

SECTOR UPDATE

Construction – Malaysia

3Q23 Results In Line; Better Prospects Ahead

3Q23 earnings are in line with expectations with sector earnings spiking 28% qoq in tandem with higher revenue. We anticipate a brighter sector outlook ahead on account of the sequential earnings recovery as well as improved job flows. The rollout of mega projects (eg MRT3) is expected to breathe new life into the earnings trajectory. Maintain **MARKET WEIGHT**. Our top picks are Gamuda, Ekovest and Kerjaya Prospek Group.

WHAT'S NEW

- Overall 3Q23 results within expectations.** 3Q23 earnings were generally stronger with four companies delivering results that were within expectations vs two that exceeded expectations. The underperformance came from WCT Holdings and Malaysian Resources Corporation, dragged by weaker contributions from the construction and property development segments as well as higher operating expenses. Sector earnings spiked 27.6% qoq to RM456.7m in tandem with a similar 31.9% increase in revenue to RM7.0b amid accelerated progress billing.

3Q23 RESULTS SUMMARY

Company	Revenue (RMm)	CNP (RMm)	vs. UOBKH	vs. consensus	Earnings Revision		
					+1YR Fwd	+2YR Fwd	+3YR Fwd
Ekovest*	271.9	12.1	Above	-	115%	-	-
Gabungan AQRS	81.4	5.1	In line	Above	-	-	-
Gamuda**	3,416.8	237.2	In line	In line	14%	18%	-
IJM Corp***	1,458.4	139.2	Above	In line	12%	7%	7%
Kerjaya Prospek Group	362.2	35.5	In line	In line	-	-	-
Malaysian Resources Corp	503.7	1.5	Below	Below	-21%	-32%	-35%
Sunway Construction	673.5	38.3	In line	In line	-	-	-
WCT Holdings	496.6	(12.3)	Below	Below	-75%	-43%	-52%

Source: Companies, UOB Kay Hian; Remarks: *FYE Jun, based on 1QFY24 results; **FYE July, based on 4QFY23 results; ***FYE Mar, based on 2QFY24 results

ACTION

- Maintain MARKET WEIGHT.** Our neutral sector rating is premised on a lack of visibility on the details regarding the rollout of mega projects amid fiscal constraints, despite a more stable domestic political landscape. On a positive note, we believe the sector outlook in 2024 is shaping up to be auspicious by virtue of multiple catalysts such as the rollout of mega projects (such as MRT3 and Penang LRT) coupled with the up-and-coming earnings recovery.
- Our top pick for the sector remains Gamuda, backed by its robust orderbook with pronounced overseas jobs secured which help to mitigate the muted local contract flows. Meanwhile, we are still sanguine on Ekovest's prospects, backed by the potential monetisation of the Duta-Ulu Kelang Expressway (DUKE) as well as the ongoing restructuring exercises which allow the group to capitalise on the prospering Johor property market. We also like Gabungan AQRS and Kerjaya Prospek Group for their strong orderbook and stronger property development earnings from upcoming project launches.

PEER COMPARISON

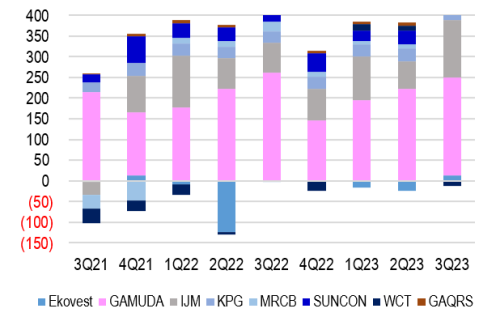
Company	Ticker	Rec	Price @ 1 Dec 23	Market Cap (RM)	Target Price (RM)	Last Year End	EPS		PE				PB 2024F	DY 2024F
							2022 (sen)	2023F (sen)	2022 (x)	2023F (x)	2024F (x)	2024F (x)		
Ekovest	EKO MK	BUY	0.45	1,334	1.10	Jun-23	(0.9)	1.4	2.2	n.m.	31.0	20.8	0.5	n.m.
Gabungan AQRS	AQRS MK	BUY	0.33	180	0.48	Dec-22	7.2	9.9	13.2	4.5	3.3	2.5	0.3	n.m.
Gamuda	GAM MK	BUY	4.48	12,092	5.64	Jul-23	29.9	33.9	44.6	15.0	13.2	10.0	1.2	2.7
IJM Corp	IJM MK	HOLD	1.88	6,857	1.70	Mar-23	9.6	11.0	12.1	19.6	17.1	15.5	0.7	3.3
Kerjaya Prospek Group	KPG MK	BUY	1.43	1,812	1.74	Dec-22	9.5	10.4	14.2	15.1	13.8	10.0	1.6	4.4
Malaysian Resources Corp	MRC MK	HOLD	0.42	1,854	0.40	Dec-22	1.1	1.7	2.3	36.5	24.6	17.8	0.4	2.4
Sunway Construction	SCGB MK	HOLD	1.83	2,366	1.95	Dec-22	10.4	10.5	12.8	17.6	17.4	14.2	2.7	4.2
WCT Holdings	WCTHG MK	HOLD	0.48	674	0.56	Dec-22	9.1	1.2	3.9	5.2	41.0	12.1	0.2	3.5
Sector									16.2	20.2	12.9	0.9	3.4	

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

CONSTRUCTION FIRMS' EARNINGS TREND



Source: Companies, UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF AUG 23

Company	Value (RMb)	Orderbook cover (x)
Ekovest	1.4	1.3
Gabungan AQRS	0.8	2.3
Gamuda	20.6	2.5
IJM Corporation	6.4	1.4
Kerjaya Prospek Group	4.7	4.2
Sunway Construction Group	5.8	2.7
WCT Holdings	3.0	1.4

Source: UOB Kay Hian

ANALYST(S)

Lucas Tan Jun Sian
+603 2147 1913
junsian@uobkayhian.com

ESSENTIALS

- On course to meet orderbook replenishment.** In 3Q23, companies under our coverage continued to record robust job wins and are on course to meet their orderbook replenishment targets. We highlight that while Gamuda did not secure any sizeable contracts in its latest quarter (4QFY23), its ytd total orderbook replenishment of RM10.5b still broadly outpaced all its sector peers. Moreover, management also aims to secure new jobs amounting to RM25b in FY24-25 (averaging RM12.5b p.a.) with potential replenishment opportunities largely coming from six large projects that are expected to materialise in the coming 3-15 months.

IJM Corp also recently recorded robust replenishment, securing five new contracts worth RM1.7b in the last five months. Meanwhile, Sunway Construction Group and Kerjaya Prospek Group also posted commendable replenishments of RM2.4b and RM1.6b respectively as of end-Nov 23, underpinned by a balanced mix of external and internal job flows. While other companies had secured fewer new projects in 2023, we understand that they still hold a rather upbeat outlook on the back of a potentially strong influx of infrastructure jobs such as MRT3 and ECRL. This is despite a lukewarm outlook from the private sector owing to the long-lasting property overhang environment.

- Anticipate stronger contract flows in 2024.** Meanwhile, we opine that the rollout of mega infrastructure projects remains the key catalyst in 2024 as the awards of multiple construction packages under the long-awaited MRT3 and Penang LRT are expected to be concluded by 1H24. This suggests huge replenishment opportunities for big-cap construction firms such as Gamuda, IJM Corp, Sunway Construction, etc. We also see enormous replenishment opportunities from the private sector, taking a cue from the rising vibrancy of the property market in Johor and Penang, both of which are expected to gain stronger traction driven by the booming economic development as well as the rollout of the two railway projects.

In addition, other infrastructure projects in the pipeline that also expected to gather steam in 2024 include Phase 1B of Sabah Pan Borneo Highway (PBH), Phase 2 of Sarawak-Sabah Link Road (SSLR), the reinstatement of five LRT3 stations, as well as a number of high-priority flood mitigation projects.

- Easing of building material prices to support margin improvement.** We also believe the subsidised building material prices would continue to anchor construction firms' margin expansion. We note that average steel bar prices came down 3.8% qoq to RM2,708/tonne in 3Q23 while average bag cement prices also declined 4.5% qoq to RM21.93/bag in 3Q23. Average prices for bulk cement, on the other hand, edged up 2.2% qoq to RM380/tonne in 3Q23. While prices for steel bar and bag cement increased marginally mom by 4.0% and 0.6% respectively in Oct 23, we reckon that they are still trending below the average levels in 1H23. The prices for bulk cement were unchanged mom in Oct 23. This reasonably supports our anticipation of a sector-wide margin improvement from 2H23 onwards.
- Muted impacts from the implementation of diesel subsidy rationalisation.** While the subsidy rationalisation for diesel is widely expected to be carried out in 1Q24, followed by petrol (mainly RON95), we understand that the diesel subsidy for vehicles carrying goods will be maintained to keep inflations under control. This means diesel prices for the logistics of building materials will still be fixed at RM2.15 per litre, providing substantial breathing room to construction firms amid an inflationary operating environment. Note that while diesel only accounts for >5% of total construction costs, the rise in diesel price would lead to increased logistics costs of key building materials (steel, cement, etc.) and thus higher operating expenses.

MEGA PROJECT IN THE PIPELINE

Project	Value (RMb)	Remarks
ECRL	50	Status: 49% completion in Aug 23 with expected completion in Dec 26 Potential beneficiaries: IJM Corp (for vertical package; Econpile, Suncon (for horizontal package).
MRT3	45	Status: Approved in Budget 2023; jobs expected to be awarded in 1H24. Potential beneficiaries: Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM, WCT, GAQRS, MRCB, YTL, HSSE
Pan Borneo Highway Sabah	31	Status: The tender process for the 19 work packages worth (RM15.7b) under Phase 1B to be concluded by end-23. Phase 1 was 85% done as of Oct 23. Potential beneficiaries: Suria Capital (JV with GAQRS), WCT
Rapid Transit System (RTS)	4	Status: 41% completion as of Jul 23; aims to hit 70% by end-23; expected completion: Dec 26 Ekovest won RM2b EPC contract. Potential beneficiaries: Subcontractor works for rail-related contractors such as Suncon, IJM Corp
High Speed Rail (HSR)	TBC	Status: In preliminary stages with MyHSR recently hosting RFI exercise in Jul 23 and may submit proposal to Singapore government in coming months. Potential beneficiaries: Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM, WCT, GAQRS, MRCB, YTL, HSSE
Penang LRT	10	Status: Being highlighted in the mid-term review of 12MP while Transport Minister expects the project to kick off by end-23 Potential beneficiaries: Gamuda, IJM, Suncon

Source: Media, UOB Kay Hian

MRT3 PROJECT DETAILS

Project owner	MRT Corp
Project period	2023-30 (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	RM45-50b
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

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W