

RHB Research stays 'overweight' on construction sector as public projects gain momentum

Sufi Muhamad / theedgemaalaysia.com July 20, 2023 | Updated 3 days ago



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KUALA LUMPUR (July 20): RHB Research has maintained an "overweight" call on the construction sector, with awards from the public sector seen picking up post-state elections in August, should the status quo be maintained.

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RHB Research's top picks for the sector include Gamuda Bhd with a "buy" call rating and a target price (TP) of RM5.27, followed by Sunway Construction Group Bhd (buy, TP: RM2.05) and Kerjaya Prospek Group Bhd (buy, TP: RM1.55).

Analyst Adam Mohamed Rahim said that he remains upbeat on the sector given the latest developments surrounding the Kuala Lumpur-Singapore High Speed Rail (HSR) and **Kuching's** Autonomous Rapid Transit (ART) projects.

He also noted the retendering of the **Johor Bahru-Singapore** Rapid Transit System (RTS) link packages and the approval for the Light Rail Transit (LRT) connecting **Penang** Island to **Seberang Perai**.

Post-state elections in August may involve the implementation of the **Bayan Lepas** Light Rail Transit and the Mass Rapid Transit 3 (MRT3), which saw its tender validity period extended to end-September from the end of June, he said.

"From the catalysts from the abovementioned projects, we retain Gamuda Bhd, Sunway Construction Group Bhd and Kerjaya Prospek Group Bhd as our top picks given their steady job replenishment trend and strategic hedge against any downside risks from the domestic construction landscape amid their commendable exposure in overseas jobs for Gamuda, and also private industrial ones for Sunway Construction and Kerjaya Prospek," he said.

He said that the latest request for information (RFI) exercise has MyHSR Corp Sdn Bhd now inviting interested parties to participate in the latest round from July 12 to Nov 15.

"As such, we view the latest move to be positive — giving opportunities to a larger pool of contractors to submit their proposals."

"Given it would be fully funded by the private sector, we take the view that any material development post Government's assessment will likely be known in 2H2024."

Adam also noted that participation of foreign contractors is inevitable due to the project's aim to be fully funded by the private sector.

"In fact, foreign contractors such [as from Japan and South Korea] have expressed interest to bid for the HSR project prior to the cancellation in 2021."

"More importantly, regardless which company clinches the main contracts for the HSR, a positive spillover effect may transpire in terms of subcontract packages — benefitting the construction industry as a whole," said Adam.

On the ART project, he said that **Sarawak** will be receiving the first ART prototype under the first phase, costing RM6 billion, of the **Kuching** Urban Transport System (KUTS).

He added that the construction of the 3.3km **Kuching** ART route along the **Kuching-Samarahan** Expressway is expected to be completed in November, with progress at 8.3% as of first quarter of 2023 and a target to commence operations by end-2025.

"Meanwhile, a faster-than expected rollout of the remaining phases of the Pan Borneo Highway packages and the **Sarawak-Sabah** Link Road should serve as a further re-rating catalyst."

RHB Research stock coverage

Company name	Rating	Target (RM)
Advancecon	Sell	0.26
Econpile Holdings	Sell	0.14
Gabungan AQRS	Buy	0.40
Gamuda	Buy	5.27
IJM Corp	Neutral	1.59
Kerjaya Prospek	Buy	1.55
KKB Engineering	Buy	1.80
Malaysian Resources Corp	Buy	0.40
MGB	Buy	0.93
Pintaras Jaya	Buy	1.94
Sunway Construction	Buy	2.05

Sources: Company data, RHB

