



AmInvestment Bank

Sector report

CONSTRUCTION

25 Jan 2023

Largely neutral on RM1bil for CIQ facilities in East Malaysia

NEUTRAL

(Maintained)

AmInvestment Bank

Team Coverage

03-2070 2444

Rationale for report: Sector update

Quick Take

- The Federal Government will allocate additional funding of RM1bil to improve border security in Sabah and Sarawak in tandem with Indonesia's relocation of its capital to Nusantara. The allotted amount will be used to upgrade customs, immigration and quarantine (CIQ) facilities as well as roads connecting Sabah and Sarawak to Nusantara.
- The additional allocation of RM1bil is expected to be included in Budget 2023, which will be tabled next month. Assuming Budget 2023 remains the same as tabled in Oct 2022, the increased allotment for East Malaysia will be 8.5% higher at RM12.7bil compared to RM11.7bil previously.
- We believe that the work packages will be awarded via open tender. As such, companies may be submitting competitive bids, which will result in thin profit margins. Smaller contractors, especially subcontractors may face margin compression.
- Contractors based in West Malaysia may be entering into joint ventures with East Malaysian contractors. This will help minimise operational risks and enhance their chances of winning the projects.
- We believe that the RM1bil project will be divided into small packages. Hence, we reckon that the main beneficiaries will be smaller contractors based in East Malaysia or those with existing projects in the region such as Kimlun and WCT.
- Overall, we are largely neutral on this development as the beneficiaries may only be the smaller or unlisted construction companies.

EXHIBIT 1 : VALUATION MATRIX

| Stock | Rec. | Price 20/01/23 (RM) | FV (RM/share) | Up/Down Side (%) | Market Cap (RM mil) | EPS Growth (%) | | PE (x) | | ROE % CY23F | Div Yld % CY23F |
|-----------------------|------|---------------------------|------------------|---------------------|------------------------|----------------|-------|-------------|-------------|----------------|-----------------------|
| | | | | | | CY23F | CY24F | CY23F | CY24F | | |
| Gamuda | HOLD | 3.960 | 4.10 | 4 | 10,357.9 | 1.1 | 7.7 | 13.7 | 12.7 | 7.6 | 3.0 |
| IJM | HOLD | 1.570 | 1.83 | 17 | 5,726.7 | 52.6 | 27.2 | 15.2 | 11.9 | 3.0 | 3.8 |
| SunCon | BUY | 1.650 | 1.84 | 12 | 2,133.3 | 3.2 | 4.0 | 15.7 | 15.1 | 18.1 | 4.6 |
| WCT | HOLD | 0.405 | 0.42 | 4 | 574.4 | >100.0 | 1.9 | 8.8 | 8.6 | 0.3 | - |
| Kimlun | BUY | 0.775 | 1.09 | 41 | 273.9 | >100.0 | 13.8 | 5.7 | 5.0 | 3.1 | 4.4 |
| Econpile | SELL | 0.155 | 0.12 | (23) | 219.7 | (>100.0) | 26.3 | 14.3 | 11.3 | 2.9 | - |
| Simple Average | | | | | | | | 12.2 | 10.8 | 5.8 | 2.6 |

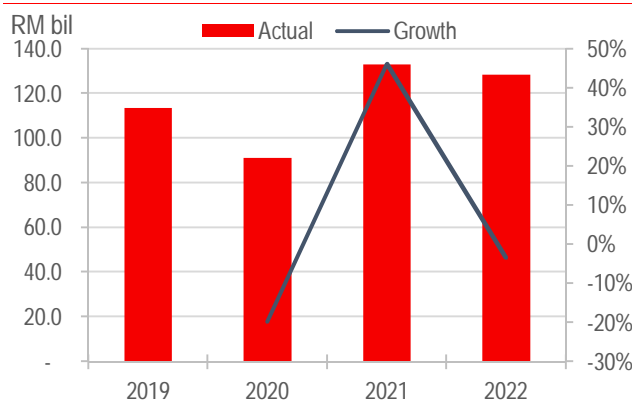
Source: AmInvestment Bank Bhd, Bloomberg

EXHIBIT 2 : MEGA PROJECTS

| Mega Projects | Est Value (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 |

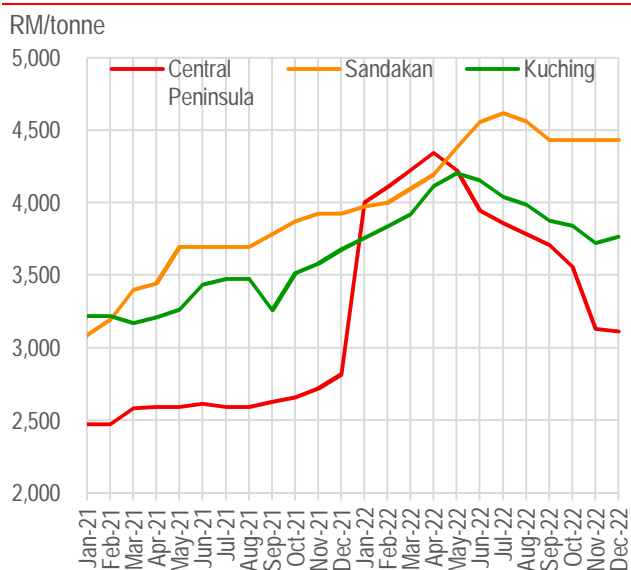
Source: Various news reports

EXHIBIT 3 : PROJECTS AWARDED



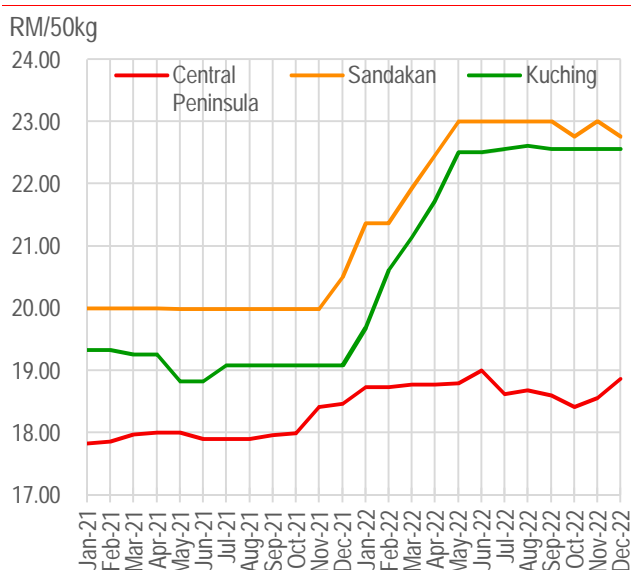
Source: CIDB

EXHIBIT 4 : HIGH TENSILE DEFORMED BAR Y12 PRICE



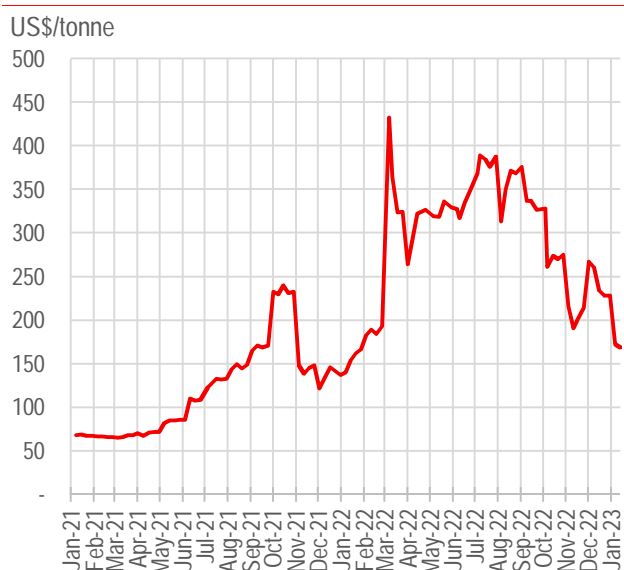
Source: DOSM

EXHIBIT 5 : PORTLAND CEMENT PRICE



Source: DOSM

EXHIBIT 6 : COAL PRICE



Source: MITI

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