

SECTOR UPDATE

Construction – Malaysia

1Q24 Earnings In line; Stronger Momentum Ahead

1Q24 results are within expectations with underperformance coming from GAQRS and MRCB. Moreover, most of the companies continued to register better earnings qoq and yoy. We remain optimistic on the sector, which will be anchored by the imminent rollout of mega projects including MRT3 and Penang LRT coupled with stronger private job flows. Maintain OVERWEIGHT. Our top picks for the sector remain Gamuda, Suncon, and Kerjaya Prospek.

WHAT'S NEW

• **1Q24 results within expectations.** The construction companies under our coverage delivered resilient performance as earnings came in within expectations. Only two companies' earnings underperformed, namely Gabungan AQRS (GAQRS) and Malaysian Resources Corporation (MRCB), while IJM Corporation's results beat expectations. Moreover, most of the companies continued to register better earnings qoq and yoy. The better earnings were backed by: a) accelerated progress billing, b) improved profit margins, c) robust orderbook in hand, and d) the pick-up of property sales.

1Q24 RESULTS SUMMARY

Company	Revenue (RMm)	CNP (RMm)	vs		Earnings Revision		
			UOBKH	consensus	+1YR Fwd	+2YR Fwd	+3YR Fwd
Ekovest*	306.5	(1.9)	In line	In line	-	-	-
Gabungan AQRS	67.0	4.2	Below	Below	-11%	-18%	-24%
Gamuda**	3,330.8	204.0	In line	In line	-	-	-
IJM Corp***	1,759.2	173.3	Above	Above	4%	9%	-
Kerjaya Prospek Group	337.1	36.9	In line	In line	4%	4%	8%
Malaysian Resources Corp	476.2	3.0	Below	Below	-8%	-11%	-12%
Sunway Construction Group	604.8	32.3	In line	In line	-	-	-
WCT Holdings	467.4	22.8	In line	In line	-	-	-

Source: Respective companies, UOB Kay Hian; *FYE Jun, based on 3QFY24 results; **FYE July, based on 2QFY24 results; ***FYE Mar, based on 4QFY24 results;

ACTION

• **Maintain OVERWEIGHT.** We remain optimistic on the sector as it will be anchored by the imminent rollout of mega projects including Mass Rapid Transit 3 (MRT3) and Penang Light Rapid Transit (LRT) coupled with stronger private job flows. The huge pipeline of projects would provide enormous earnings impetus in the coming years. Our top picks remain Gamuda, Sunway Construction (Suncon) and Kerjaya Prospek, backed by their sturdy orderbooks and resilient earnings. We raise our SOTP-based target price for Gamuda to RM7.34 (from RM6.54 previously) upon raising our target PE for its construction division from 17x to 19x, which implies a 16.0x FY25F PE (0.25SD above the five-year historical mean of 15x).

Note that the current valuations (average 2025F PE of 16.2x) are close to or above their five-year mean PE (average of 16x), amid rising optimism on the near-term earnings outlook. We foresee further upsides should valuations revert to the peak levels in the previous construction supercycle in 2017-18 (average of 18.2x).

PEER COMPARISON

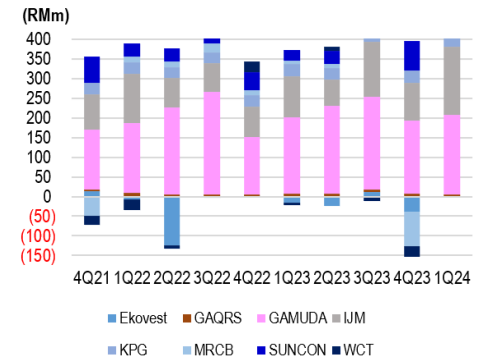
Company	Ticker	FYE	Rec	Price @ 18 Jun 24 (RM)	Target Price (RM)	Market Cap (RMm)	P/E		P/B		Dividend Yield	
							2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (%)	2025F (%)
Ekovest	EKO MK	30-Jun	BUY	0.46	0.98	1,364	-	341.0	0.5	0.5	n.m.	n.m.
Gabungan AQRS	AQRS MK	31-Dec	BUY	0.38	0.43	204	5.7	5.7	0.4	0.3	n.m.	n.m.
Gamuda	GAM MK	31-Jul	BUY	6.51	7.34	18,037	18.5	14.0	1.6	1.4	1.8	1.8
IJM Corporation	IJM MK	31-Mar	HOLD	3.00	2.76	10,943	24.7	24.6	1.0	1.0	2.3	2.7
Kerjaya Prospek Group	KPG MK	31-Dec	BUY	1.91	2.10	2,420	13.5	12.3	2.0	1.9	5.2	5.7
Malaysian Resources Corp	MRC MK	31-Dec	HOLD	0.66	0.53	2,949	79.1	67.4	0.6	0.6	1.5	1.5
Sunway Construction Group	SCGB MK	31-Dec	BUY	3.87	4.32	5,004	24.2	17.0	5.1	4.6	2.5	3.6
WCT Holdings	WCTHG MK	31-Dec	HOLD	0.76	0.49	1,071	29.5	24.0	0.3	0.3	n.m.	n.m.

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

CONSTRUCTION FIRMS' EARNINGS TREND



Source: Respective companies, UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF END-1Q24

Company	Value (RMb)	Orderbook cover (x)
Ekovest	0.6	1.1
Gabungan AQRS	0.5	2.3
Gamuda	24.1	4.4
IJM Corporation	6.0	4.5
Kerjaya Prospek Group	4.1	2.8
Sunway Construction Group	7.9	3.3
WCT Holdings	3.0	2.6

Source: Respective companies, UOB Kay Hian

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ESSENTIALS

- Realising replenishment targets.** Notably, Gamuda had secured a total of seven projects collectively worth RM16b-18b as of May 24 and is on track to meeting its replenishment target of RM25b in FY24-25. Suncon's recent win of the third data centre project brought its ytd total job wins to RM3.3b, outpacing its earlier guided replenishment of RM3.0b for 2024. Meanwhile, IJM Corp and Kerjaya Prospek are also on the right path to achieve higher replenishments.
- Slowly but surely.** Meanwhile, albeit at a slower-than-expected pace, we still anticipate a number of mega projects to gradually come into fruition. Notable mega projects in the pipeline include the MRT3, Penang Light Rail Transit (LRT) Segment 2 from Komtar to Penang Sentral, Johor Automated Rapid Transit (ART), Phase 1B of Sabah Pan Borneo Highway (PBH), Phase 2 of Sarawak-Sabah Link Road (SSLR), the additional five LRT3 stations, flood mitigation projects, Westport expansion, etc. We believe the government is still keen on MRT3, despite the expiry of tender validity in Mar 24, as it is working on the land acquisition process to pave the way for the commencement of the railway project.
- Signs of stronger private job flows.** Meanwhile, we also anticipate private contract flows to improve in the coming months, driven by a pick-up in the property development sector, particularly in Johor and Penang. In this regard, Kerjaya Prospek and Suncon could reap the benefits of the stronger private job flows mainly from their affiliated companies. Recall that Suncon typically clinches a substantial share of internal jobs from its parent company Sunway Berhad, while 40-50% of Kerjaya Prospek's annual replenishment comes from sister companies Eastern & Oriental and Kerjaya Prospek Property Group.

Malaysia's data centre market is also on the rise, thus presenting enormous replenishment opportunities for the sector. In this regard, Suncon has emerged as the biggest winner by securing three data centre projects collectively worth RM4.1b while Gamuda also won a RM1.7b contract to construct a hyperscale data centre in Sime Darby Property's Elmina Business Park. We understand that IJM Corp is also tendering for several data centre projects. We also foresee a number of small-to-mid-cap companies in the value chain benefitting from the brighter prospects.

- Slight uptick in building material prices.** In 1Q24, while the average steel bar prices increased by 5.8% qoq to RM2,871/tonne, we highlight that it is still lower than the level in 1Q23 (RM2,999.4/tonne). On a positive note, average bag cement prices declined 1.4% qoq to RM21.6/bag in 1Q24 and are also lower than 1Q23's level (RM22.0/bag) by 1.8%. Average prices for bulk cement, on the other hand, remained stable at RM380/tonne in 1Q24 and is 2.6% lower than 1Q23's level (RM390/tonne). Our sensitivity analysis suggests that every 10% decrease in building material prices may bump up construction firms' earnings by 4-6%.
- Diesel subsidy rationalisation to present near-term headwinds.** While building material prices have been easing over the past few quarters, we expect the downtrend to be disrupted by the diesel subsidy rationalisation. Diesel prices in Peninsular Malaysia rose by 56% from RM2.15/litre to RM3.35/litre based on the automated pricing mechanism, effective on 10 Jun 24. While diesel costs account for less than 5% of the total construction costs, a rise in diesel prices would lead to higher building material prices and negatively impact the sector. This is despite the introduction of fleet cards under the Subsidised Diesel Regulation System for public transport companies and those transporting goods, as we gather that vehicles carrying building materials are not included under the scheme.

MEGA PROJECTS IN THE PIPELINE

Project	Value (RMb)	Remarks
Mass Rapid Transit Phase 3 (MRT3)	45	Status: Land acquisition to be done in phases; civil packages are expected to be awarded in 2025. Potential beneficiaries: Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM, WCT, GAQRS, MRCB, YTL, HSSE
Pan Borneo Highway Sabah (PBH)	31	Status: The project award for the 19 work packages worth (RM15.7b) is now ongoing. Phase 1 was 88% done as of Mar 24. Potential beneficiaries: Gamuda, IJM, MRCB, WCT
Sarawak-Sabah Link Road (SSLR)	7	Status: 30% completion as of Apr 24, on track for completion by Jan 26; the award of packages under Phase 2 are still ongoing Potential beneficiaries: Gamuda, IJM, MRCB, WCT
Rapid Transit System (RTS)	4	Status: 77% completion as of May 24; on track for completion by Dec 26 Ekovest won RM2b EPC contract. Potential beneficiaries: Rail-related contractors such as Suncon, IJM Corp
High Speed Rail (HSR)	TBC	Status: In preliminary stages with RFI exercise concluded in Jan 24. Potential beneficiaries: Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM, WCT, GAQRS, MRCB, YTL, HSSE
Penang Light Rail Transit (PLRT)	10	Status: Contract for Segment 1 (Mutiaru Line) from Silicon Island to Komtar has been secured by SRS Consortium; construction works to begin in 4Q24 Potential beneficiaries: Gamuda, IJM, Suncon
Johor Automated Rapid Transit (JART)	10	Status: Johor state government is conducting study and will present to Cabinet in 3Q-4Q24 Potential beneficiaries: Gamuda, IJM, Suncon

Source: Media, UOB Kay Hian

MRT3 PROJECT DETAILS

Project owner	MRT Corp
Project period	2024-30 (8 years)
Project structure	a) 2 contractors for elevated works b) 1 contractor for underground works c) 1 contractor for integrated rail system d) 1 project management consultant
Estimated cost	RM45b-50b
Funding structure	Sukuk issuances and other hybrid funds; every work package will have its own PFI
Length of alignment	51km: 40km of elevated tracks & 11km of underground tunnels
No. of stations	31 including 10 interchange stations

Source: Media, UOB Kay Hian

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