

13 January 2021

Construction & Engineering | Construction

## Construction

## Overweight (Maintained)

Expecting Less Impact From MCO 2.0, Stay O/W

Stocks Covered 14  
 Rating (Buy/Neutral/Sell): 12 / 1 / 1  
 Last 12m Earnings Revision Trend:

- **Still OVERWEIGHT; Top Picks: Gabungan AQRS, Gamuda and Sunway Construction.** Further catalysts are likely in 2021, as more developments surface from the Mass Rapid Transit 3 (MRT3) and JB-Singapore Rapid Transit System (RTS) projects. This imposition of MCO 2.0 will not result in total work stoppages at construction sites. Instead, activities should continue as usual, especially for those involving infrastructure projects. In our view, the latest retracement of contractors' share prices has unmasked attractive entry points to investors.

### Top Picks

### Target Price

Gabungan AQRS (AQRS MK) – BUY MYR1.04  
 Gamuda (GAM MK) – BUY MYR4.25  
 Sunway Construction (SCGB MK) – BUY MYR2.09

- **Adherence to SOP remains, while operations continue.** Recognised by the Government as one of the five essential economic sectors, we are positive that construction activities will still be able to continue. Daily operations are expected to run as usual, with continuous compliance to the standard operating procedure (SOP) already in place. During the first MCO last year, it is worth noting that total closure was imposed on all government and private premises. The exception only applied to essential services, which, at the time, did not include construction. As a result, companies were negatively impacted as works only resumed in mid-Apr 2020 after several weeks of non-activity. Despite being allowed to operate after the end of MCO 1.0, capacity utilisation was still capped at 50%, limiting the progress of construction projects.

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- **Less impact expected from MCO 2.0.** Referring to the press statement by the Ministry of Works, construction companies will still need to apply to the Ministry of International Trade and Industry (MITI) for approval. We learned that the process then generally took 4-5 days to complete. This was as previous restrictions were comparatively more stringent, coupled with the Government's first-time experience in handling the pandemic. While MITI approval is still needed this time around, we expect the process to be expedited given the Government's prior experience in handling the situation.

### Historical performance (KLCON vs FBM KLCI)



Source: Company data, RHB

- **Execution of mega projects stays in the horizon,** despite new restrictions forced on other economic activities. This takes into account the official return of the MRT3 and RTS, which should prepare the sector for more action in the near term. We do not discount a possible resurgence of a domestic high speed rail development, considering that the Government remains keen to implement the project. As share prices have retraced, we advocate investors to consider stocks which are direct beneficiaries of the Government's pump-priming initiatives. Although we have BUY calls for almost all of our construction names, our Top Picks are Gabungan AQRS, Gamuda and Sunway Construction.

- **Downside risks:** Longer-than-expected delays in progress works, failure to secure new orders, and further delays in execution. On future sustainability, the sector has high exposure to environmental risks, as construction works are responsible for substantial greenhouse gas emissions, alongside waste and pollution. For most companies, ESG focus remains a work in progress, and should be given priority in the long run.

Company Name	Rating	Target Price(MYR)	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	Yield (%) Dec-21F
Econpile Holdings Bhd	BUY	MYR0.65	47.1	12.1	1.3	2.3
Gabungan AQRS	BUY	MYR1.04	73.3	7.9	0.5	5.0
Gadang	BUY	MYR0.52	29.7	7.0	0.4	2.6
Gamuda	BUY	MYR4.25	16.4	14.8	1.0	3.3
Hock Seng Lee	BUY	MYR1.23	29.5	11.1	0.6	1.8
IJM Corp	BUY	MYR1.85	14.2	16.3	0.5	3.2
Kerjaya Prospek	BUY	MYR1.31	29.4	8.9	1.0	3.5
Kimlun Corp	BUY	MYR0.93	21.1	7.0	0.3	2.8
Malaysian Resources Corp	BUY	MYR0.57	40.2	14.2	0.2	2.5
MGB	BUY	MYR0.82	30.6	8.4	0.6	-
Pintaras	BUY	MYR3.03	23.7	8.1	1.1	6.1
Sunway Construction	BUY	MYR2.09	27.4	14.1	2.9	3.5
Muhibbah Engineering	NEUTRAL	MYR0.96	8.9	8.1	0.4	3.1
George Kent Malaysia	SELL	MYR0.58	(19.7)	7.8	0.7	3.8

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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