Malaysia Industry Focus

Construction

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Dec 2019

Prime time for pump priming?

- Development expenditure to accelerate in 2020; 12MP to provide more clarity
- Imminent signing for Bandar Malaysia to lift sentiment; government could introduce more pump priming measures in 2020 to boost economy
- Contractors continue to look abroad
- Top picks: Gamuda and Sunway Construction

12MP to provide more clarity. The announcement of Budget 2020 last October had some bright spots. The more immediate catalyst now would be the signing of the Bandar Malaysia project which is expected soon. The tabling of the 12th Malaysia Plan (12MP) in mid-2020 will be important to gauge the government's willingness to revive and fund projects such as Mass Rapid Transit Line 3 (MRT 3), High-Speed Rail (HSR) and Penang Transport Master Plan (PTMP).

Time for pump priming? The government could introduce further pump priming measures to boost the economy prior to the 15th General Election (GE 15) which must be held before 2023. With a lead time of up to one year before projects are awarded and eventually trickles down to contractors earnings, we believe that the revival of projects has to happen in 2020. The Finance Minister said that some development projects in 2019 were delayed due to late distribution from the respective ministries and assured that this will not happen in 2020. This would indicate a bumper year for development expenditure.

Diversifying overseas. Despite strong expectations of more pump priming by the government soon, local contractors are venturing overseas for projects. We think this is a good move as the sector is vulnerable to political nuances. Gamuda (GAM) has acquired a mid-tier contractor in Australia to capitalise on the roll-out of rail jobs. Sunway Construction Group (SCGB) is banking on two main overseas markets - Myanmar and India. IJM Corporation (IJM) is more aggressive in India.

Resilience is key; large caps to lead recovery. We think investors should stick to larger capitalised contractors with balance sheet strength and prudent working capital management which are expected to lead the sector's recovery. With significant contract awards expected in 1H20, earnings recovery is only likely to happen in 2H20. The construction downturn post GE 14 has taken a toll on a lot of smaller contractors.

Top BUYs. Sector valuations remain inexpensive at just above -2SD (standard deviation) below the 5-year mean. Our larger cap picks are GAM and SCGB. GAM is set to capitalise on the rollout of PTMP and revival of MRT 3. SCGB is expected to show strong earnings recovery and has a more assured pipeline of internal jobs in FY20F.

KLCI : 1,567.34

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STOCKS

	Price RM	Mkt Cap US$m	12-mth Target Price RM	Performance (%) 3 mth	12 mth	Rating
Gamuda	3.80	2,259	4.65	6.2	63.1	BUY
IJM Corp	2.15	1,876	2.65	(4.4)	35.2	BUY
Sunway	1.83	567	2.70	(8.5)	26.2	BUY
WCT Holdings Bhd	0.84	285	1.40	(11.6)	26.9	BUY
MMC Corporation	0.96	699	1.49	(9.9)	2.7	BUY
Kimlun Corp	1.24	101	2.16	(2.4)	17.0	BUY
Muhibbah	2.29	266	3.35	(5.0)	(18.8)	BUY

Source: AllianceDBS, Bloomberg Finance L.P.

Closing price as of 12 Dec 2019

DBSV KL Construction – PE trading ranges: Valuations at close to bottom

Source: DBSVickers, AllianceDBS, Bloomberg Finance L.P.

Live more, Bank less

ed: KK/ sa: WMT, PY, CS

What are the key milestones to watch out for in 2020?

We remain positive on the construction sector. Our key thesis remains a gradual revival in infrastructure projects. This is crucial with slowing gross domestic product (GDP) growth and the need to revive the economy leading up to the 15th General Elections. We take comfort in the Finance Minister's more recent statement on development projects which were delayed in 2019 due to late distribution from respective ministries and will be activated in 2020. He also assured this situation will not happen in 2020, possibly indicating a bumper year for development expenditure.

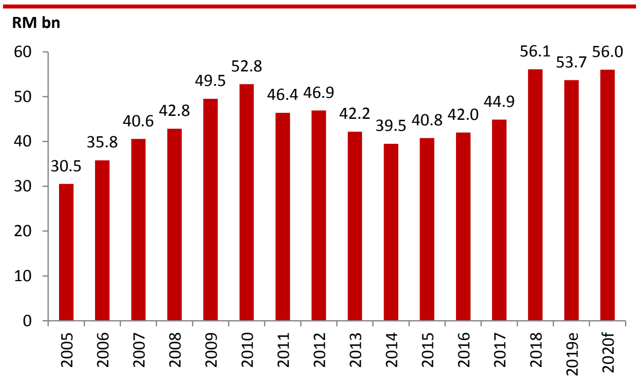
Below are some key milestones or events to watch out for.

12th Malaysia Plan (12MP)

The Ministry of Economic Affairs (MEA) shared that the 12MP 2020-2025 will be based on the Shared Prosperity Vision 2030 initiative. This would be based on three development dimensions - economic empowerment, environmental sustainability and social re-engineering. There will likely be more allocation for environmentally friendly projects such as solar energy projects.

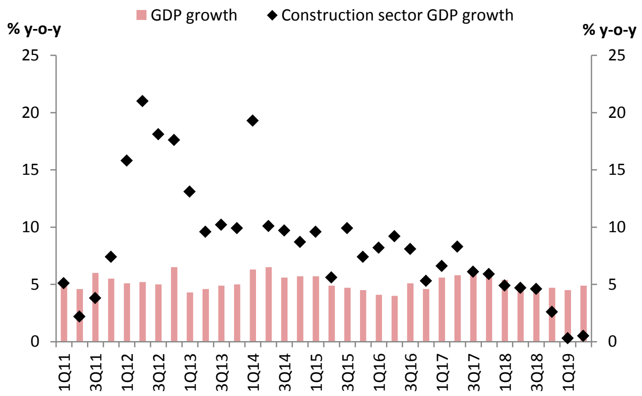
Headline development expenditure for 2020 is RM56.0bn (vs RM53.7bn in 2019) and 2020 growth forecast for the construction sector is 3.7% (vs c.1.9% in 2019).

Government development expenditure – Potential upside to 2020 budget



Source: Economic Report

Construction sector vs GDP growth – Construction used as engine to spur GDP growth



Source: Economic Report

From a construction and development expenditure perspective, we believe investors will likely be eyeing the possible revival of some shelved projects such as MRT 3 and HSR. All eyes will also be on funding allocation for these projects as well as the PTMP and Pan Borneo Sabah highway project.

There appears to be not many fresh tenders for infrastructure related projects in 1HCY20 apart for the East Coast Rail Link (ECRL), Pan Borneo Sabah and PTMP.

LRT 3 - restructuring of contracts

Most contractors which have exposure to the Light Rail Transit 3 (LRT 3) reported slower revenue recognition for this project which in turn impacted 3Q19 results. This was seen for stocks under our coverage such as WCT Holdings (WCTHG) and SCGB.

We understand that the main contractor for LRT 3, the MRCB-George Kent consortium, is already in the final stages of finalising the revised design and contract values for the work package contractors. There will be more clarity in 1Q20. Once this is done, there will be higher progress billings for this project which will lead to better earnings delivery in FY20F.

ECRL - awards to local contractors.

In July 2019, the ECRL project was revived at a lower total cost of RM44bn (vs RM65.5bn) and higher allocation of 40% to local contractors. The priority was to design and physical works of the 141.3km of tunnels in 23 locations and the preparatory works for 39km of viaducts in 65 locations which are situated within the 223-km stretch from Dungun to Mentakab (Section B) where no rail alignment changes were made. Works for this stretch is expected to peak by 3Q20.

More recently in November 2019, project owner Malaysia Rail Link Sdn Bhd (MRL) and China Communications Construction (ECRL) Sdn Bhd (CCC-ECRL) said the ECRL project is on a massive recruitment drive. This has since received 7,000 online applicants. The priority will be on Section B.

MRL also said that the Environmental Impact Assessment (EIA), Social Impact Assessment and Heritage Impact Assessment were being prepared due to the changes in the alignment and the reports would be submitted by 1Q20.

The proposed 210km stretch from Kota Bharu to Dungun (Section A) was gazetted for a three-month public inspection in the middle of October 2019.

Recently, the Transport Minister revealed that the alignment for section C, linking Mentakab in Pahang to Port Klang in Selangor, has been finalised. The 162km alignment was gazetted for three months at the end of November 2019.

Works on Section A and Section C will commence once the final railway scheme is approved by the Land Public Transport Agency (APAD) following the gazettement.

Realistically, the award of some of the ECRL packages to local contractors will happen in 1Q20. Based on our conversation with local contractors, the main contractor will likely subcontract works by specialist works rather than on a 'per-km basis' which was used for the MRT and LRT contracts. This could mean smaller sized contracts up for grabs.

On a more positive note, we understand that a local contractor is working closely with CCCC on design enhancements to reduce costs and wastage for this project. This will certainly be vital in ensuring that margins remain intact.

Sarawak projects ahead of State elections.

Sarawak State has to call its state elections by September 2021. However, there are some expectations that this may be held in 2020. We think this may facilitate the rollout of some larger scale infrastructure projects in Sarawak. So far, we understand all the five packages for the Coastal Road project have been awarded.

Recently, Sarawak's Deputy Chief Minister mentioned that 11 sub-packages of the Second Trunk Road are expected to be tendered out early next year. This would be divided into three packages – A, B and C.

Package A comprises five sub-packages from Kota Samarahan to Roban, which is approximately 112km of single-carriageway JKR R5 two-lane highway. Package B is the Sebuyau-Lingga-Simanggang-Betong expressway comprising four sub-packages which is approximately 94km of single carriageway JKR R5 two-lane highway.

Package C comprises two sub-packages which is approximately 30km and includes the upgrading of the existing Jalan Kelupu-Jalan Tanjung Genting-Lanang bridge, Sibu from two lanes to four lanes JKR R5 highway.

The Second Trunk Road is supposed to provide an alternative road to the Coastal Road Network and Pan Borneo Highway. On top of this, there are also other projects such as hospital and water projects up for grabs.

We understand that the tenders for some of these projects have been competitive with some unlisted players also bidding at lower margins. The obvious key beneficiaries would be the Sarawak-listed contractors such as Cahya Mata Sarawak, Naim, Hock Seng Lee, KKB Engineering and Zecon. Other Peninsular based contractors such as TRC Synergy and Advancecon could also benefit. TRC Synergy has a UPK License which enables it to bid for projects in Sarawak without having to find a JV partner.

Pan Borneo Sabah awards

On October 14, Works Minister Baru Bian said that the government has agreed to award another three work packages for the Pan Borneo Sabah in 1QCY20 (packages 28, 29, and 30). This will involve upgrading works at the Telupid and Beluran Exits, spanning almost 60km and costing RM925m. The existing 12 packages are expected to be completed by June 2022. These 15 packages will be implemented under the 11th Malaysia Plan.

Apart from 12 other packages that were earlier awarded, the remaining 20 packages are expected to be tendered in the 12th Malaysia Plan between 2021 and 2025.

The more obvious beneficiary could be Gabungan AQRS (AQRS) which appears to be the only contractor to have its tender validity extended. Additionally, it is one of the two precast suppliers in Sabah. It owns a 49% stake in Sedco Precast with the balance 51% is owned by the state government.

MRT 3 revival

The government will have to make a decision on MRT 3 in 2020. MRT 2 is already c.60% completed and further delays in rolling out MRT 3 will only lead to higher costs. Additionally, MRT 3 (or the Circle Line) is vital to ensure buoyant ridership for the first two MRT lines.

Based on our conversation with some contractors, this project has been given high priority by the federal government. During the previous Barisan Nasional (BN) era, the indicative value for the MRT 3 project was RM40-45bn, with 32km of the 40km track underground. We believe there is an alternative proposal tabled at a lower cost of RM20-25bn, assuming lower tunnelling work. The MMC-Gamuda joint venture (JV) with its prior experience with the first two MRT Lines and cost advantage with their depreciated tunnel boring machines would be a front runner. We expect this project to be awarded on a turnkey basis.

HSR - deadline May 2020

Malaysia has until May 2020 to make a decision on the HSR project which has been deferred by more than a year.

The eventual signing of the Master Developer agreement for Bandar Malaysia between the Iskandar Waterfront Holdings (IWH)-China Railway Engineering Corp Sdn Bhd (CREC) consortium and the government would be a precursor to the eventual revival of the HSR project in May 2020. Bandar Malaysia is a massive development (RM160bn gross development value (GDV), 486 acres) in Kuala Lumpur where there is already a massive overhang of commercial and residential units.

To ensure the success of Bandar Malaysia, a key catalyst is needed to ensure transport connectivity and migration into Bandar Malaysia in the heart of Kuala Lumpur (KL) from other states and overseas. HSR could be this catalyst. In any case, Bandar Malaysia was previously earmarked as the HSR's terminus.

In our view, a consortium comprising an asset company (AssetCo), contractor and operational company (Opco) with the required financial backing would be a frontrunner for this project.

PTMP – approvals obtained

The signing of the sub-agreement with Consortium Zenith Construction and the Penang state is to build a 5.7km bypass connecting Bandar Baru Air Itam to Lebuhraya Tun Dr Lim Chong Eu. This is part of a broader project which includes two other road packages and the undersea tunnel. This should pave the way for the project delivery partner (PDP) SRS Consortium (GAM is a 60% shareholder) to kick start its portion of the PTMP.

All of SRS Consortium's required approvals for PTMP's Pan Island Link 1 (PIL1) and land reclamation work have been obtained. The light rail transit (LRT) plan is on public display and has already received conditional approval. According to the Penang Chief Minister, of the 23,218 feedback forms received, 22,678 forms (97.67%) supported the project while 540 forms protested against the project.

As the land reclamation work will be funded by the state government and is not dependent on any federal government funding, tenders for the project are expected in 1HCY20 with some work starting in late CY20. Reclamation of the first island covering 800 acres (largely industrial) is estimated to cost RM2-2.5bn over 4 years.

In an ideal scenario, the Penang state government hopes to secure RM10bn soft loan for PIL 1 and RM10bn grant for LRT. The downside risks of getting more federal government funding are; i) pressure to convert from a PDP to turnkey model, ii) reduced land reclamation by the state.

It was reported in early November that the Penang government will now set up a special purpose vehicle (SPV) to issue bonds to fund the LRT project. This will be guaranteed by the federal government. In any case, the state government will still apply for an allocation under 12MP for all projects under the PTMP.

The PDP agreement between SRS Consortium and the state government is also expected to be signed soon. This may pave the way for maiden awards of the LRT in mid-2020.

RTS – proceeding at lower cost

Malaysia has agreed to proceed with the 4.2km RTS connecting Johor Bahru to Singapore's Woodland district. This is at a reduced cost of RM3.16bn (vs RM4.93bn previously) representing cost savings of 36%. This follows a suspension of the project until 30 April 2020 to allow for important agreements to be amended and signed (amended bilateral agreement and concession agreement).

The Ministry of Transport said that the bulk of the cost savings is from waiver of land cost by the owner of the site in Bukit Chagar where the Malaysian terminus will be located. The ministry has also made an official proposal to Singapore to change the Mass Rapid Transit System to a Light Rail Transit System which can cater to 10,000 passengers per hour. The financing of stations and infrastructure will be via a private financing initiative.

The amended agreement between both countries is expected to be signed early next year. Thereafter, we expect some tenders and awards in 2020. Kimlun Corp (KICB) would be a more obvious beneficiary with its plant in Ulu Choh, Johor to cater to the precast needs of the project.

Pipeline of major contracts and status – Watch MRT 3 and HSR revival in 2020

Projects	Est amount (RM bn)	Funding	Status	Contractors involved	Commencement	Completing
MRT Line 2	30.5	Malaysian Government	Proceeding with 22% cut in value	IJM, WCT, Sunway Construction, Gamuda, MMC, MRCB, TRC, Gadang, Mudajaya, MTD, TSR	2016	2022
LRT 3	16.63	Malaysian Government	Proceeding with 47% cut in value	MRCB-George Kent, Suncon, IJM, Gabungan AQRS, WCT, TRC, Mudajaya	2H17	2024
Pan Borneo Highway	27	Malaysian Government	Proceeding	Gamuda, Naim, Binapuri, Kimlun, Zecon, WCT, Gabungan AQRS	2017	2022/2023
East Coast Rail Link	44	Exim Bank of China	Proceeding with reduced cost	CCCC, Gabungan AQRS, IJM, Gamuda, WCT, FajarBaru	2H17	2026
Gemas-JB double tracking	9	China Government	Proceeding	CRCC, CREC, CCCC, YTL	2018	End 2020
Penang Integrated Transport	32	Private sector (Land swap)	Proceeding	Gamuda, IJM	2H19	To be announced
High Speed Rail	110	Civil works funded locally. Assetco foreign funding.	Postponed to May 2020	Gamuda, MRCB, YTL, IJM, Sunway Construction	Unknown	Unknown
Bandar Malaysia	70	Prviate Sector	Proceeding	Various - Building contractors	Unknown	Unknown
Water Projects	30	Pengurusan Air Selangor	In progress	Various, HSS Engineers	Unknown	Unknown
Sarawak Projects (Coastal Road, 2nd Trunk Road, Water Projects)	25	Sarawak State	In progress	Naim, HSL, TRC, HSS	Unknown	Unknown
MRT Line 3	20-25	Unknown	Under negotiations. Possibel revival by 2020	N/a	Unknown	Unknown
KTM Klang Valley Double Track Ph 2	5.2	Malaysian Government	Proceeding, Pre Q soon	Unknown	Unknown	Unknown
JB-Singapore RTS Link	4	Jointly with Singapore government	Proceeding	N/A	Unknown	Unknown
Putrajaya Monorail	1.4-2	Malaysian Government	RFP in January 2019	Unknown	Unknown	Unknown
BRT Iskandar	1	Unknown	Unknown	Unknown	Unknown	Unknown

Source: AllianceDBS, Companies

CONTRACTORS LOOKING BEYOND MALAYSIA

For a few years we highlighted the need for contractors to look overseas for construction jobs. Malaysia's infrastructure, compared to other ASEAN countries, is quite matured. The market is getting more saturated. The expected revival of projects such as MRT 3 and HSR may add c.RM100bn worth of works over the next 5 to 6 years. To put things into perspective, Indonesia is preparing to spend about US$40bn or RM130bn to extend Jakarta's metro network which is 10% of its broader infrastructure rollout over the next 5 years.

Malaysian contractors are no strangers to overseas ventures although their track record and experience so far have been mixed.

Gamuda making inroads into Australia. GAM recently entered into a Heads of Agreement to acquire a 50% equity stake in the largest independent, privately owned tier-2 specialist rail construction company in Australia and New Zealand Martinus Rail Pty Ltd (Martinus). The acquisition price has not been disclosed yet but it could be below the sum required for disclosure, as stipulated by Bursa Malaysia. Martinus has been in business for 14 years and works largely as a sub-contractor for tier-1 contractors. The company has built the majority of rail tracks in Australia over the past 8 years and currently has an order book of AUD200m.

With GAM's capital and expertise, Martinus has shortlisted 15 projects worth AUD8bn to bid for. The net profit margin for projects is targeted between 3-5% and Martinus hopes to improve this to 5-8% when there is more project scale.

Given its lack of capital and project scale, Martinus' financial track record is still quite patchy, with an average annual revenue of AUD40m over the past three years (peak of AUD90m). It has generally been profitable with average net profit margins of 0-4%.

GAM is open to working with other partners or tier-1 companies with expertise in projects such as MRT, toll highways and interstate railways.

Sunway Construction eyeing Myanmar and India. SCGB is banking on two main overseas markets – Myanmar and India. In Myanmar, it has an existing memorandum of understanding (MOU) with Capital Construction Limited, the construction arm of Capital Diamond Star Group (a Myanmar-based conglomerate), to bid for internal and external projects.

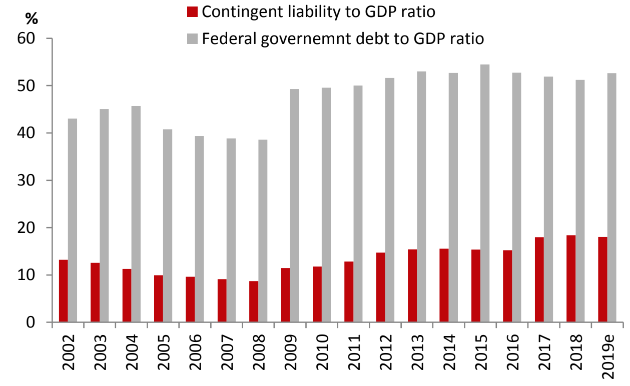
It has also bid for three highway projects in India under the Hybrid Annuity Model (HAM). The structure of HAM entails a 40% upfront payment from the Indian government while the balance 60% will be financed by the contractor and paid over a 15-year period by the Indian government, including interest.

There is also a guaranteed 80% land acquisition before construction work starts. With the contractor taking on no traffic and land acquisition risks, but merely lending its balance sheet strength for the balance 60% financing, the risk-reward appears more favourable than contracts in the past. While tenders have been opened, we understand there have been delays and extensions due to land acquisition issues.

IJM and India. IJM has a long illustrious history in India, having been in the market for 22 years. It currently has two projects in India – Vijayapura-Solapur, Maharshtra and Karnataka, India and Dewas Bypass, Madhya Pradesh. It may look at extending the job scope to other works such as railway and building jobs.

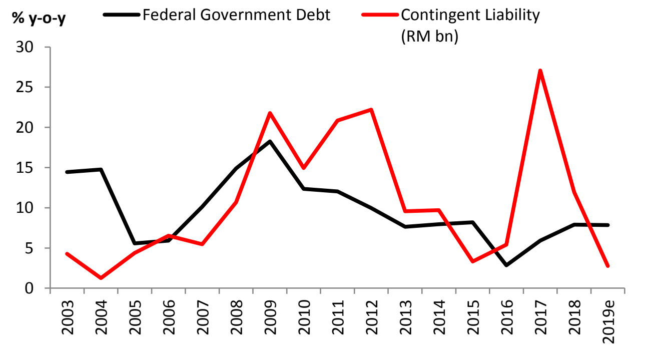
BIGGEST HURDLE: FINANCING OF PROJECTS

Debt-to-GDP



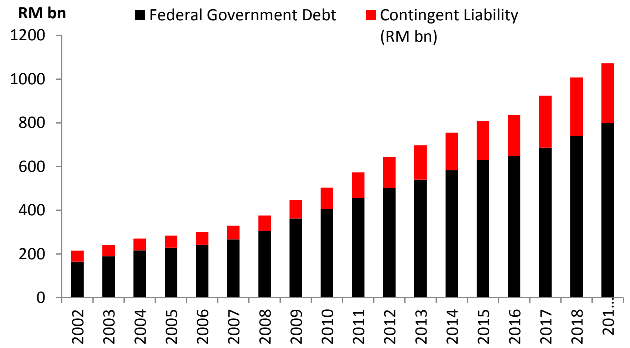
Source: BNM

Growth in Debt



Source: BNM

Debt Value



Source: BNM

Like most ASEAN countries which run budget deficits, Malaysia also has 55% cap on government debt-to-GDP. The revival of some of the shelved projects hinges a great deal on the government's finances. This has been exacerbated by the new government's commitment to 1MDB payments and shortfall of government revenue with the abolishment of the Goods and Services Tax (GST).

In our view, currently the MRT 3 is economically viable but there are no agreements to hasten its rollout. However, there is already a signed government-to-government agreement between Malaysia and Singapore. Any further deferment beyond May 2020 will result in heavier penalties. As some investments have been made in Jurong East, Singapore, it is unlikely that the Singapore government will allow further deferrals. From a political standpoint, the HSR project has potential political mileage as the rail track cuts across four states in Malaysia.

In large scale projects such as ECRL that is backed by foreign funding, the government would usually require the foreign party to also take on operational/ridership risk. This is to ensure that the foreign party will be more accountable for the commercial viability of the project.

VALUATION AND SECTOR COMPARISON

Sector Comparison

	Market Cap	Rec.	TP	Diluted PE (x)		P/NTA (x)		Div Yield (%)		ROE (%)	
	(USDm)		(Local currency)	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20
Malaysia											
Gamuda	2,225.9	BUY	4.65	13.1	12.4	1.1	1.1	2.4	2.4	8.9	8.8
IJM	1,815.6	BUY	2.65	17.2	15.7	0.8	0.8	2.1	2.1	4.6	4.9
WCT	288.5	BUY	1.40	10.5	10.0	0.4	0.4	2.6	2.6	3.6	3.7
Muhibbah Eng	273.0	BUY	3.35	8.5	7.8	0.9	0.9	2.3	2.6	11.4	11.5
Kimlun	102.5	BUY	2.16	7.2	6.4	0.5	0.5	3.3	3.7	9.2	9.5
SunCon	525.0	BUY	2.70	17.2	14.6	3.6	3.2	2.9	3.4	21.9	23.1
Simple Average				**12.3**	**11.1**	**1.2**	**1.1**	**2.6**	**2.8**	**9.9**	**10.2**

Source: DBSVickers, AllianceDBS, Bloomberg Finance L.P.

DBSV KL Construction – PE trading ranges

Source: DBSVickers, AllianceDBS, Bloomberg Finance L.P

DBSV KL Construction – P/BV trading ranges

Source: DBSVickers, AllianceDBS, Bloomberg Finance L.P.

On a market-weighted basis, our construction universe is now trading at a 1-year forward price-to-earnings (PE) of 11x and price/book value (P/BV) of 1x.

Apart from re-ratings following the announcement of the revival of ECRL and Bandar Malaysia, valuations have generally been range bound. We did highlight in our outlook piece in December 2018 that any re-rating for the sector would likely be shallow.

Valuations of the larger cap contractors have been more resilient compared to the smaller ones. We think this is a testament of their ability to withstand possible cash flow constraints and delayed rollout of large scale government contracts.

In our view, pump priming has to happen. With a lead time of up to one year before projects are awarded and trickle through contractors' earnings, we believe that the revival of projects has to happen in FY20F.

2020 is the last year of the 11MP and the year before the 12MP starts (2021-2015). Key projects such as MRT 3 and HSR will likely be revived. There may be some urgency by the government to drive forward a growth agenda.

At this juncture, we think investors should stick to larger capitalised contractors with balance sheet strength and prudent working capital management. With significant contract awards likely to happen in 1H20, earnings recovery should only happen in 2H20. The construction downturn post GE-14 has taken a toll on a lot of smaller contractors. This will be more apparent for those that expanded too aggressively and are now incurring higher depreciation and interest charges. The downturn in the property market has only impacted contractors with exposure to weaker developers.

Gamuda. GAM remains our preferred large cap pick for the sector. With the government's buyout of GAM's toll road business now firm, the last overhang for the company's stock has been removed. While some may argue that the loss of earnings and recurring income would see GAM's valuation compress, we argue otherwise. The loss of earnings would be made up via a one-off special dividend and boost return on equities (ROEs).

GAM also has visible catalysts with the ongoing PTMP. All the required approvals for PTMP's PIL1 and land reclamation work have been obtained. The LRT plan is on public display now and has already received conditional approval. As the land reclamation work will be funded by the state government and is not dependent on any federal government funding, tenders for the project are expected in 1HCY20 with some work starting in late CY20.

Reclamation of the first island covering 800 acres (largely industrial) is estimated to cost RM2-2.5bn over 4 years. In an ideal scenario, the Penang state government hopes to secure a RM10bn soft loan for PIL 1 and RM10bn grant for LRT. The downside risks of getting more federal government funding are; i) pressure to convert from a PDP to turnkey model, ii) reduced land reclamation by the state.

GAM is also diversifying its construction business overseas. It has acquired a 50% equity stake in the largest independent, privately owned tier-2 specialist rail construction company in Australia and New Zealand Martinus Rail Pty Ltd (Martinus). With GAM's capital and expertise, Martinus has shortlisted 15 projects worth AUD8bn to bid for. The net profit margin for projects is targeted between 3-5% and Martinus hopes to improve this to 5-8% when there is more project scale.

Sunway Construction. We believe 2020 could turn out to be a watershed year in terms of new wins and earnings recovery for SCGB. This is due to the following factors:

1) Guidance of new wins of RM2bn in FY20F with a strong and assured internal pipeline. We understand that the guidance for FY20F new order wins is set at RM2bn which we think could be a conservative number, similar to that for FY19F. We think this could be easily surpassed given that out of the RM2bn, half or RM1bn will be from its more assured pipeline of internal jobs.

2) Recovery in domestic construction wins and more overseas contracts. Besides the tenders for ECRL (piling, specialist works and civil works) which SCGB may participate in, there are other niche contracts in which it may also have an edge.

   The wild card appears to be an overseas contract win. Progress has been slow in both its target markets – Myanmar and India. SCGB no longer expects an overseas win in FY19F, but this could materialise in FY20F.

3) Precast margins is expected to normalise in FY20F. This will set the stage for a more meaningful earnings recovery in FY20F. We are projecting a 2-year net profit compound annual growth rate (CAGR) of 10% over FY19-21F. The average precast margins for FY20F are expected to be improve and be in the low double-digit range as its current order book consists mostly of projects with higher margins.

Kimlun. The stock remains an underappreciated proxy to the infrastructure sector. The jewel in its business model remains its manufacturing division which has the economic moat to compete in a less competitive space and capitalise on project flows both in Malaysia and Singapore. Its current valuations remain a bargain at 5x FY20F PE.

KICB will likely replenish its manufacturing orders in the near term from Singapore while waiting for contract flows to pick up in Malaysia. Its total manufacturing tender book is now RM500m which is largely skewed towards Singapore projects, including Industrialised Building Systems (IBS) jobs and the Deep Tunnel Sewerage System Phase 2 (DTSS 2). In Singapore two projects remain in focus, which are North South Corridor Expressway and Jurong Region Line.

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

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