

Malaysia Construction

NEUTRAL

[Unchanged]

12MP: Sizeable GDE allocation, plus 3 priorities of interest

MYR400b GDE + PPP + highway + water

Although there was no mention of new major infra projects in the 12MP blueprint, the sizeable MYR400b GDE allocation (+61% vs. 11MP spend) do imply considerably high levels of construction activities during the 12MP period with potentially hefty bump-ups in 2023-24, when the GDE could peak. Three priorities in the 12MP blueprint interest us: (i) a new PPP blueprint; (ii) restructuring the model for highway development; (iii) adoption of a comprehensive water transformation agenda.

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Reaffirms our anticipation for two major trends

A new public-private partnership (PPP) blueprint and restructuring the model of highway development under the 12MP reaffirm our anticipation for two major trends in the sector: (i) that new major infra projects to be taken on via the private finance initiative or deferred payment financing model; and (ii) highway concessions to be restructured - both to alleviate the government's fiscal burden [\[link\]](#). We expect the KVMRT3 project to take on this new PPP model, with the private sector to take on the larger financing responsibility. As for tolled highways, a 'highway trust' or even a 'highway REIT' model could be the considerations.

Water transformation to lead to higher investments

The 12MP lays the foundation for a comprehensive water transformation agenda by accelerating the adoption of the Integrated Water Resource Management while the larger plans include establishing a single water management agency, promoting innovative financing mechanisms, and introducing a Tariff Setting Mechanism to ensure financial stability. If successfully implemented, the water transformation agenda should lead to higher investments in the sector, which have been lacking.

Beneficiaries; GAM, IJM & LTK as preferred BUYs

The sizeable MYR400b gross development expenditure (GDE) allocation do imply considerably high levels of construction activities ahead, which should benefit most in the engineering & construction (E&C) sector including their supply chain. A new PPP model will benefit E&C players with strong balance sheets, while a revised model for highway development could enable existing concessionaires to unlock values. There is no change to our sector (NEUTRAL) and stock calls; our preferred BUYs are GAM, IJM and LTK.

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							21E	22E	21E	22E	21E	22E
Gamuda	GAM MK	1,849	Buy	3.08	4.05	34	17.8	12.2	0.9	0.8	0.0	3.9
IJM Corp	IJM MK	1,584	Buy	1.82	2.20	24	18.3	25.7	0.6	0.6	3.6	10.4
Sunway Const'n	SCGB MK	506	Hold	1.64	1.66	5	34.2	12.0	3.2	2.9	2.1	4.3
Lingkar Trans l	LTK MK	469	Buy	3.69	4.90	33	10.0	10.1	1.7	1.5	5.2	5.4
Cahaya Mata S.	CMS MK	305	Buy	1.19	1.48	27	8.4	8.1	0.4	0.4	3.4	3.4
Hock Seng Lee	HSL MK	136	Hold	0.98	0.97	3	15.4	11.0	0.6	0.6	0.0	2.2

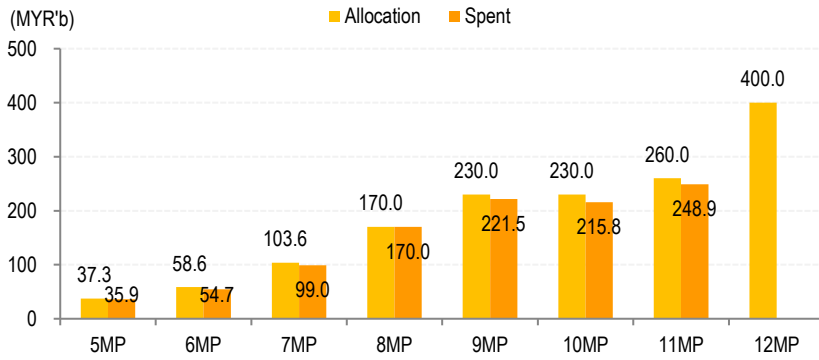
12th Malaysia Plan (12MP)

Sizeable MYR400b GDE allocation (+61%)

Gross development expenditure (GDE) allocation is estimated to be MYR400b during the 12MP period compared to MYR249b spent during the 11MP period. With allocation anticipated to be “challenging” for 2021 and 2022, and MYR76b GDE targeted for 2025, this implies hefty bump-ups in 2023 and 2024.

At least 50% of the basic development expenditure (Basic DE; 11MP: 46%) will be allocated to six less developed states - Sabah, Sarawak, Kelantan, Terengganu, Kedah, Perlis - with Sabah and Sarawak to each receive 15%-18% of the annual Basic DE. Basic DE projects include the construction of schools, hospitals, roads and industrial areas, and poverty eradication programmes.

Fig 1: Malaysia Plans’ Gross Development Expenditure (GDE)



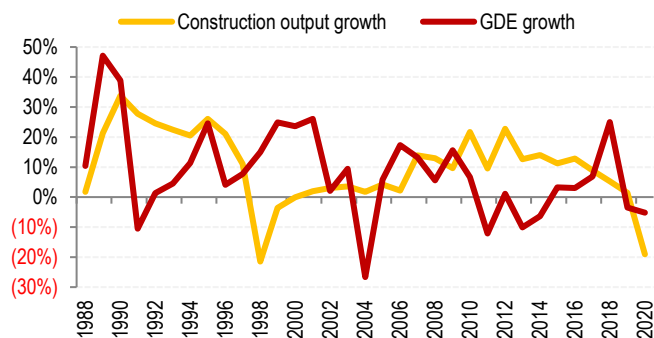
Source: Malaysia Plans

Construction output to grow an e.4.2% p.a.

Construction sector real output (at constant 2015 prices) is expected to grow by an average annual rate of +4.2% during the 12MP period, compared to a -0.7% contraction during the 11MP period (impacted by a -19.4% fall in 2020 vs. +4.7% average annual growth in 2016-19). By states, construction real output growth is expected to be the highest in the FT of Kuala Lumpur and Melaka at +5.7% each during the 12MP, with the smallest growth in Penang (+0.8%) which we believe has yet to consider the Penang Transport Master Plan/South Island projects.

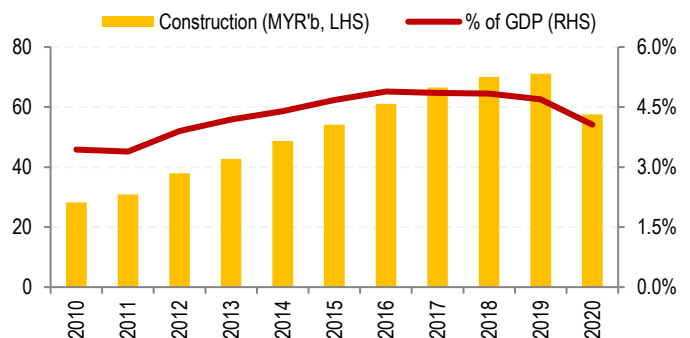
Construction sector contribution to real GDP is expected to be slightly lower at 3.8% in 2025 (vs. 4.0% in 2020).

Fig 2: Construction sector output growth vs. GDE growth (at current prices)



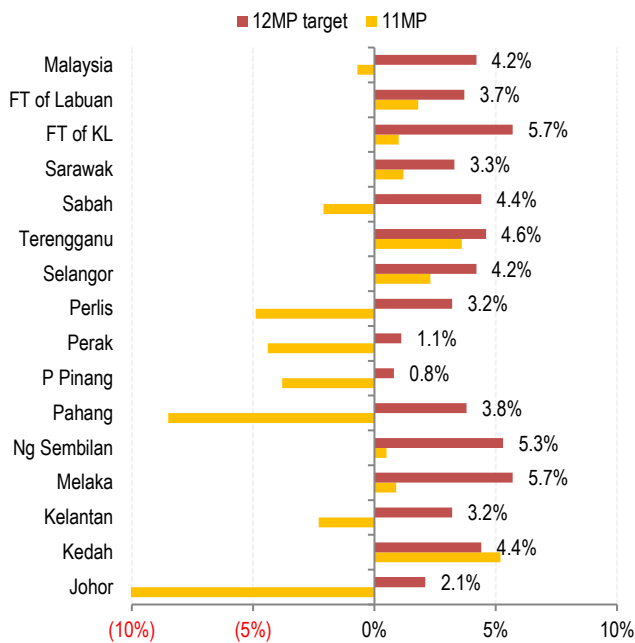
Source: Bank Negara

Fig 3: Construction sector output & contribution to GDP (at current prices)



Source: Bank Negara

Fig 4: Construction sector output average annual growth rate by states (at constant 2015 prices)



Source: 12MP blueprint

Existing major infra to continue; no new names mentioned

Construction of major infrastructure projects that have started will continue, but there was no mention of new major infrastructure projects that will kick-start during the 12MP period, with the exception of the JB-SG Rapid Transit System where works will start in end-2021. We had expected, at least, the reaffirmation of the KVMRT3 project under the 12MP blueprint with works on KVMRT2 completing in 2022. Major projects where construction will stretch into 2025 (the end of the 12MP period) are the Central Spine Road, Kota Bahru-Kuala Krai Highway, East Coast Rail Link and Baleh Hydroelectric Project.

Fig 5: Ongoing infrastructure projects

	% completion at end-2020	Expected completion
Central Spine Road (Bentong to Kuala Krai)	58.2%	2025
Kota Bahru-Kuala Krai (KBKK) Highway	37.8%	2025
Lebuhraya Pantai Timur 3 (Gemuruh-Tok Bali)	-	Prelim works to complete by 2Q22
Pan Borneo Sabah Highway (Sindumin-Tawau, 281km)	44%	2024
Pan Borneo Sarawak Highway (Telok Melano-Miri)	59.4%	2022
Greater KV highways:		
Sg Besi-Ulu Kelang Elevated Exp (SUKE)	-	4Q21
Damansara-Shah Alam Elevated Exp (DASH)	-	
East Klang Valley Exp (EKVE)	-	
Setiawangsa-Pantai Exp (SPE)	-	
Putrajaya-KLIA Exp (MEX II)	-	
West Coast Expressway (Banting-Taiping)	-	2024
Electrified Double Track Gemas-Johor Baru	-	2023
East Coast Rail Link	-	2026
Baleh Hydroelectric Project	-	2025

Source: 12MP blueprint

A new PPP blueprint to be introduced

A new public-private partnership (PPP) blueprint (termed as 'PPP 3.0') will be introduced to replace the existing 1991 Privatisation Master Plan as the focus remains on encouraging private sector participation in national development. The new PPP framework will cover projects implementation and financing models, as well as terms and conditions, to ensure a "fairer sharing of risks and benefits between the public and private sectors." A specific facilitation fund for infrastructure projects will be set up which will not involve any financial commitment from the Government and will adopt the request for proposal (RFP) approach. Projects under this new model would be announced by mid-2022.

Restructuring the model for highway development

In addition, the current model for existing and new highway development will be reviewed to "ensure that people will benefit from reasonable toll rates, while ensuring fair returns to investors. The restructuring aims to reduce the risk to the government while enabling concessionaires to undertake operations and maintenance of the highway and generate fair returns from toll collection."

MKE's views: A new PPP blueprint and restructuring the model of highway development under the 12MP reaffirm our anticipation for two major trends in the sector: (i) that new major infra projects to be taken on via the private finance initiative or deferred payment financing model; and (ii) highway concessions to be restructured - both to alleviate the government's fiscal burden. We expect the KVMRT3 to take on this new PPP model, with the private sector to take on the larger financing responsibility. As for the tolled highways, a 'highway trust' or even a 'highway REIT' model could be the considerations.

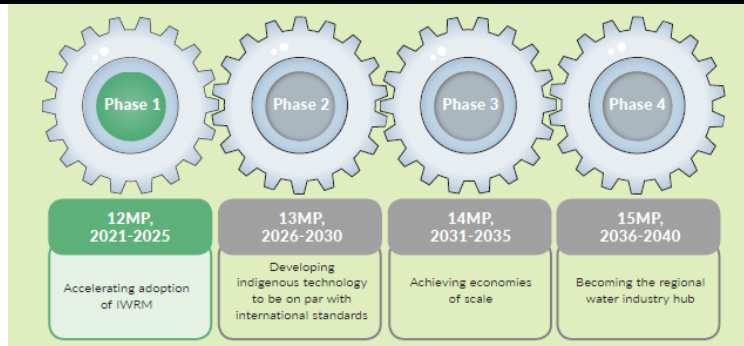
Adoption of a comprehensive water transformation agenda

The 12MP will lay the foundation for a comprehensive water transformation agenda by accelerating the adoption of the Integrated Water Resource Management (IWRM) which has not been effectively implemented due to differing policies at the federal, state and local government levels. The larger plans include introducing a Water Sector Transformation 2040 (WST 2040) agenda, establishing a single water management agency, promoting innovative financing mechanisms with more involvement of the private sector, and introducing a Tariff Setting Mechanism to ensure financial stability.

Among the key targets under the 12MP are MYR25.8b water infrastructure projects and 25% non-revenue water level in 2025.

MKE's views: Water resources and clean/portable water management have been the sore points in the sector, alongside continuously high non-revenue water (NRW) loss (36.4% in 2020) which has contributed to under-investment in new infrastructure. If successfully implemented, the IWRM/WST 2040 could lead to higher investments in the sector, thus benefiting the supply chain in water infrastructure including the pipe producers, in addition to the contractors.

Fig 6: Four phases of Water Sector Transformation 2040



Source: 12MP blueprint

Fig 7: Major infrastructure projects pipeline

Project	Estd Value (MYR b)	Updates
Digital		
National Digital Infrastructure Plan (JENDELA)	21.0	<ul style="list-style-type: none"> Phase 1 (2020-22): 96.9% mobile coverage (from 91.8%), 35 Mbps speed (from 25 Mbps) and 7.5 million premises passed. Phase 2 (2022-25): Full deployment of 5G, thus boosting digital connectivity nationwide. Ericsson (Malaysia) appointed to design and build the national 5G network for MYR11b.
Rail		
JB-SG Rapid Transit System (RTS)	3.715 (MY's portion)	<ul style="list-style-type: none"> G-to-G agreement inked on 30 Jul 2020. Ground-breaking ceremony held on 22 Nov 2020. [link] Under public inspection (15 Mar - 15 Apr 2021). Construction to start at end-2021; target completion in 2026.
KV Double Track Phase 2 (KVDT2)	4.475	<ul style="list-style-type: none"> An earlier award to Dhaya Maju LTAT S/B was cancelled in Aug 2020. An independent checking consultant will be appointed before the appointment of a new contractor via an open tender.
KV Mass Rapid Transit 3 (KVMRT3)	45.0 (original); 22.5 (rev 1.0); 30.0 (rev 2.0)	<ul style="list-style-type: none"> 2021 Budget Speech said that the project will proceed. Potential 50% reduction to its original cost of e.MYR45b. Cabinet has given the go-ahead to proceed with the project in Mar 2021; MRT Corp to update earlier studies with a view to kick-start works in 2H 2021. [link] The tender call is delayed a bit more to potentially early-2022 (from an earlier target of Aug 2021) due to changes in the project scope.
High Speed Rail (HSR)	70.0	<ul style="list-style-type: none"> G-to-G decision to cancel the project (on 1 Jan 2021) due to disagreement on some changes proposed by MY. MY has paid SG SGD102.8m/MYR320m for costs incurred (per joint announcement on 29 Mar 2021). MyHSR Corp Chairman said on 19 May 2021 that the HSR plan is still on track. [link]
Kuching Autonomous Rapid Transit (ART)	6.0	<ul style="list-style-type: none"> The ART system was proposed in Sep 2019 in favour of the LRT. Funding from the 12MP. Target commercial operations by 2025. [link]
Highways		
Sarawak Coastal Road & 2 nd Trunk Road	11.0	<ul style="list-style-type: none"> Coastal Road: Package 5 (MYR467m) awarded to a CMS led JV. 2nd Trunk Road: Tenders are believed to have opened.
Sabah-Sarawak Link Road	1.2	<ul style="list-style-type: none"> Works are expected to start in Sep 2021, for completion in 2026. [link]
Others		
Penang Transport Master Plan (PTMP)	32.0	<ul style="list-style-type: none"> PDP agreement between SRS Consortium (40% held by Gamuda) and Penang State inked on 1 Jul 2020. Federal Government had declined a MYR2b loan guarantee for the Bayan Lepas-Komtar LRT component. Island A development to be undertaken via a PFI structure (vs. PDP); SRS to enter into 2 JVs with the Penang State as Project Developer and Turnkey Contractor with Gamuda to take on Phase 1 reclamation works (announcement on 25 Mar 2021). Reclamation of Island A Phase 1 (1,200 acres) is pending Environmental Management Plan (EMP) approval.

Source: Various (compiled by Maybank KE)

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