

# Construction worthwhile value proposition

## Construction sector

**Maintain overweight:** Overall, the latest quarterly results for companies under our coverage were mixed. While IJM Land Bhd (first three months of the financial year ending March 31, 2013 [3MFY13]) and Kimlun Corp Bhd (6MFY12 ending Dec 31) were within expectation, both WCT Bhd (FY ending Dec 31) and Benalec Holdings Bhd (FY ended June 30) came in with rather disappointing results.

As such, we have tweaked WCT's forecasts downwards owing to the fragility of its overseas division and are maintaining our estimates for Benalec as we expect FY13 earnings to come in stronger following higher recognition of its projects going forward. Gamuda's results will be released on Sept 27.

Six contracts worth about RM1.86 billion were awarded in August, comprising four domestic and two overseas projects. The bulk of the RM1.86 billion contract value comes from the overseas project in Oman, awarded to WCT for RM1 billion.

Three out of the six contracts mentioned above were MRT station-related packages valued at RM563.04 million. Last week, MRT Corp awarded another five packages, four systems packages and one viaduct package, worth about RM3.47 billion. All four systems packages have been awarded to foreign companies and the viaduct contract was awarded to a local player. Year-to-date, total awarded MRT contract value is about RM19.13 billion.

We do not foresee the contract flows in the third quarter (3Q) of the year to be as significant as in 1Q. Total contract value in 1Q was about RM15.97 billion, driven

mainly by the MRT1 Sungai Buloh-Kajang (SBK) Line of tunnelling and underground works valued at RM8.2 billion. We estimate 3Q contract value should be about the same as 2Q. Impending contracts from the MRT project are for the station and multi-storey car park packages. For now, we believe the MRT project will remain the main driver for the sector as we reckon projects in the pipeline will not commence anytime soon.

The construction sector achieved a remarkable milestone in the first half (1H) of the year. It recorded about 18.9% growth, mainly contributed by the MRT project. Our economist has revised upward his annual forecast to double digit growth, from the earlier 8%. The revision is mainly due to stronger than expected 1H performance and more projects under 10th Malaysia Plan (10MP) to come onstream.

The outstanding order books for the companies under our coverage remain encouraging. We note that the current industry price-earnings ratio of approximately 13.5 times is still below the three-year average of 21 times. The additional premium required is mainly due to the rising election risk, which could delay progress.

Putting the political risk aside, we envisage the continuous project flow will change the construction landscape, which will drive the valuation back to the three-year average level. Hence, we maintain "overweight" on the construction sector. Kimlun (target price: RM1.65) is still our top pick for the sector. Maintain "buy" on IJM Corp (TP: RM 6.37), Gamuda (TP: RM4.13), WCT (TP: RM2.86), and Benalec (TP: RM1.53). — *BIMB Securities Research, Sept 19*