

Sector Flash Note

Malaysia

October 6, 2017 - 10:21 PM

Overweight *(no change)*

Highlighted companies

Gamuda

ADD, TP RM6.15, RM5.25 close

The revision to the 2km LRT 3 underground/tunnelling package could be negative for Gamuda as it may not emerge as the frontrunner. However, the group is still vying for a sizeable package from the East Coast Rail Link (ECRL) project.

IJM Corp Bhd

ADD, TP RM3.87, RM3.24 close

IJM's outstanding order book as at end-Jun 17 stood at RM8.7bn, driven by RM1.6bn total job wins YTD. The group could still be in the running to secure one of the remaining eight above-ground LRT 3 packages.

Sunway Bhd

ADD, TP RM2.09, RM1.79 close

This LRT3 award brings subsidiary SunCon's total value of jobs secured YTD to a whopping RM3.8bn, far exceeding its RM2bn full-year win target. This contract bumps up its outstanding order book by 51% to RM6.5bn.

Summary valuation metrics

P/E (x)	Dec-17F	Dec-18F	Dec-19F
Gamuda	19.13	15.92	13.80
IJM Corp Bhd	17.16	16.47	14.43
Sunway Bhd	15.22	14.35	13.17

P/BV (x)	Dec-17F	Dec-18F	Dec-19F
Gamuda	1.64	1.55	1.53
IJM Corp Bhd	1.57	1.53	1.50
Sunway Bhd	1.45	1.38	1.31

Dividend Yield	Dec-17F	Dec-18F	Dec-19F
Gamuda	2.20%	2.20%	2.20%
IJM Corp Bhd	3.13%	3.51%	3.54%
Sunway Bhd	3.05%	3.05%	3.05%

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Construction

Three big LRT 3 jobs awarded; seven more to go

- Prasarana has awarded an LRT 3 package each to Sunway Construction, Gabungan AQRS and WCT Holdings; packages worth a combined RM4bn.
- The award raises the contractor's order book by 33-86%. We estimate seven more viaduct and stations packages to be awarded in 2H17F.
- Within our coverage, IJM and Muhibbah could be among the next winners.

The first three LRT 3 above-ground packages awarded

- Prasarana has announced the award of three LRT viaduct and station packages worth a combined RM4bn. The first award is to Sunway Construction (SCGB MK, NR), which bagged a RM2.2bn contract for package GS07 and GS08 that involves the construction of guideways, park and ride facilities, and six stations along a 9.2km stretch. The contract value represents the longest and highest-value LRT 3 package.
- The second award was given to Gabungan AQRS (AQRSMK, NR). The group secured a RM1.2bn LRT 3 GS04 package to build guideways and three stations over a shorter 4.2km stretch of the LRT 3 alignment, though the scope of works is similarly comprehensive to that of SunCon's.
- The third and smaller RM640m GS02 package (2.9km) was awarded to WCT Holdings. This is the group's third LRT 3 package secured YTD. This, together with the RM840m GS03 package won in late-Aug raises its outstanding order book by 33% to RM6bn from RM4.5bn at end-2Q17.
- Overall, all packages carry a 36-month project duration and we understand that construction works will be mobilised immediately.

Biggest rail win for SunCon

- The RM2.2bn LRT 3 job awarded to SunCon brings its total value of jobs secured YTD to a whopping RM3.8bn, arguably the highest in terms of total wins among the pure domestic contractors, and far exceeds its RM2bn full-year win target. This contract bumps up its outstanding order book by 51% from RM4.3bn as at end-2Q17 to RM6.5bn, closing in to the order books of big cap IJM's RM8.7bn and Gamuda's RM7.8bn. SunCon's order book now is predominantly rail (MRT 2 and LRT 3).

First major rail contract for AQRS; 86% jump in order book

- For Gabungan AQRS, the award is the group's first major rail contract. The RM1.2bn new LRT 3 job (GS04) raises the group's outstanding order book by 86% to RM2.6bn from RM1.4bn as at end-2Q17. This represents a healthy 9.5x order book-revenue cover, based on the group's annualised 1H17 construction revenue.

Updates on the progress of LRT 3 awards

- YTD, Prasarana has awarded seven LRT3 packages comprising various scopes that include depots, stations, and light rail vehicles. Companies that have so far secured LRT 3 contracts are: 1) Mudajaya Group (MDJ MK, NR); 2) WCT Holdings (WCTHG MK, HOLD); 3) CRRC-Tegap Dinamik JV; and 4) TRC Synergy (TRC MK, NR). Going by the list, SunCon, Gabungan AQRS and WCT are the first three beneficiaries of the above-ground and station packages, and the biggest winners by contract value.

Seven more LRT 3 packages to support 2H17 sector newsflow

- We understand that there are seven more major civil works packages to be awarded for the LRT 3 project. Within our coverage, potential beneficiaries of the remaining LRT 3 packages could be IJM Corp and Muhibbah Engineering. Gamuda remains a contender for the 2km underground package, though it may not be a frontrunner given the potential change in specifications and alignment. Maintain Overweight on the sector on the back of stronger LRT newsflow in 2H17.

Figure 1: LRT 3 awards YTD

Date	Company	Job scope	Value (RMm)
4-Apr	Mudajaya Group	Package PC2: manufacture, supply and delivery of precast pier caps and other related works	58.3
5-Apr	WCT Holdings	Package TD1: construction and completion of Johan Setia Depot (Phase 1) and associated works	185.9
2-Aug	CRRC Zhuzhou Locomotive-Siemens Ltd China-Tegap Dinamik Sdn Bhd JV	Design, manufacture, supply, delivery, installation, testing and commissioning of 42 six-car light rail vehicles (LRV)	1,560.0
29-Aug	WCT Holdings	Package GS03: construction and completion of guideway, stations, Park and Ride, ancillary buildings and other associated works	840.0
5-Sep	TRC Synergy	Package TD2: Construction and Completion of Johan Setia Depot (Phase 2) and Associated Works	760.6
5-Oct	Sunway Construction Group	Package GS07-08: construction and completion of guideway, stations, iconic bridge, park and rides, ancillary buildings and other associated works	2,308.7
5-Oct	WCT Holdings	Package GS02: construction and completion of guideway, stations, Park and Ride, ancillary buildings and associated works	640.0
5-Oct	Gabungan AQRS	Package GS04: construction and completion of guideway, stations, Park and Ride, ancillary buildings and other associated works	1,205.6
Total YTD			7,559.0

SOURCES: CIMB, COMPANY REPORTS

Figure 2: Sector comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2017	CY2018		CY2017	CY2018	CY2017	CY2018	CY2019	CY2017	CY2018	CY2017	CY2018
Gamuda	GAM MK	Add	RM5.25	RM6.15	3,048	12.7	11.7	6.4%	1.77	1.64	9.0%	8.9%	10.0%	25.6	20.2	2.3%	2.3%
IJM Corp Bhd	IJM MK	Add	RM3.24	RM3.87	2,781	17.0	17.2	-3.6%	1.52	1.57	8.5%	9.0%	9.4%	17.9	18.4	1.8%	1.8%
Malaysian Resources Corp	MRC MK	Hold	RM0.89	RM1.00	459	14.4	34.5	-5.7%	1.31	1.25	12.3%	3.6%	4.3%	18.0	22.3	0.6%	0.5%
Muhibbah Engineering	MUHI MK	Add	RM2.78	RM3.36	316	12.4	10.2	16.6%	1.33	1.26	11.7%	12.7%	12.8%	8.3	4.1	2.5%	1.6%
Salcon	SALC MK	Hold	RM0.41	RM0.45	65	24.8	12.6	62.7%	0.57	0.56	2.1%	4.5%	4.8%	na	0.4	0.0%	4.8%
Sunway Bhd	SWB MK	Add	RM1.79	RM2.09	2,055	14.8	15.2	-13.3%	1.16	1.45	9.1%	8.2%	9.9%	20.2	18.8	1.6%	1.4%
WCT Holdings	WCTHG MK	Hold	RM1.75	RM1.97	582	32.2	16.1	-22.5%	0.80	0.73	2.7%	4.6%	4.7%	36.4	36.8	0.0%	1.4%
YTL Corporation	YTL MK	Hold	RM1.37	RM1.46	3,414	na	42.7	na	1.02	1.06	-1.8%	2.4%	8.9%	17.1	12.9	5.8%	5.3%
Average						14.4	14.9	2.4%	1.60	1.54	9.3%	8.4%	9.2%	19.7	17.8	2.0%	1.9%

SOURCE: CIMB RESEARCH, COMPANY

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Corporate Governance Report:

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2017		
1288 companies under coverage for quarter ended on 30 June 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	51.2%	5.5%
Hold	35.7%	3.1%
Reduce	11.9%	0.1%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BCP** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** – Good, n/a, **BH** – Good, Declared, **BIGC** – Excellent, Declared, **BJC** – Good, n/a, **BJCHI** – Good, Declared, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Good, n/a, **GFPT** – Excellent, Declared, **GGC** – not available, n/a, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Declared, **ICHI** – Very Good, Declared, **III** – not available, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Good, n/a, **IVL** – Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTG** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MACO** – Very Good, n/a, **MAJOR** – Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** – Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PLAT** – Good, Declared, **PSH** – not available, n/a, **PSL** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** – Excellent, Declared, **SIM** – Excellent, n/a, **SIRI** – Good, n/a, **SPA** – Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** – Excellent, Certified, **TNR** – not available, n/a, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIPP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **TVO** – Very Good, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.