

Construction sector to gain more

Analysts see re-rating of several sectors with the Klang Valley MRT

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THE kickoff of the country's largest infrastructure project – the Klang Valley My Rapid Transit (KVMRT) – could spark re-ratings across several sectors starting with the construction sector which is the direct beneficiary.

A flurry of construction jobs which would swell up the order books of companies by leaps and bounds, is expected to be announced over the next six months as the multi-billion MRT development, which is six months behind schedule, strives to play catch up.

To kick-start, MRT Co has appointed IJM Corp Bhd (IJM) and Ahmad Zaki Resources Bhd (AZRB) for the construction of viaduct guideways and other associated works.

MRT Co is the project and asset owner of the MRT.

The two separate multi-million contracts at RM974mil and RM764mil for IJM and AZRB respectively are part of eight complete packages in the elevated civil works portion – one of the largest portions of the MRT project.

There are a total of 90 work packages for the entire first MRT line, providing ample jobs for virtually everyone in the construction industry and including those in building materials and property.

MRT Co chief executive officer Datuk Azhar Abdul Hamid says six more of the eight major packages are expected to be awarded within the next six months.

Of the eight, five will be from the open tender category while three contractors will come from the bumiputra category.

"It should be a fast process as we already have a pre-qualified list," he says.

While the margins of contractors cannot be predicted, analysts have said that technically, margins for MRT works should be higher than the 5% earned by contractors who worked on the light rail transit or LRT system given the higher complexities and financial risks of the former.

Among those on the pre-qualified list for the elevated civil works portion, analysts have singled out a few companies which are likely beneficiaries based on several factors.

One of this is Naim Engineering Sdn Bhd, a wholly-owned unit of Sarawak's largest property developer and construction firm Naim Holdings Bhd.

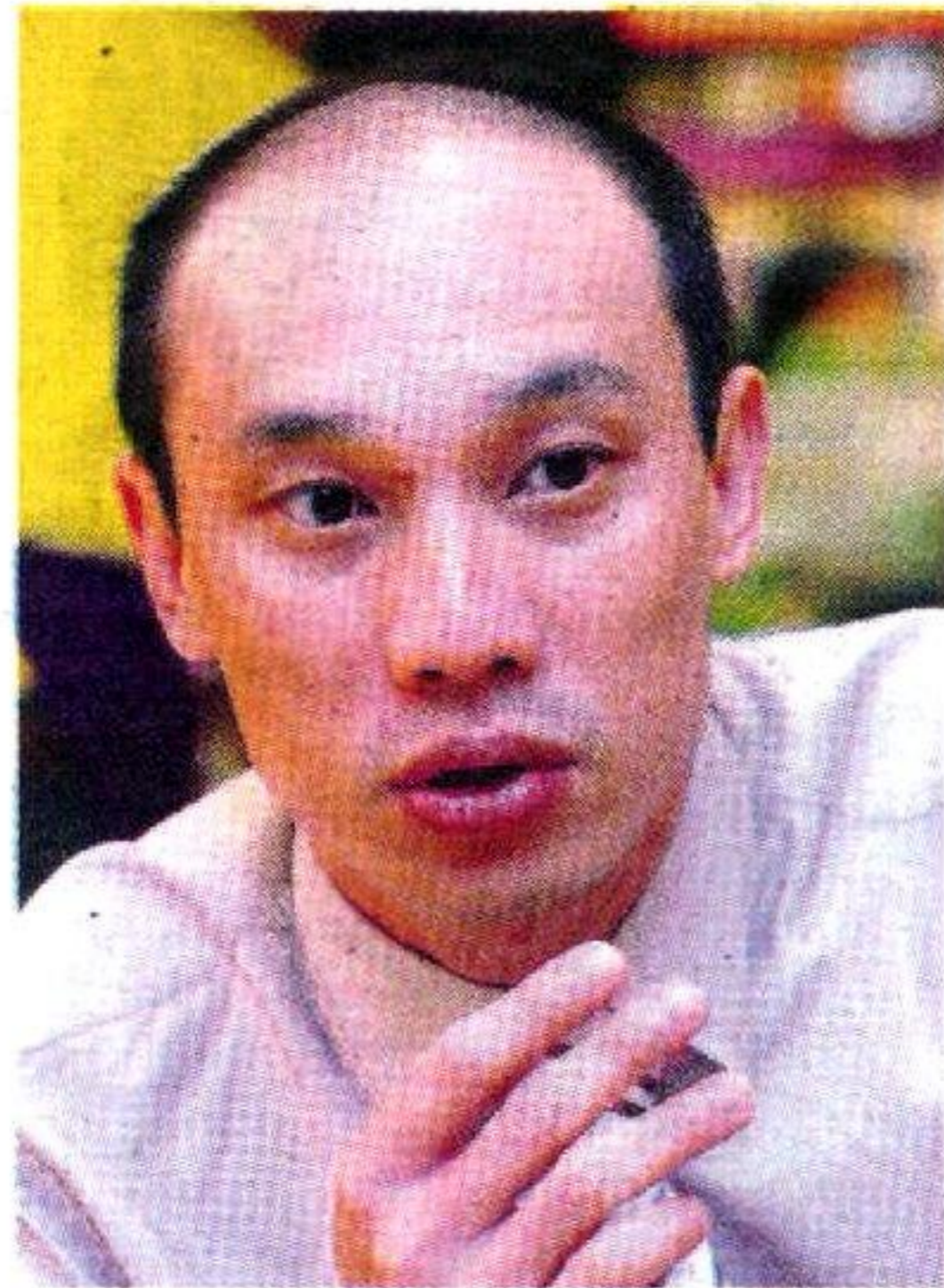
Reports point out that Naim's construction and engineering arm has a track record of completing more than RM2.7bil worth of projects either on time or earlier and within budget.

This should augur well for the company since the ability to stick to a strict timeline and within stipulated costs is vital in a mega project like the MRT.

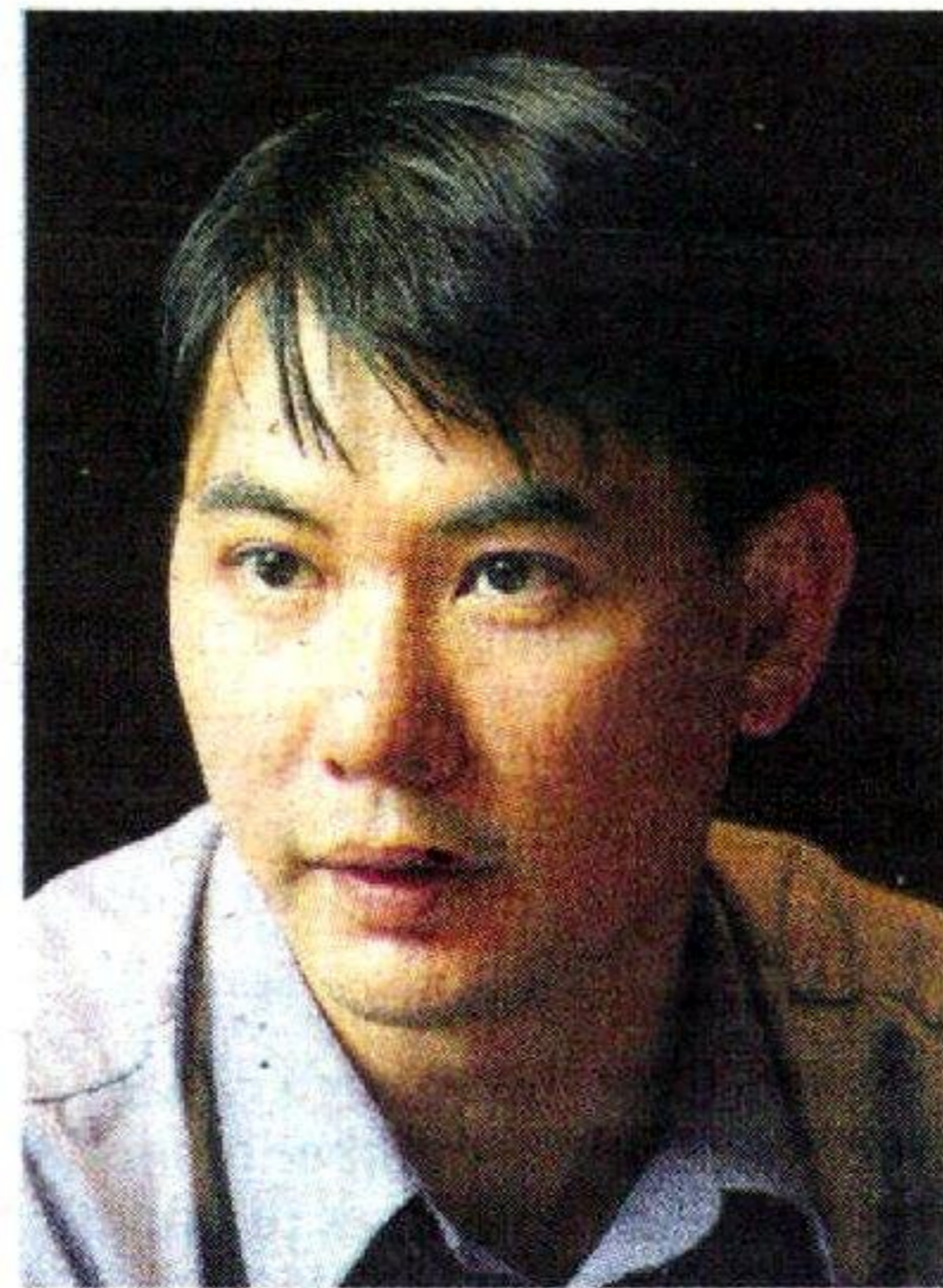
Naim has experience in projects involving road, bridges and buildings for both the Government and private sector.

It is also a pre-qualified candidate in all of the elevated works portion of the project including civil, stations and depot jobs as well as being represented both in the open and bumiputra tender categories.

Besides Naim, AmResearch



Lim: 'Swelling order books and actually making money from that are two separate things.'



Khoo: 'Valuations may be a little lofty taking into account external uncertainties.'

construction analyst Mak Hoy Ken says for the remaining six elevated civil work packages, he likes IJM, Sunway Holdings Bhd and Malaysian Resources Corp Bhd as possible contenders, for their solid track records in delivering major construction and property projects.

HwangDBS Vickers Research chooses IJM, Sunway, Muhibbah Engineering (M) Bhd and TRC Synergy Bhd as possible recipients, all of which have been pre-qualified for all elevated works including civil, depots and stations.

Azhar says that he does not rule out the possibility of IJM and AZRB being awarded with contracts again despite being the chosen ones in the first round.

"There is a possibility, yes," he tells *StarBizWeek*.

On the tunnelling portion – which is the single largest portion of the MRT project valued at about RM8bil, HwangDBS says it is optimistic that the MMC Corp Bhd-Gamuda Bhd joint venture would win the bid despite stiff competition including from foreign parties.

The result of this should be known by April.

"Conventional wisdom suggests it is best to keep this MRT project domestic with a stronger multiplier effect on the economy, especially with possibly slower gross domestic product growth in 2012," the research house says.

Gamuda is jointly appointed with MMC as the project delivery partner for the entire MRT project.

Additionally, the joint-venture is the only pure local party with bumiputra interest, and therefore would be accorded a 7.5% tender pricing advantage; it also has an edge over its competitors in terms of having better understanding of Malaysia's soil conditions and experience in completing the SMART Tunnel.

As for the initial spillover to other parts of the economy, AmResearch's Mak says the imminent roll-out of MRT jobs is expected to first prod renewed focus on building material players.

"Our initial checks indicate that the Sungai Buloh-Kajang line alone may require 500,000 tonnes of steel, with the maiden orders likely to kick-in by the end of the first half of this year.

"This should benefit Ann Joo Resources Bhd and Lion Industries Corp Bhd, both in steel and Lafarge Malayan Cement," he says.

The Sungai Buloh-Kajang line is the first line out of three under the entire MRT plan.

According to MRT Co, line two, the circle line (MRT 2) and line three (MRT 3) should be completed by 2020 and are expected to cover the regions of Kuala Lumpur and the north-west corridor of Greater Klang Valley which includes linking Sungai Buloh, Kepong and Selayang with the eastern half of the city centre (including Kampung Baru and the Kuala Lumpur International Financial District).

With such a strong pipeline of multi-million projects just wait-

List of pre-qualified companies for major packages of My Rapid Transit

Elevated civil works (eight packages)

Open category (five packages)	Bumiputra category (three packages)
Sunway Construction Sdn Bhd	Naim Engineering Sdn Bhd
Mudajaya Corp	Trans Resources Corp Sdn Bhd
Tran Resources Corp Sdn Bhd	TSR Bina Sdn Bhd
Muhibbah Engineering (M) Sdn Bhd	Ahmad Zaki Sdn Bhd
IJM Construction Sdn Bhd	HRA Teguh Sdn Bhd
Ahmad Zaki Sdn Bhd	MTD Construction Sdn Bhd
MTD Construction Sdn Bhd	Syarikat Muhibbah Perniagaan & Pembinaan Sdn Bhd
MRCB Engineering Sdn Bhd	Zecon Sdn Bhd
Gadang Engineering (M) Sdn Bhd	Cergas Murni Sdn Bhd
Loh & Loh Construction Sdn Bhd	Tidal Marine Engineering Sdn Bhd
Konsortium Putra Perdana Const & Worthy Builder JV	

Stations (eight packages)

Open category (three packages)	Bumiputra category (five packages)
Trans Resources Corp Sdn Bhd	Trans Resources Corp Sdn Bhd
Sunway Construction Sdn Bhd	Naim Engineering Sdn Bhd
Naim Engineering Sdn Bhd	TSR Bina Sdn Bhd
Fajarbaru Builders Sdn Bhd	Ahmad Zaki Sdn Bhd
IJM Construction Sdn Bhd	HRA Teguh Sdn Bhd
Loh & Loh Construction Sdn Bhd	SN Akmidia Holdings Sdn Bhd
Muhibbah Engineering (M) Sdn Bhd	Kembang Serantau Sdn Bhd
Gadang Engineering (M) Sdn Bhd	Apex Communication Sdn Bhd
Pembinaan Mitrajaya Sdn Bhd	Pembinaan Bukit Timah Sdn Bhd
WCT Bhd	Perkasa Sutera Sdn Bhd
Kencana Torsco Sdn Bhd - Al Ambia JV	Dekon Sdn Bhd
Konsortium PPC - WB JV (Putra Perdana Const. & Worthy Builders)	Syarikat Muhibbah Perniagaan & Pembinaan Sdn Bhd

Tunnelling (one package)

1. MMC Corp Bhd - Gamuda Bhd JV
2. Gadang Holdings Bhd - Hyundai
3. Sinohydro Group
4. China Railway Corp
5. Japan's Taisei Corp

Source: All information except tunnelling package information by Syarikat Prasarana Negara. STARGRAPHIC © 2012

ing to flow into the order books of the local boys, there remains the huge cloud of political risk with the impending general election. Needless to say, disruptions in political conditions could derail or delay the take-off of any national infrastructure project.

Profit-wise, the earnings impact of the jobs on companies' balance sheets are not expected to be meaningful until at least in two years' time when the project should be in full swing.

Even then, JF Apex Securities Bhd deputy managing director Lim Teck

Seng warns that profits gained by companies involved may not be within expectations.

"Swelling order books and actually making money from that are two separate things.

"Most of the jobs will be awarded to companies which offer the lowest price, so if related costs arising from inflationary pressure go up beyond their expectations, the companies may even end up making losses," he says.

Vincent Khoo, head of research UOB Kay Hian (M) Holdings Sdn Bhd points out that in terms of stock prices, a lot of the good MRT news have already been priced in especially when it comes to the big boys of the sector.

"Hence, valuations may be a little lofty taking into account external uncertainties, upside could be limited but downside significant, if there are delays in dishing out of contracts," he says.

MRT Co, is expected to make public the list of all the works for the Sungai Buloh-Kajang MRT line very soon with most of the big packages being awarded this year and the smaller ones in the early part of next year.

For now, OSK Research Sdn Bhd is maintaining a "neutral" call on the construction sector.

"We do not discount a potential re-rating on the sector in the near future, pending more concrete signals," it says.



Gamuda and MMC have an edge as they have better understanding of Malaysia's soil conditions and experience in completing the SMART Tunnel.