



Intermission break

We remain bullish on the construction sector in 2H16. We believe new contract awards will see a strong rebound in 2Q16 as most of the Klang Valley MRT Line 2 (MRT2) packages were awarded. Contract awards will remain high in 2H16 as we expect infrastructure projects worth RM49bn to be rolled out. We expect sector fully-diluted core EPS growth to accelerate from 3% yoy in CY16E to 16% yoy in CY17E. We remain Overweight on the construction sector. Top BUYs are Suncon, WCT and Gamuda.

Contract awards to rebound in 2Q16

According to the Construction Industry Development Board (CIDB) statistics, construction contract awards fell 66% yoy to RM11.9bn in 1Q16. We believe the contract awards bottomed in 1Q16 and should rebound strongly in 2Q16. We estimate MRT2 work packages worth RM22.7bn were awarded YTD and most of the contracts will likely be captured in CIDB's statistics in 2Q16 due to the lag in reporting.

Major infrastructure projects to roll out in 2H16

Contract awards are expected to remain strong in 2H16 with the expected roll out of the RM5.3bn SUKE and RM4.2bn DASH highways, and the RM9bn Light Rail Transit Line 3 (LRT3) projects. Another RM12.9bn for the eight remaining packages of the Pan Borneo Highway (PBH) Sarawak section and RM2.2bn for the West Coast Expressway (WCE) are expected to be awarded in 2H16.

Core earnings rebounded qoq in 2Q16

Aggregate construction sector net profit contracted 64% yoy and 62% qoq in 1Q16 as Eversendai, IJM Corp and WCT were hit by unrealised forex losses. But core net profit rebounded 19% qoq driven by higher operational earnings but was still down 4% yoy in 1Q16. We believe the construction sector is seeing an intermission break as ongoing projects are at the tail-end while new contracts have not contributed significantly to earnings yet. We expect better performance in 2H16 as earnings contribution from new contracts accelerates. But the full impact will only be felt in 2017 due to the typical "S" curve in construction project earnings recognition.

Maintain Overweight

We remain Overweight on the construction sector as news flow on contract awards will sustain the sector outperformance. On the macro front, the higher current oil price than the amount assumed in the revised Budget 2016 gives the government some flexibility to increase the development expenditure budget to support economic growth. We see better values among the mid-cap construction stocks such as Suncon and WCT. We prefer Gamuda to IJM Corp for large-cap construction stock exposure given the Gamuda's higher ROE and order book/revenue ratio (better long-term earnings visibility).

Sector Update

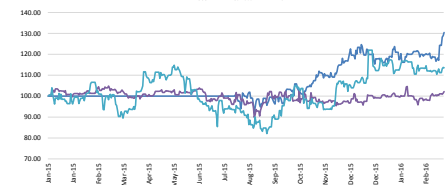
Construction

Overweight (maintain)

Absolute Performance (%)

| | 1M | 3M | 12M |
|------------|------|-------|-------|
| Benalec | -1.9 | -9.0 | -38.8 |
| Eversendai | +2.2 | -10.3 | -14.1 |
| Gamuda | +8.5 | +7.7 | -8.3 |
| GAQRS | +2.4 | +1.2 | -38.2 |
| IJM Corp | +1.5 | +2.4 | -4.3 |
| MRCB | +4.4 | -4.0 | -7.0 |
| Suncon | +9.2 | +9.2 | +7.0 |
| WCT Hldgs | +0.6 | +7.9 | +7.0 |

Relative Performance (%)



Source: Affin, Bloomberg.

Loong Chee Wei CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

| Stock | Bbg | Rating | Sh Pr (RM) | TP (RM) | Mkt cap (RMbn) | Core PER (x) | | Core EPS gr (%) | | P/BV (x) | ROE (%) | DY (%) |
|--------------------------|----------|--------|---------------|------------|-------------------|--------------|-------------|-----------------|-------------|------------|------------|------------|
| | | | | | | CY16E | CY17E | CY16E | CY17E | CY16E | CY16E | CY16E |
| IJM Corp | IJM MK | BUY | 3.46 | 3.76 | 12.5 | 21.1 | 17.7 | 9.8 | 19.0 | 1.2 | 6.2 | 2.9 |
| Gamuda | GAM MK | BUY | 4.82 | 5.70 | 11.6 | 19.9 | 17.8 | (7.1) | 11.7 | 1.7 | 10.1 | 2.5 |
| MRCB | MRC MK | BUY | 1.06 | 1.46 | 2.0 | 27.0 | 20.8 | 200.7 | 29.8 | 0.8 | 2.8 | 2.4 |
| WCT Hldgs | WCTHG MK | BUY | 1.60 | 2.02 | 2.0 | 15.9 | 10.8 | 82.5 | 47.5 | 0.7 | 5.3 | 3.8 |
| Sunway Construction | SCGB MK | BUY | 1.53 | 1.98 | 2.0 | 13.8 | 11.7 | 5.0 | 18.6 | 3.8 | 29.4 | 3.6 |
| Eversendai | EVSD MK | BUY | 0.56 | 0.84 | 0.4 | 6.6 | 5.8 | 8.6 | 14.8 | 0.5 | 6.3 | 0.9 |
| Benalec | BHB MK | HOLD | 0.47 | 0.53 | 0.4 | 15.7 | 11.0 | 125.3 | 42.3 | 0.7 | 4.4 | 5.4 |
| Gabungan AQRS | AQRS MK | BUY | 0.95 | 1.20 | 0.4 | 11.2 | 12.5 | NA | (10.4) | 1.0 | 12.3 | 0.0 |
| Malaysian wgt avg | | | | | | 19.9 | 17.1 | 3.1 | 16.2 | 1.2 | 7.1 | 2.5 |

Source: Affin estimates, Bloomberg. Note: Pricing as of close on 14 June 2016

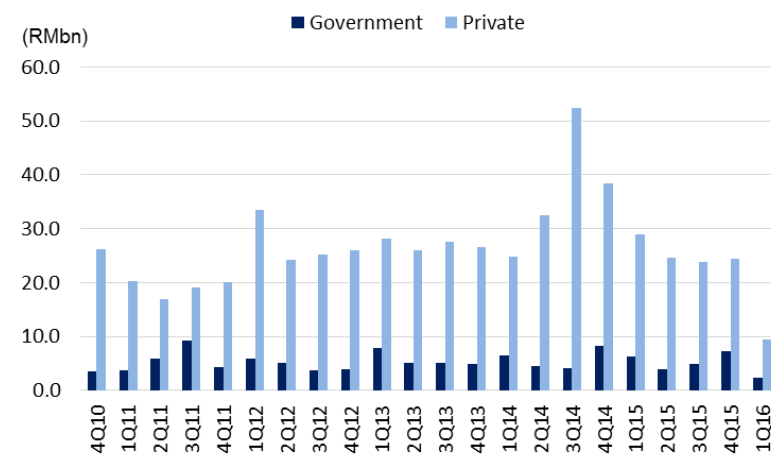


Contract awards to rebound in 2Q16

Contract awards bottomed in 1Q16

The slowdown in property development activities and absence of major infrastructure project awards saw construction contract awards plunge by 66% yoy and 62% qoq to RM11.9bn in 1Q16, an 11-year quarterly low. Both government and private sector contract awards declined in 1Q16. But we believe contract awards have bottomed in 1Q16 and will rebound strongly in 2Q16.

Fig 1: Quarterly contract awards by government and private sector



Source: Construction Industry Development Board

Major MRT2 works awarded since March

Contract awards jumped in the March-May period with the roll out of major work packages for the MRT2 project worth RM22.7bn. Suncon, Ahmad Zaki, MMC Corp, Gamuda, MRCB and IJM Corp were the main beneficiaries. The largest contract awarded was the RM15.47bn underground works package awarded to the joint venture (JV) between MMC Corp and Gamuda. We estimate at least RM7bn worth of contracts for the MRT2 will be awarded by end-2016 as estimated total cost of the project is RM30bn.

Two packages for PBH awarded in March

Two packages for the RM16bn PBH (Sarawak section) worth RM3.2bn were also awarded in March to Kimlun-Zecon JV and Hock Seng Lee-Dhaya Maju Infrastructure JV in March. We gather that Lebuhraya Borneo Utara Sdn Bhd (LBU), the Project Delivery Partner (PDP), is looking to award the remaining eight packages at the same time in 3Q16 to ensure that the project kicks off this year and each consortium only wins one package.

Strong rebound in contract awards in 2Q16

Based on contract wins announced by the listed construction companies, we estimate that another RM3.8bn worth of contracts were awarded for infrastructure and building works YTD. This brings the total projects won by listed contractors to about RM30bn YTD. Given the lag in reporting contract awards, we believe most of these contracts will lift the industry new contract wins in 2Q16.

Fig 2: Major construction projects awarded to listed companies YTD

| Award date | Project | Contractor | Value (RMm) |
|---|---|--------------------------------|---------------|
| Klang Valley Mass Rapid Transit Line 2 (Sg Buloh-Serdang-Putrajaya Line) | | | |
| Apr-16 | KVMRT Line 2 Package V201 (Sg Buloh-Persiaran Dagang) | Sunway Construction | 1,213 |
| Mar-16 | KVMRT Line 2 Package V202 (Persiaran Dagang-Jinjang) | Ahmad Zaki | 1,440 |
| May-16 | KVMRT Line 2 Package SY203 (electric trains and depot equipment) | HAP Consortium | 1,620 |
| Mar-16 | KVMRT Line 2 Package SBG201 (box girders for V201-V205) | SPC Industries Sdn Bhd | 199 |
| Mar-16 | KVMRT Line 2 Package SBG202 (box girders for V206-V210) | Acre Works Sdn Bhd | 170 |
| Mar-16 | KVMRT Line 2 Underground Work Package | MMC-Gamuda | 15,470 |
| May-16 | KVMRT Line 2 Package SY201 (signal and train control system) | Bombardier-Global Rail | 458 |
| May-16 | KVMRT Line 2 Package V210 (Persiaran APEC-Putrajaya Sentral) | MRCB | 648 |
| May-16 | KVMRT Line 2 Package V203 (Jinjang-Jln Ipoh) | IJM Corp | 1,470 |
| May-16 | Package DPT 203: Serdang depot | TSR Capital | 90 |
| Sub-total | | | 22,688 |
| Pan-Borneo Highway, Sarawak | | | |
| Mar-16 | PBH Phase 1: Serian Roundabout-Pantu Junction | Kimlun-Zecon | 1,461 |
| Mar-16 | PBH Phase 1: Bintangor-Julau-Sibu Airport-Sg Kua Bridge (Batang Rajang Bridge) | Hock Seng Lee-Dhaya Maju Infra | 1,710 |
| Sub-total | | | 3,171 |
| Other projects | | | |
| Mar-16 | KVMRT SBK Line (Pasar Seni LRT link) | TRC Synergy | 104 |
| Mar-16 | Kuching City Central Wastewater Mgmt Syste Package 2 | Hock Seng Lee | 750 |
| Mar-16 | KVMRT SBK Line (MRT feeder buse depot at Kajang) | Potensi Cekal Sdn Bhd | 63 |
| Feb-16 | Samalaju-2 Substation Establishment Project in Samalaju, Bintulu | Hock Seng Lee-Larsen & Tourbro | 281 |
| Jun-16 | Lebuh raya Persisiran Pantai Barat (Teluk Intan - kg Lekir in perak) | WZ Satu | 43 |
| Jun-16 | Oxley Rising Sdn Bhd - mixed commercial building at Lot 99 Jln Ampang | Econpile Holdings | 208 |
| Jun-16 | Piping Erection Subcontract Package | WZ Satu | 19 |
| May-16 | Road, Drainage, Culvert and Duct Bank Works Package at Rapid Project | Mitrajaya Holding | 52 |
| May-16 | PETRONAS Refinery and Petrochemical Intergrated Development Project (RAPID) | Barakah Offshore | 84 |
| May-16 | Elysia Park Residence-Phase 1 | Kerjaya Prospek | 313 |
| May-16 | Affordable Housing Development (Batu Berendam, Phase 3) | Flonic Hi-Tec | 30 |
| May-16 | Rehabilitation of Jerantut-Gua Musang railway station | Fajarbaru Builder Group | 260 |
| May-16 | Selangorku affordable apartments, Mukim Petaling | Kimlun | 166 |
| Apr-16 | 492 units of houses in Plentong, Johor Bahru | Kimlun | 98 |
| Apr-16 | Renovation works in 7 schools in Sarawak | Iris Corp. Bhd | 29 |
| Apr-16 | Upgrading of Phnom Penh Airport in Cambodia | Muhibbah Engineering-VCGP | 88 |
| Apr-16 | Substructure woks for a commercial development in Sg Buloh | Econpile Holdings | 55 |
| Mar-16 | Bored piling and basement work for a hotel in Penang | Econpile Holdings | 52 |
| Mar-16 | Construction of a service apartment block in Persiaran Stonor, KL | Ikhmas Jaya | 174 |
| Mar-16 | Work of Civil and Underground Piping in RAPID project package 2 (subcon) | Ho Hup Construction | 58 |
| Mar-16 | 4 Storey Temporary Sales Office, Jln Hang Tuah/Jln Pudu | Zelan Bhd | 38 |
| Feb-16 | Construction of a condominium | Pesona Metro Holding | 181 |
| Feb-16 | Extension of 11-storey office building at Kota Kinabalu (Sabah Petronas Carigali) | Muhibbah Engineering | 137 |
| Feb-16 | Mixed development complex building and external works, Section 13 PJ | Mitrajaya Holding | 293 |
| Feb-16 | PPA1M houses at Precint 17, Putrajaya | Mitrajaya Holding | 157 |
| Feb-16 | New Sewerage Treatment Plant, Danga Bay Johor | Progressive Impact Corp | 44 |
| Sub-total | | | 3,774 |
| Total | | | 29,634 |

Source: The Star, NST, Malay Mail, The Sun, The Edge, Affin Hwang, company

Major infrastructure projects to roll out in 2H16

RM49bn worth of projects to roll out in 2H16

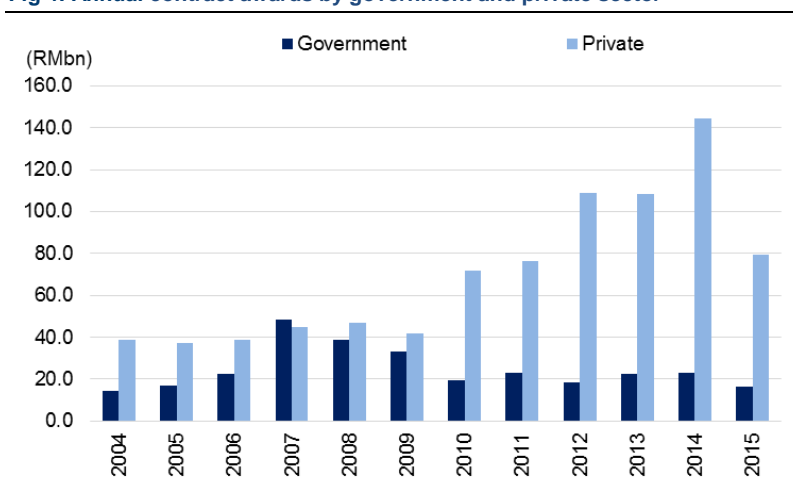
With roll out of major highway, MRT and LRT projects, we believe the total contract awards in 2016 could match the RM96bn recorded in 2015. We estimate the value of major infrastructure projects to roll out in 2H16 is about RM49bn, providing opportunities for the local construction companies to expand their order books.

Fig 3: Balance of contracts to be awarded in 2H16

| Project | Cost (RMbn) | Potential listed co bidders |
|---|-------------|--|
| Klang Valley MRT Line 2 (Sg Buloh-Selayang-Putrajaya) | 7.3 | Gadang, Mudajaya, GAQRS, WCT, |
| Pan-Borneo Highway (Sarawak section) | 12.8 | Cahaya Mata-Bina Puri, Gamuda-Naim, WCT-KKB End, Suncon-KTS, IJM |
| LRT Line 3 (Bandar Utama-Shah Alam-Klang) | 9.0 | Suncon, IJM, Gamuda, Gadang, TRC |
| Southern Double-Tracking Rail | 8.0 | Gamuda, IJM, WCT, Fajar Baru |
| West Coast Expressway | 2.2 | IJM, WCT, WZ Satu |
| Sungai Besi-Ulu Kelang Elevated Expressway (Suke) | 5.3 | IJM, Suncon, WCT |
| Damansara-Shah Alam Highway (DASH) | 4.2 | IJM, Suncon, WCT |
| Total | 48.8 | |

Source: The Star, NST, Malay Mail, The Sun, The Edge, Affin Hwang

Fig 4: Annual contract awards by government and private sector



Source: Construction Industry Development Board

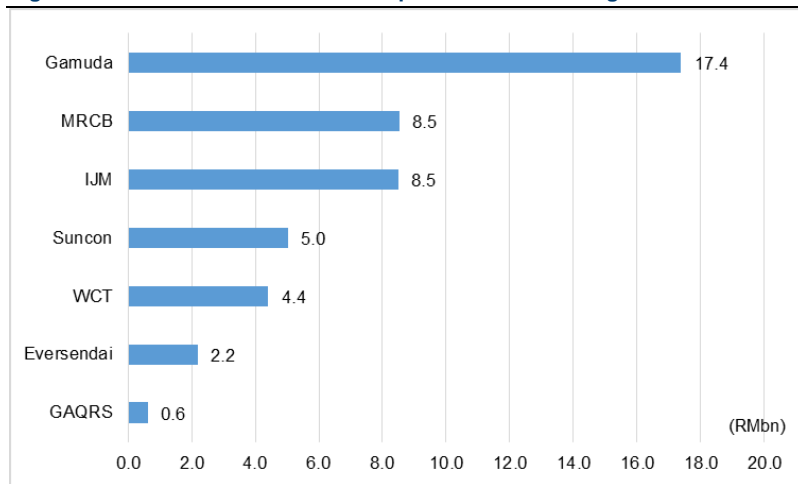
Record order books for construction companies

We believe the small unlisted contractors were affected the most from the fall in construction contract awards in 1Q16. The large listed construction companies under our coverage, ie, Gamuda, IJM Corp, Malaysian Resources Corp (MRCB) and WCT, have record order books after securing major contracts in 2015-16. Including the PDP and underground works for MRT2, Gamuda has the highest order book at RM17.4bn in the sector. IJM Corp and MRCB have the second largest order book at about RM8.5bn.



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Fig 5: Construction order book of companies under coverage

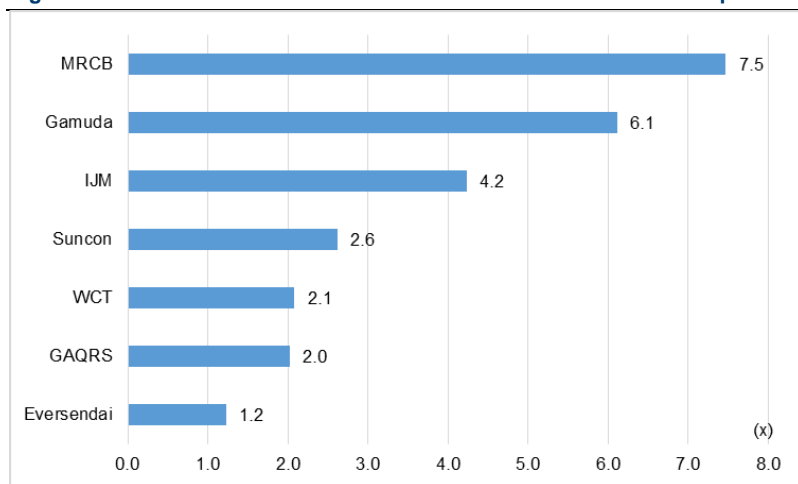


Source: Company, Affin Hwang estimates

Good earnings visibility

MRCB, Gamuda and IJM have the best earnings visibility, as their outstanding order book is more than 4x their historical annual construction revenue. We believe the potential new contracts to be secured this year by Suncon and WCT (our top sector picks) will grow their order book and improve earnings visibility to narrow the gap with peers such as IJM and MRCB. The recent contract win by Gabungan AQRS has also improved the earnings visibility with order book/annual revenue ratio of 2x.

Fig 6: Construction order book / Annual revenue ratio of selected companies



Source: Company, Affin Hwang estimates

Cut in government development expenditure previously

The government has reduced development expenditure by RM4-5bn to RM45-46bn under the recalibrated Budget 2016 announced on 28 January 2016. This was done on the assumption that oil prices will remain low at US\$30-35/barrel and reduce the government revenue from Petronas. The implementation of non-physical projects and projects that are still under study is to be rescheduled. Physical projects that will be prioritised include

construction of affordable houses, hospitals, schools, roads and public transport as well as security. The reduced development expenditure budget for 2016 is still 21% higher than the amount spent in 2015.

Potential increase in development expenditure

But with Brent oil prices recovering to US\$48-50/barrel, there is fiscal flexibility for the government to increase the development expenditure budget back to RM50bn, the original budget before the cut in January. We believe the government will likely do so if real GDP growth slows and there is a risk that the official forecast of 4.0-4.5% growth is not achievable. Some risks to economic growth in 2016 include weaker-than-expected private consumption growth or external risks such as Brexit, increase in US federal funds rate and economic hard landing for China.

A higher development expenditure budget will likely benefit the contractors as previously delayed infrastructure projects could be brought forward for implementation.

Fig 7: Original and recalibrated Budget 2016

| RM bn, unless stated otherwise | Original (Oct-15) | Recalibrated (Jan-16) | | Projected average change per US\$1/bbl | |
|--------------------------------|-------------------|-----------------------|-------|--|-------|
| Oil price (US\$ per barrel) | 48.0 | 35.0 | 30.0 | 48-35 | 35-30 |
| Revenue | 225.7 | 217.9 | 216.3 | 0.6 | 0.3 |
| Total expenditure | 264.4 | 256.4 | 254.9 | 0.6 | 0.3 |
| Opex | 215.2 | 211.2 | 210.7 | 0.3 | 0.1 |
| Net DE | 49.2 | 45.2 | 44.2 | 0.3 | 0.2 |
| Gross DE | 50.0 | 46.0 | 45.0 | 0.3 | 0.2 |
| Loan recoveries | -0.8 | -0.8 | -0.8 | 0.0 | 0.0 |
| Fiscal balance | -38.8 | -38.5 | -38.7 | 0.0 | 0.0 |
| Fiscal balance (% of GDP) | -3.1 | -3.1 | -3.1 | 0.0 | 0.0 |

Source: Ministry of Finance (MOF)

Fig 8: 2015 government finance

| 2015 Budget RM bn, unless stated otherwise | Announcement date | Oil price (US\$/bbl) | Revenue | OPEX | DE | Fiscal balance | Fiscal balance (% of GDP) |
|---|-------------------|----------------------|--------------|--------------|-------------|----------------|---------------------------|
| Original budget 2015 | 10-Oct-14 | 100.0 | 235.2 | 223.4 | 48.5 | -35.7 | -3.0 |
| Revised budget 2015 | 20-Jan-15 | 55.0 | 222.9 | 212.4 | 48.5 | -37.2 | -3.2 |
| 2015 estimates in Budget 2016 | 9-Oct-15 | 55.0 | 222.5 | 213.3 | 47.4 | -37.2 | -3.2 |
| Actual | | 52.0 | 219.1 | 217.0 | 40.8 | -37.2 | -3.2 |

Source: Ministry of Finance (MOF)

Major rail and highway projects to proceed

Large-scale infrastructure projects such as the MRT, LRT, PBH and High Speed Rail (HSR) will also proceed. These projects generate long-term economic benefits from the improvement in the national rail and highway network. Malaysian Vision Valley (Sime Darby-EPF), Cyberjaya City Centre (MRCB) and HSR are to be implemented on a public-private partnership basis and hence private investments should reduce the burden on the government's finances. Meanwhile, RAPID should continue to be developed by Petronas due to committed investments to build the refinery and oil storage facilities.

Strong pipeline of infrastructure projects to be implemented

We remain bullish on the prospects for the Malaysian contractors to grow their order books on expectations of RM291bn worth of major infrastructure



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projects to kick off before 2020. This is to support the Malaysian government's Economic Transformation Programme to achieve the high-income nation status by 2020.

Fig 9: Potential large-scale construction projects to kick off by 2020

| Project | Cost (RMbn) | Potential listed co bidders |
|--|--------------|---|
| The Pengerang Integrated Petroleum Complex project | 69.0 | WCT, Gadang, Dialog, Muhibbah |
| KL-Singapore High Speed Rail | 40.0 | Gamuda, IJM, YTL |
| Klang Valley MRT Line 3 (Circle Line) | 30.0 | MMC-Gamuda, IJM, Suncon |
| Klang Valley MRT Line 2 (Sg Buloh-Selayang-Putrajaya) | 30.0 | MMC-Gamuda, IJM, Suncon |
| Pan-Borneo Highway | 28.9 | Cahaya Mata-Bina Puri, HSL, Gamuda-Naim, WCT-KKB End, Suncon, IJM |
| Penang Transport Master Plan | 27.0 | Gamuda, IJM, WCT |
| LRT Line 3 (Bandar Utama-Shah Alam-Klang) | 9.0 | MRC-George Kent, Suncon, IJM, Gamuda |
| Gemas-Johor Bahru Electrified Double-tracking Rail | 8.0 | Gamuda, IJM, WCT, Fajar Baru |
| Serendah-Port Klang-Seremban Bypass Electrified Double-tracking Rail | 8.0 | Gamuda, IJM, WCT, Fajar Baru |
| West Coast Expressway | 5.0 | IJM, WCT, WZ Satu |
| Sungai Besi-Ulu Kelang Elevated Expressway (SUKE) | 5.3 | IJM, Suncon, WCT |
| Damansara-Shah Alam Highway (DASH) | 4.2 | IJM, Suncon, WCT |
| River of Life | 4.0 | Ekovest |
| Setiawangsa-Pantai Expressway (DUKE Phase 3) | 3.9 | Ekovest |
| KL118 Tower | 3.4 | UEM-Samsung |
| Kuantan Deep Water Terminal | 3.0 | IJM |
| Kota Kinabalu Water Supply Scheme | 2.8 | WCT |
| Kuala Lumpur International Airport Terminal 3 | 2.5 | WCT, Gadang |
| Kinrara-Damasara Expressway (KIDEX) | 2.5 | |
| Kuala Krai-Kota Baru Highway | 2.0 | |
| East Klang Valley Expressway (EKVE) | 1.6 | AZRB |
| Kwasa Damansara infrastructure works | 1.0 | WCT, Gadang |
| Upgrade East Coast Railway Line | 0.2 | |
| Total | 291.2 | |

Source: The Star, NST, Malay Mail, The Sun, The Edge, Affin Hwang

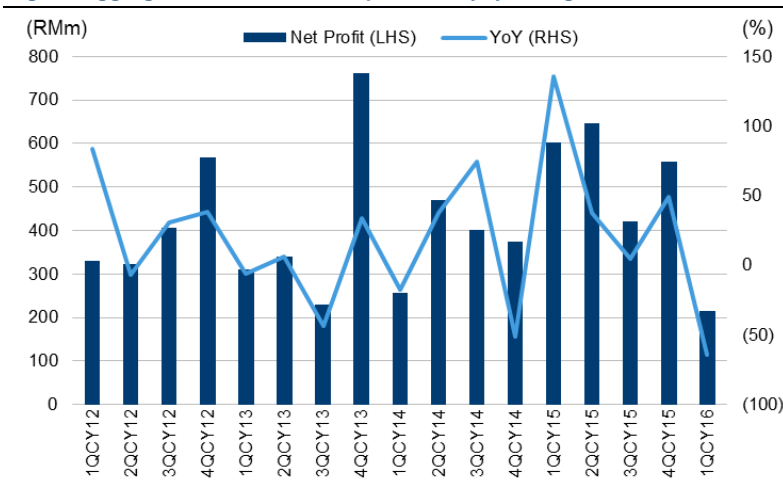


Core earnings rebounded qoq in 1Q16

1Q16 results were generally below expectations

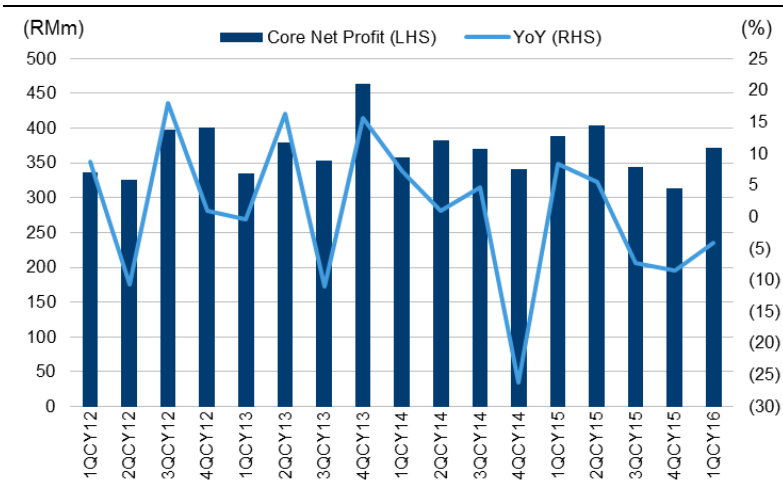
Overall, the construction stocks under our coverage reported 1Q16 results that were below our and market expectations. The stronger Ringgit in 1Q16 led to unrealised forex losses for companies with overseas operations such as IJM Corp, WCT and Eversendai. Sector earnings contracted 64% yoy and 62% qoq in 1Q16. This was mainly due to lower exceptional gains while Eversendai incurred an exceptional loss due to the write down of an associate. Core earnings was down 4% yoy but rebounded 19% qoq in 1Q16.

Fig 10: Aggregate construction net profit and yoy change



Source: Affin Hwang estimates, company

Fig 11: Aggregate construction core net profit and yoy change



Source: Affin Hwang estimates, company

Order book expansion and improving profit margins

Most construction companies saw order book expansion to new highs with the award of contracts for the MRT2 project (IJM Corp, MRCB, Sunway Construction and Gamuda benefited). However, the new projects have not contributed significantly to bottom line in 1Q16 but will start contributing in



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subsequent quarters. Construction pre-tax profit (PBT) margins generally improved for the companies under our coverage as legacy projects with poor profitability are weaning off.

Fig 12: Construction PBT margins

| Year to 31 Dec | 1Q15 | 2Q15 | 3Q15 | 4Q15 | 1Q16 |
|---------------------|--------|------|--------|--------|--------|
| Benalec | (12.6) | 20.5 | 11.8 | 14.9 | 3.2 |
| Eversendai | 5.3 | 3.6 | 4.0 | 2.6 | (10.6) |
| Gabungan AQRS | 3.5 | 1.4 | (52.4) | 13.8 | (4.2) |
| Gamuda | 9.1 | 5.2 | 6.0 | 8.2 | NA |
| IJM | 28.5 | 19.0 | 11.6 | 7.2 | 15.0 |
| MRCB | 1.6 | 12.2 | 21.2 | (24.6) | 0.7 |
| Sunway Construction | 4.2 | 6.3 | 2.4 | 2.2 | 7.0 |
| WCT | 11.0 | 11.9 | 37.9 | (4.2) | 1.0 |

Source: Affin Hwang estimates, company

Maintain Overweight

Top BUYs are Suncon, WCT and Gamuda

We reiterate our Overweight stance on the Malaysian construction sector as we believe core EPS growth of 16% YoY in 2017E will outpace the market average of 7% YoY. The weighted average construction sector fully diluted core 2016E PER of 20x is above the market average of 17.4x. We look for news flow on the awards of major infrastructure projects in 2016 to sustain the upward re-rating of the construction stocks. Our top BUYs are Suncon, WCT and Gamuda. We recently upgraded Gabungan AQRS to BUY from Sell as prospect for the company to expand its construction order book has improved with its venture into building affordable homes for the government.

Fig 13: Valuations and core EPS growth for the Malaysian sectors and market

| Sector | Rating | Core EPS Growth (%) | | Core PER (x) | | Yield (%) | P/BV (x) | ROE (%) |
|-------------------------------|--------|---------------------|------------|--------------|-------------|------------|------------|------------|
| | | 2016E | 2017E | 2016E | 2017E | 2016E | 2016E | 2016E |
| Banks & Financial Services | OW | 4.8 | 7.7 | 13.1 | 12.3 | 3.7 | 1.5 | 10.4 |
| Auto & Autoparts | N | 92.9 | 56.1 | 24.2 | 14.4 | 2.7 | 1.1 | 3.5 |
| Building Materials | UW | 28.2 | 2.2 | 23.4 | 23.0 | 4.0 | 2.3 | 9.1 |
| Construction & Infrastructure | OW | 3.1 | 16.2 | 19.9 | 17.1 | 2.5 | 1.2 | 7.1 |
| Consumer | N | (3.3) | 7.9 | 23.6 | 22.4 | 4.3 | 17.3 | 22.8 |
| Gaming | OW | 14.8 | 10.3 | 16.3 | 14.8 | 1.1 | 0.6 | 4.5 |
| Healthcare & Pharma. | OW | 28.6 | 15.8 | 57.0 | 48.0 | 0.6 | 2.5 | 5.3 |
| Media | N | 1.8 | 10.5 | 18.7 | 16.6 | 5.1 | 5.4 | 21.6 |
| MREIT | OW | 105.1 | 3.9 | 16.6 | 16.2 | 5.5 | 1.1 | 6.8 |
| Oil & Gas | UW | (11.6) | 14.1 | 23.2 | 22.2 | 2.1 | 1.9 | 5.8 |
| Plantation | N | 37.3 | 25.4 | 22.2 | 18.2 | 2.7 | 2.2 | 9.6 |
| Property | OW | 1.7 | 12.2 | 10.8 | 9.6 | 4.0 | 0.9 | 7.6 |
| Rubber Products | N | 14.8 | 9.3 | 26.5 | 24.3 | 1.7 | 5.0 | 18.0 |
| Technology | OW | (6.5) | 3.5 | 17.6 | 17.2 | 2.5 | 2.9 | 16.9 |
| Telecoms | N | 6.3 | 5.1 | 25.7 | 24.4 | 3.3 | 4.8 | 19.4 |
| Timber | OW | (6.0) | 17.3 | 13.6 | 12.0 | 3.5 | 1.1 | 6.0 |
| Transports & Logistics | N | 9.8 | 9.6 | 17.7 | 16.7 | 1.5 | 1.3 | 7.7 |
| Utilities | N | 7.6 | 2.7 | 14.4 | 14.2 | 2.6 | 1.9 | 10.5 |
| Coverage | | 4.3 | 6.9 | 17.4 | 16.3 | 3.2 | 2.0 | 9.4 |

Source: Affin Hwang estimates



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Fig 14: Valuations for Malaysian construction companies

| Stock | Bbg | Rating | Sh Pr (RM) | TP (RM) | Mkt cap (RMbn) | Core PER (x) | | Core EPS gr (%) | | P/BV (x) | ROE (%) | DY (%) |
|--------------------------|----------|--------|---------------|------------|-------------------|--------------|-------------|-----------------|-------------|------------|------------|------------|
| | | | | | | CY16E | CY17E | CY16E | CY17E | CY16E | CY16E | CY16E |
| IJM Corp | IJM MK | BUY | 3.46 | 3.76 | 12.5 | 21.1 | 17.7 | 9.8 | 19.0 | 1.2 | 6.2 | 2.9 |
| Gamuda | GAM MK | BUY | 4.82 | 5.70 | 11.6 | 19.9 | 17.8 | (7.1) | 11.7 | 1.7 | 10.1 | 2.5 |
| MRCB | MRC MK | BUY | 1.06 | 1.46 | 2.0 | 27.0 | 20.8 | 200.7 | 29.8 | 0.8 | 2.8 | 2.4 |
| WCT Hldgs | WCTHG MK | BUY | 1.60 | 2.02 | 2.0 | 15.9 | 10.8 | 82.5 | 47.5 | 0.7 | 5.3 | 3.8 |
| Sunway Construction | SCGB MK | BUY | 1.53 | 1.98 | 2.0 | 13.8 | 11.7 | 5.0 | 18.6 | 3.8 | 29.4 | 3.6 |
| Eversendai | EVSD MK | BUY | 0.56 | 0.84 | 0.4 | 6.6 | 5.8 | 8.6 | 14.8 | 0.5 | 6.3 | 0.9 |
| Benalec | BHB MK | HOLD | 0.47 | 0.53 | 0.4 | 15.7 | 11.0 | 125.3 | 42.3 | 0.7 | 4.4 | 5.4 |
| Gabungan AQRS | AQRS MK | BUY | 0.95 | 1.20 | 0.4 | 11.2 | 12.5 | NA | (10.4) | 1.0 | 12.3 | 0.0 |
| Malaysian wgt avg | | | | | | 19.9 | 17.1 | 3.1 | 16.2 | 1.2 | 7.1 | 2.5 |

Source: Affin Hwang estimates

Fig 15: Malaysian construction sector and market top BUYs

| Top BUY | Rating | Analysts' Comments |
|---|--------|--|
| GAMUDA (GAM MK) Target Price : RM5.70 Share Price as at 14 June 2016 : RM4.82  | BUY | Gamuda is our top BUY among the Malaysian construction stocks with a fully-diluted RNAV-based 12-month target price of RM5.70. Gamuda and its partners have been appointed as the project delivery partner for the RM30bn Klang Valley Mass Rapid Transit Line 2 (MRT2) and RM27bn Penang Transport Master Plan (PTMP). MMC Gamuda Joint Venture was also awarded the RM15.47bn underground works contract for MRT2. The two projects will spur long-term earnings growth of its construction division. The potential sale of its 40% stake in the Splash water supply concession will provide the funding for its PTMP project. |
| Sunway Construction (SCGB MK) Target Price : RM1.98 Share Price as at 14 June 2016 : RM1.53  | BUY | Suncon is our top BUY among the mid-cap construction stocks with RM1.98 target price, based on a 10% discount to its RNAV. We believe its prospects to win new infrastructure projects are good as a pre-qualified contractor for LRT3, PBH (Sarawak stretch), SUKE and DASH expressways to be rolled out this year. We think SCGB provides pure construction exposure to the cyclical upturn for the sector. Its precast concrete division benefits from the weak Ringgit as it derives revenue in SGD. We also believe that its strong net cash position will support a high dividend payout and attractive net yield of over 3% in FY16E. |

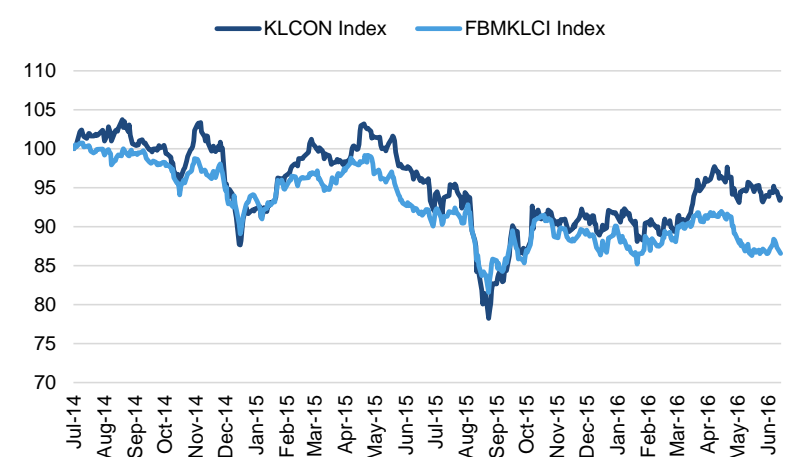
| Top BUY | Rating | Analysts' Comments |
|--|--------|--|
| WCT (WCTHG MK) Target Price : RM2.02 Share Price as at 14 June 2016 : RM1.60  | BUY | WCT is one of our top BUYs among the mid-cap construction stocks with a 12-month target price of RM2.02, based on a 10% discount to its RNAV. WCT clinched RM3.4bn new contracts in 2015 to extend its order book to RM5.6bn. We believe WCT's prospects to secure more local contracts have improved after it was pre-qualified to bid for the MRT2, LRT3, WCE, SUKE, DASH and PBH projects. The potential construction and shopping mall REIT listings in 1H17 should unlock values and reduce its gearing. We expect strong 3-year core EPS CAGR of 48% in FY16-18E |

Source: Bloomberg, Affin Hwang

KLCON outperforms FBMKLCI

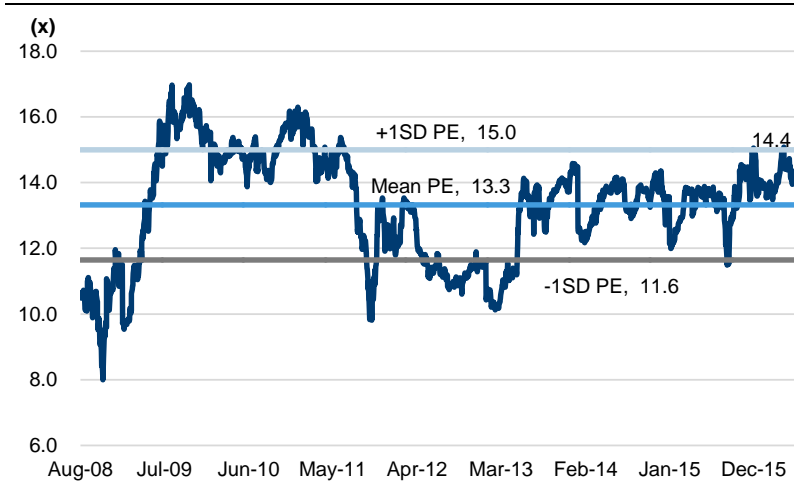
The KL Construction (KLCON) Index continues to outperform the FBMKLCI by 7% over the last two years due to positive news flow on new contract awards. Current 12-month forward PER of 14.4x for the KLCON Index is above the long-term mean PER of 13.3x. But current Price/Book of 1.27x is below the long-term mean Price/Book of 1.36x.

Fig 14: KL Construction Index vs FBMKLCI Index performance



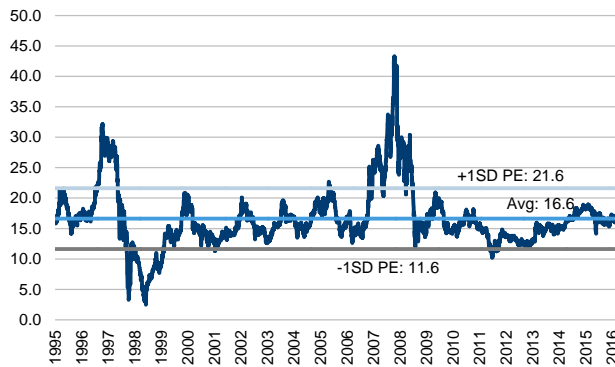
Source: Bloomberg

Outthink. Outperform.

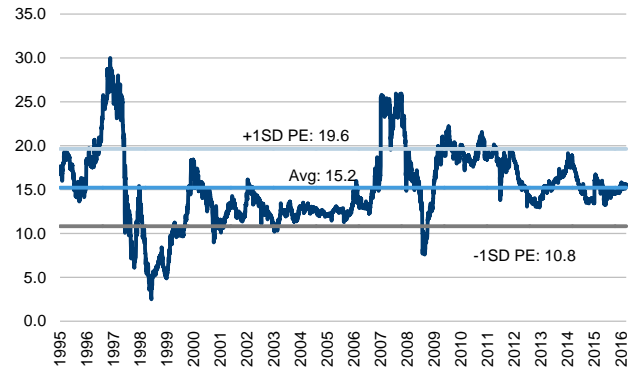
Fig 15: KL Construction Index 12-month forward PER**Fig 16: KL Construction Index 12-month forward Price/Book**

Examining the 12-month PER trading bands for the Malaysian construction stocks, we find that valuations are either close to the historical mean or at a discount. Given the short trading history for Suncon, which was listed in 4Q15, we examine its trading bands before the de-listing of the stock in 2006 and find that the current PER of 13.8x (ex-cash PER of 11.2x) is below the historical mean of 15.8x. In the current upcycle for the construction sector underpinned by the roll out of major infrastructure projects, we believe current PER valuations are undemanding. We believe this provides fundamental support for the outperformance of the stocks on expected positive news flow.

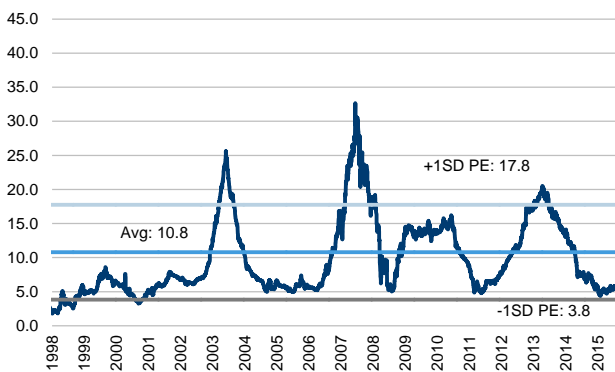
Outthink. Outperform.

Fig 17: Gamuda 12-month forward PER

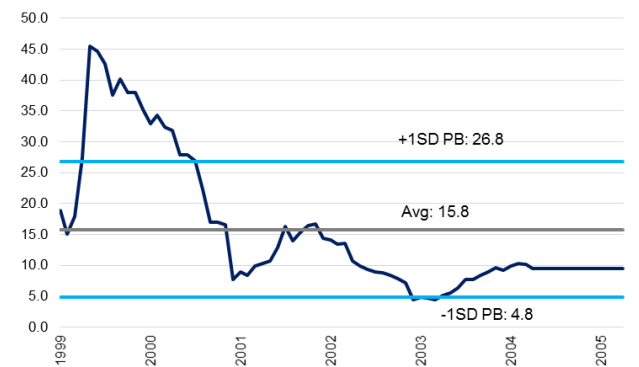
Source: Bloomberg, Affin Hwang estimates

Fig 18: IJM Corp 12-month forward PER

Source: Bloomberg, Affin Hwang estimates

Fig 19: WCT Holdings 12-month forward PER

Source: Bloomberg, Affin Hwang estimates

Fig 20: Suncon 12-month forward PER prior to de-listing

Source: Bloomberg, Affin Hwang estimates

Equity Rating Structure and Definitions

| | |
|------------------|--|
| BUY | Total return is expected to exceed +10% over a 12-month period |
| HOLD | Total return is expected to be between -5% and +10% over a 12-month period |
| SELL | Total return is expected to be below -5% over a 12-month period |
| NOT RATED | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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Affin Hwang Investment Bank Berhad (14389-U)
(formerly known as HwangDBS Investment Bank Berhad)
A Participating Organisation of Bursa Malaysia Securities Bhd
Chulan Tower Branch,
3rd Floor, Chulan Tower,
No 3, Jalan Conlay,
50450 Kuala Lumpur.
www.affinhwang.com
Email : affin.research@affinhwang.com
Tel : + 603 2143 8668
Fax : + 603 2145 3005