

Construction (Overweight ↔)

INDUSTRY NEWSBREAK

12 March 2018

Finalists for the MRT3 race

News

- **The race is down to 2.** The Edge (weekly) carried an article stating that 2 consortiums have been shortlisted for the MRT3. They are MMC-Gamuda-GKent JV ("JV") and state owned China Communications Construction Company (CCCC). Citing its source, the article mentioned that while financing of the project by the bidders was taken into consideration, the Government placed a higher weighting on technical capability and tunnelling experience. According to the article, the JV offered a financing rate of 4.7% while CCCC's proposal was at 5%. Apart from that, the article also stated that Prime Minister Najib has asked MRT Corp to evaluate the possibility of both finalists to undertake the job.

Comments

- **Shortlisted names as expected.** To recap, 4 bidders submitted their tenders for the MRT3 (RM40bn). We mentioned in our past sector report (dated 22 Jan 2018) that the top contenders for the MRT3 race are likely to be the JV and CCCC. While both consortiums have the necessary skill sets, we highlighted that the JV's advantage comes from its pure local setup while CCCC could possibly offer a better financing package (admittedly, our latter postulation may have been wrong based on the article's content).
- **High participating chance for the local JV.** This recent news came as a positive surprise for the local JV as (i) it is the only contender with a pure local setup, jiving well with the need for mega infra projects to be kept amongst Malaysians; and (ii) their financing rate is also lower than that proposed by CCCC. From a technical capability perspective, MMC and Gamuda have experience on (i) PDP and tunnelling for MRT1 and MRT2; (ii) Northern Double Track; and (iii) SMART Tunnel. GKent on the other hand has experience with LRT ext systems, LRT3 PDP and MRT2 track works.
- **Mandated local content.** Even if CCCC wins the role entirely, there should be significant participating opportunity for local contractors such as the JV. MRT Corp mentioned that MRT3 will continue to enforce the requirement for local participation (including *Bumiputera*) which we understand to be in the tune of 40-50% (i.e. RM16-20bn).

Risks

- Potential cash call from the JV given financing requirements.

Rating

Maintain OVERWEIGHT

- Both Gamuda and GKent are our top picks for the sector given their strong associations with the booming mega rail jobs locally. We maintain our **RM5.95** TP for Gamuda but raise that for GKent from RM4.31 to **RM4.58** as we roll over our valuation horizon from FY19 to mid-FY20 (FYE: Jan).
- We expect robust job flows for 2H18-2019, driven by the rollout of mega rail projects such as the ECRL, MRT3 and HSR.

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KLCON Index (285.9 pts)



Stock rating

Stock	Rating	Price	Target
Gamuda	BUY	4.95	5.95
IJM	BUY	2.56	3.49
WCT	BUY	1.37	2.27
MRCB	BUY	1.02	1.31
SunCon	BUY	2.14	2.85
Kimlun	BUY	2.10	2.65
HSL	BUY	1.63	1.98
Mitrajaya	BUY	0.85	1.15
GKent	BUY	4.22	4.58
Pesona	BUY	0.37	0.52
Protasco	HOLD	0.93	1.14

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.