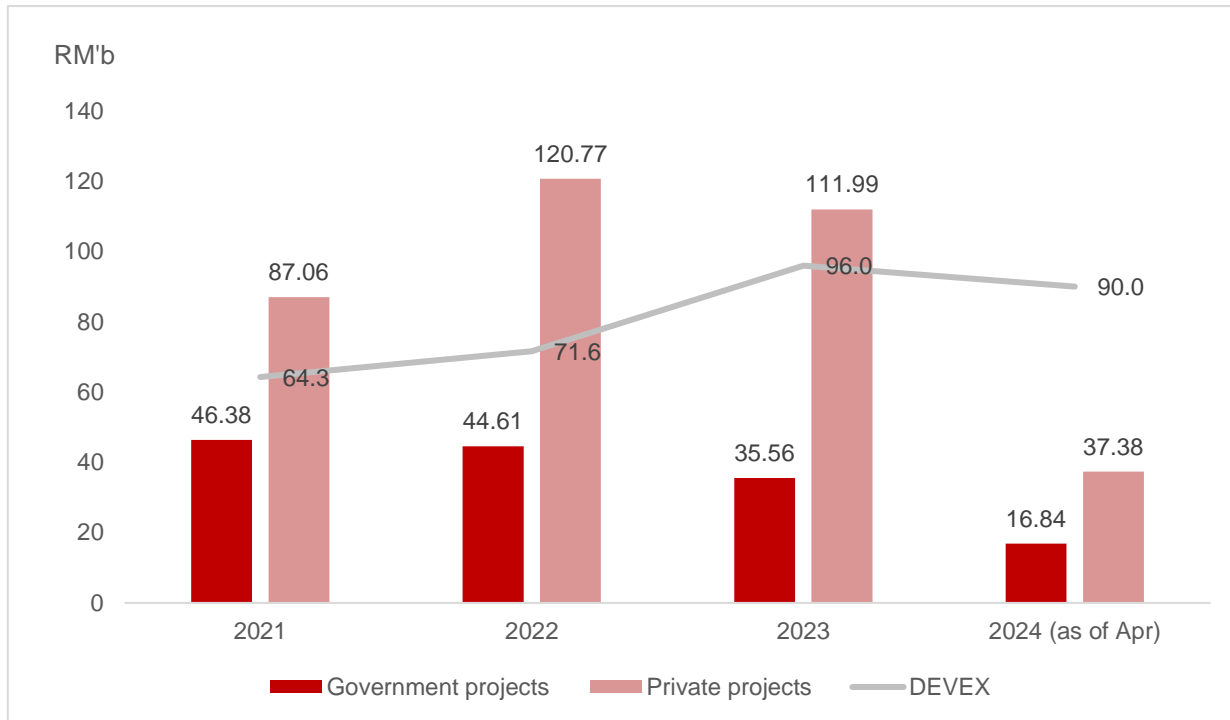
#### 3. Sabah-Sarawak Link Road (Phase 2)

JKR Sarawak awarded the Phase 2 of the SSLR to a master contractor on 26 March 2024, which is now in the process of preparing the project design and land acquisition. Phase 2 spans 322km long and is divided into four design and build packages. It is understood that this has been broken down into seven sections and tenders are ongoing, which will close early Jun-24. The government allocated RM7.4b for this project under Budget 2024.

#### 4. MRT3 Circle Line

Optimistic expectations could see the tenders being awarded by end-2024, though we do not discount further delays, subject to the land acquisition process. The expected contract awards in Dec-22 were held back due to a review that was carried out to reduce the cost by 10% from RM50b to RM45b, which has seen the tender validity period being extended four times until Mar-24. There has yet to be any updates on this front. The finalisation of land lots to be acquired is expected to happen in 3QCY24 and the acquisition process to take place in 4QCY24. Notices to vacate the acquired lands are expected to be issued from 1QCY25, where landowners will be given up to six months to vacate. The MRT3 is an off-Budget project.

**Maintain POSTIVE.** Our **POSITIVE** stance on the construction sector is premised on the strong pipeline of jobs that can be expected moving forward, both civil and private. The YB Deputy Minister's expectations of more civil job flows starting the mid of this year further strengthens our conviction that contractors will be kept busy over the next few years, with rising demand for industrial buildings such as data centres, warehouses and semiconductor foundries further boosting sentiments. From Jan-24 to Apr-24, RM54.22b worth of projects have been awarded, a +33.1% increase over the same period last year. Our top picks are **Gamuda (BUY, TP: RM5.98)**, **IJM Corp (BUY, TP: RM2.57)** and **Malayan Cement (BUY, TP: RM5.33)**. The construction sector has been among the best performing year-to-date, which has seen the Bursa Construction Index rising +18.2%. Note that we are in the process of reviewing the recommendation and target prices of some of the companies under our coverage, amidst the earnings season, given that recent rise and interest in construction stocks this year. 

**Figure 1: Breakdown of Government and private projects and DEVEX**

Source: CIDB, MIDFR

**Table 1: Budget 2024 allocations**

Measures	Allocation (RM'm)
<b><u>East Malaysia Development allocation</u></b>	
1. Sabah	RM6.6b
2. Sarawak	RM5.8b
<b>Revival of five axed LRT3 stations</b> – Tropicana, Raja Muda, Temasya, Bukit Raja and Bandar Botanik	RM4.7b
<b>Penang LRT</b> (Island to Seberang Perai)	RM10b
<b>33 flood mitigation projects</b>	RM11.8b
19 packages for Phase 1b to <b>Pan Borneo Sabah</b> , ranging 366km	RM15.7b
Phase 2 of the Sarawak-Sabah Link Road (SSLR) with a length of 320km	RM7.4b
<b><u>Roads and bridges</u></b>	
1. Maintaining federal roads and bridges (RM300m for G1 to G4 contractors)	RM2.8b
2. Construction and upgrading of roads in village and rural areas, including Bachok (Kelantan); Tambun Tulang (Perlis) and Kuala Lukut to Chuah (Negeri Sembilan)	RM1.63b
3. Widening of the North-South Expressway from four to six lanes from Sedenak to Simpang Renggam	RM931m
<b><u>Education</u></b>	
1. 26 new schools to be built, including SMK Laya-laya (Sabah); SMK Baie (Sarawak); SMK Seri Melati (Pahang); SMK Bandar Universiti (Perak) and SMK Binjai (Kelantan)	RM2.5b
2. Maintenance works for all schools, including special education school, with a focus on needs for students with autism	RM1.0b
3. Upgrading works for buildings and dilapidated facilities at 450 schools, including 185 in Sarawak and 155 in Sabah	RM930m

Measures	Allocation (RM'm)
4. Construction of 18 new blocks for special education, including SMK Kubang Rotan (Kedah); SK Bandar Baru Perda (Penang) and SMK Dato' Ali Ahmad (Perlis)	RM180m
5. Construction of 26 new pre-schools including SK Abang Kadir Gedong (Sarawak); SK Bunut Rendang (Pahang) and SJK(C) Chabau (Melaka)	RM82m
6. Construction of 10 new nurseries and childcare centres in Kampung Paya Berenjut (Terengganu); Felda Jelai 1 (Negeri Sembilan) and Taman Kota Masai (Johor)	RM31m
7. Upgrading works for the early childhood education premises under Jabatan Kemajuan Masyarakat (KEMAS)	RM20m
8. Construction of two Islamic education institutions – Kompleks Sekolah Menengah Integrasi Sains Tahfiz, Bukit Jalil and Sekolah Menengah Kebangsaan Agama Jempol	RM20m
9. Allocation for the Department of Islamic Development Malaysia (JAKIM) for the maintenance and upgrading of infrastructures at Islamic education institutions	RM150m
<b><u>Healthcare</u></b>	
1. Development of Phase 1 of Universiti Sains Islam Malaysia (USIM) Teaching Hospital Complex in Kota Tinggi	RM938m
2. Initial works for the construction of Hospital Sultanah Aminah 2 in Johor Bahru	Not mentioned
3. Additional pathology block for Hospital Raja Perempuan Zainab II in Kelantan	RM175m
4. Additional buildings for the Emergency and Trauma Department for Hospital Sultan Abdul Aziz Shah, Universiti Putra Malaysia in Selangor	Not mentioned
5. Construction of five health clinics in Rantau (Negeri Sembilan), Kuala Tahan (Pahang), Kuala Jengal (Terengganu) and Pulau Mantanani (Sabah)	RM150m
6. Renovation of 400 dilapidated clinics with wooden structures and old wirings nationwide	RM300m
<b><u>Housing</u></b>	
1. Allocation to encourage developers to revive identified abandoned projects	RM1b
2. 36 Program Perumahan Rakyat (PPR) projects, including a new project in Kluang (Johor)	RM546m
3. Construction of 3,500 units of house under 14 Rumah Mesra Rakyat programmes	RM358m
4. Assistance for 65,000 citizens in rural areas to build new or fix dilapidated homes	RM460m
5. Maintenance of low and middle cost public and private strata housing nationwide	RM100m
6. Maintenance and renovation of Rumah Keluarga Angkatan Tentera (RKAT)	RM400m
7. Build and rehabilitate quarters for civil servants, teachers, hospital staff, police, military and firefighters	RM2.4b
<b><u>Public amenities, utilities and others</u></b>	
1. Water supply to 5,150 homes and electricity supply to 2,200 homes	RM939m

Measures	Allocation (RM'm)
2. Installation of 60,000 streetlights and maintenance of 500,000 streetlights for village roads	RM134m
3. Renovation and upgrading of hawker centres and dilapidated public markets at 150 local council areas	RM110m
4. Construction of 4,000 new units of business premises in all local council areas	RM50m
5. Repairing of damaged irrigation and drainage systems	RM20m
6. Projects to solve water supply issues, with projects in Machang, Kota Kinabalu and Labuan	RM1.1b
7. Upgrading, building, and repairing basic facilities such as town halls, community halls, public squares and covered pathways in rural areas under the Social Amenities Project	RM100m
8. Basic infrastructure and social facilities for Kampung Baru Cina	RM100m
9. Maintenance and upgrading of youth and sports facilities nationwide	RM50m
10. Allocation to rehabilitate and repair public toilets nationwide	RM150m
<b><u>Port and Airport</u></b>	
1. Request for Proposal (RFP) for Carey Island Port	Not mentioned
2. Improvement of passenger facilities and runway expansion at Tioman Airport	RM47m

Source: MoF

**Table 2: Construction stocks under MIDFR coverage**

Stock	FYE	Rec.	Price @ 10 May 2024 (RM)	Target Price (RM)	Core EPS (sen)		Expected Dividend Yield (%)	
					FY24E	FY25F	FY24E	FY25F
Gamuda	July	BUY	5.46	5.98	39.2	42.7	2.0	2.0
IJM Corp	Mar	BUY	2.45	2.57	11.1	14.3	3.1	3.1
Sunway Construction	Dec	NEUTRAL	3.04	2.86	13.9	14.7	2.5	2.5
MRCB	Dec	NEUTRAL	0.695	0.63	1.6	1.6	4.5	4.5
WCT Holdings	Dec	NEUTRAL	0.54	0.49	4.9	4.8	-	1.0
Pintaras Jaya	Dec	NEUTRAL	1.59	1.68	9.7	11.2	3.0	3.0
KKB Engineering	June	BUY	1.84	2.07	12.2	12.5	3.4	3.4
Malayan Cement	June	BUY	5.10	5.33	21.3	22.1	1.1	1.1
Cahaya Mata Sarawak	Dec	BUY	1.14	1.32	14.7	17.2	2.3	2.3

Source: Companies, MIDFR

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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