



AmInvestment Bank

Sector report
9 Feb 2023

CONSTRUCTION

Major realignment of MRT3 unlikely

NEUTRAL
(Maintained)

AmInvestment Bank

Team Coverage

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Rationale for report: Sector update

Investment Highlights

- **Major realignment of MRT3 unlikely.** Just months after the review of flood mitigation projects, MRT Corp is conducting a detailed and comprehensive study of the proposed MRT3 alignment, including suitability of a realignment. Although the potential realignment opens up the possibility of a larger price tag revision, we believe the risk is mitigated given MRT3's private finance initiative (PFI) structure. Moreover, the project had previously been shelved in 2018 and reviewed before being approved by Cabinet back in 2021. However, we do not discount the possibility of a downscaling. Currently, the estimated construction cost for the 50.8km railway is RM34.3bil.

In 2018, Pakatan Harapan government slashed the cost for MRT2 by RM8.8bil, or 22% to RM30.5bil. Among the factors behind the cost savings were conversion to a turnkey model to save on PDP fee, rationalisation in the allocation of reimbursable, contingencies and provisional sums, the postponement of 2 Bandar Malaysia stations, and scope rationalisation for electrical and mechanical system works.

- **Expect MRT3 awards in 2H2023.** Upon the completion of the study on the proposed alignment and suitability of realignment, MRT Corp will conduct a public inspection of MRT3 railway scheme for a period of 3 months. Notwithstanding the possibility of realignment, we do not think a fresh tender is necessary. Hence, we expect the tender awards of the main packages and subcontracts to take place in 2H2023. Currently, the 3 civil work packages are CMC301 (5.8km elevated), CMC302 (28km elevated and 0.7km underground) and CMC303 (6.3km elevated and 10.1km underground). IJM is bidding for all 3 civil work packages while SunCon aims for CMC301 & CMC302, Gamuda for CMC303 and WCT for CMC301.
- **Operating margins may face compression.** In Central Peninsula, steel prices continued to fall, sliding 29% to RM3,099/tonne in Jan 2023 from a peak of RM4,344/tonne in Apr 2022 (Exhibit 4), whereas bag cement prices rose to RM19.23/50kg bag – 8% higher than Jan 2021 levels (Exhibit 5). Looking ahead, we expect steel prices to continue easing while cement prices remain high (Exhibit 6).

Additionally, government jobs are likely be awarded through open tenders. As contractors submit competitive bids, smaller contractors may face margin compression.

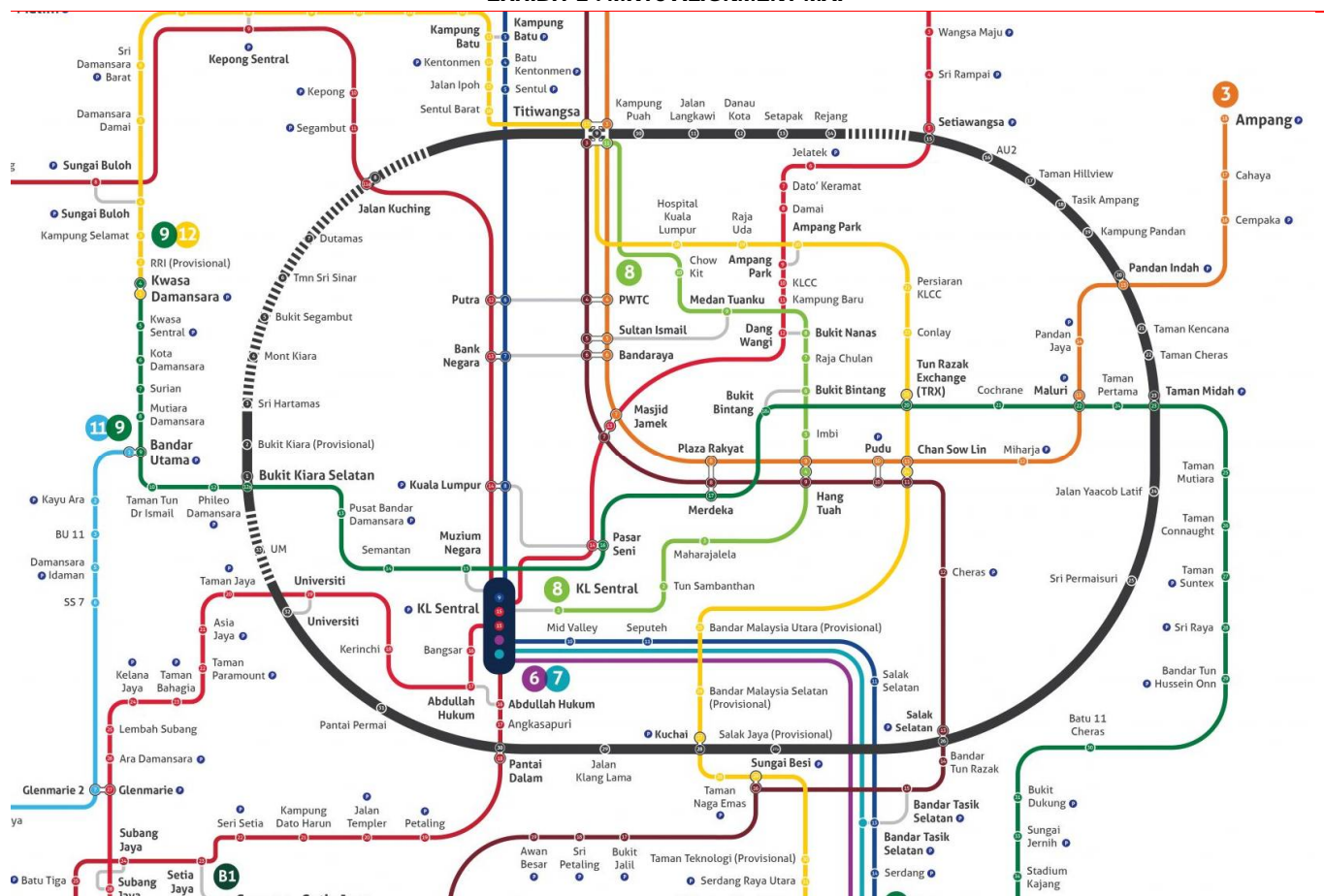
- **Slower job flows in the near-term.** According to the CIDB, YTD project awards have only been RM2.1bil (Government: RM0.5bil; Private: RM1.6bil) compared with a total of RM135bil in 2022. Going forward, we expect a recovery in job flows, especially smaller projects in East Malaysia and West Peninsula Malaysia.
- **Re-tabling of Budget 2023 on 24 Feb 2023.** Although the PM has signalled that Budget 2023 would be largely intact, we are wary of potential downscaling of the RM95bil development expenditure. The government's fiscal position was stretched due to the economic impact of the pandemic and massive relief spending. Furthermore, national debt remains elevated. As such, future rollout of public infrastructure projects will likely adopt a private funding initiative structure which would alleviate immediate capital outlay from the government. However, contractors would be required to take on additional funding risks to participate in these PFI-based projects.
- We are **NEUTRAL** on the sector as we are cautious of margin compression arising from an open tender regime together with potentially higher building material costs. Although MRT3 may be downscaled, the award of the projects would still provide support to the sector. We may upgrade the sector if the government forges ahead with key public infrastructure projects or companies' operating profit margins improve on lower costs. Alternatively, we may downgrade the sector if the compression in operating margin is worse-than-expected coupled with the shelving of mega projects.

EXHIBIT 1 : VALUATION MATRIX

Stock	Rec.	Price 08/02/23 (RM)	FV (RM/share)	Up/Down Side (%)	Market Cap (RM mil)	EPS Growth (%)	PE (x)	ROE %	DY%		
						CY22F	CY23F	CY22F	CY23F		
Gamuda	Hold	3.800	4.10	8	9,939.4	27.4	1.1	13.3	13.2	7.6	3.2
IJM	Hold	1.570	1.83	17	5,726.7	57.8	52.6	23.2	15.2	3.0	3.8
SunCon	Buy	1.650	1.84	12	2,133.3	16.6	3.2	16.3	15.7	18.1	4.6
WCT	Hold	0.440	0.42	(5)	624.0	(91.2)	>100.0	72.9	9.5	0.3	-
Kimlun	Buy	0.780	1.09	40	275.6	(>100.0)	>100.0	12.2	5.8	3.1	4.3
Econpile	Sell	0.205	0.12	(41)	290.6	(2.9)	(>100.0)	(20.1)	18.9	2.9	-
Simple Average								19.6	13.0	5.8	2.7

Source: AmlInvestment Bank Bhd, Bloomberg

EXHIBIT 2 : MRT3 ALIGNMENT MAP



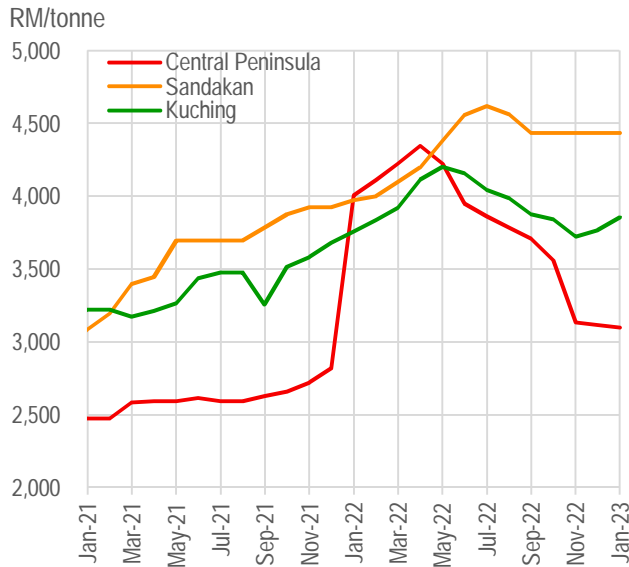
Source: MRT Corp

EXHIBIT 3 : PROPOSED MRT3 ATTRIBUTES

Length	Stations	Park & Ride	Interchanges	Opening Dates
40.1KM elevated 10.7KM underground 50.8KM total	24 elevated stations 7 underground stations 31 stations total	15 sites with 11,650 parking bays	10 stations	Phase 1: 2028 (subject to land acquisition process) Phase 2: 2030

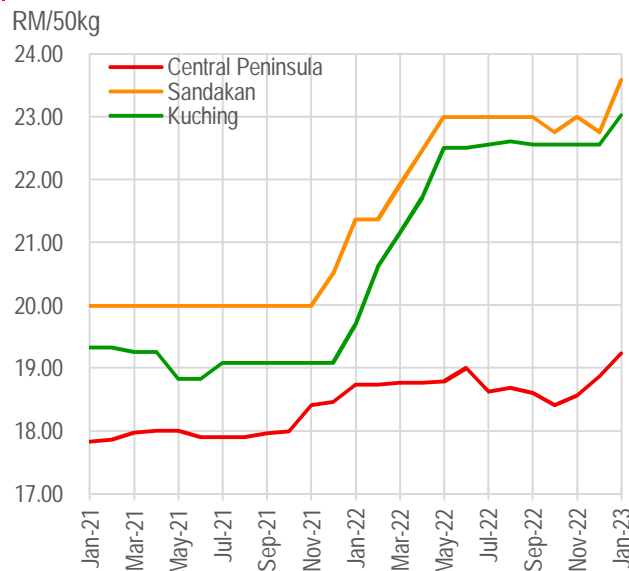
Source: MRT Corp

EXHIBIT 4 : HIGH TENSILE DEFORMED BAR Y12 PRICE



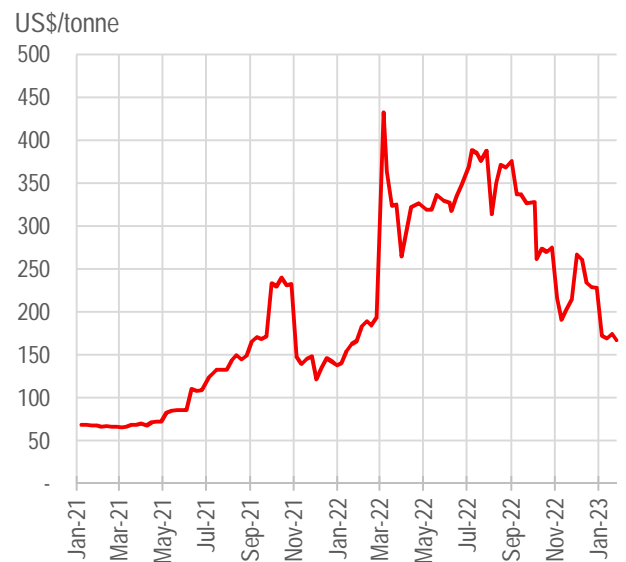
Source: DOSM

EXHIBIT 5 : PORTLAND CEMENT PRICE



Source: DOSM

EXHIBIT 6 : COAL PRICE



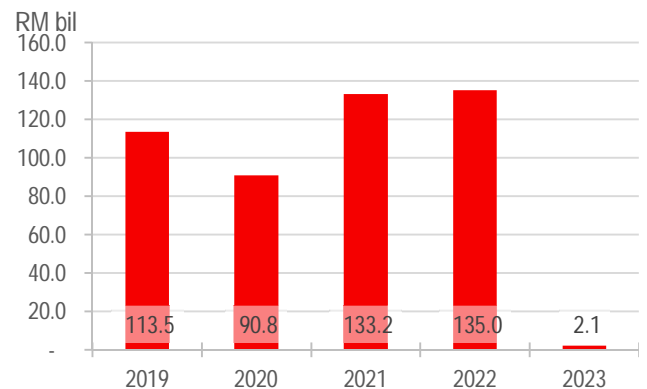
Source: MITI

EXHIBIT 7 : MEGA PROJECTS

Mega Projects	Est. Cost (RM'bil)
East Coast Rail Link	50.3
Penang Transport Master Plan	46.0
MRT3	34.3
Pan Borneo Highway	28.0
LRT3	16.6
Sarawak Coastal Road Network	11.0
Gemas JB Double Tracking	9.5
Central Spine Road	7.3
Sarawak-Sabah Link Road	5.2
Rasau Water Treatment Plant	4.0
Johor Bahru-Singapore Rapid Transit System	3.7

Source: Various news reports

EXHIBIT 8 : PROJECTS AWARDED



Source: CIDB

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