

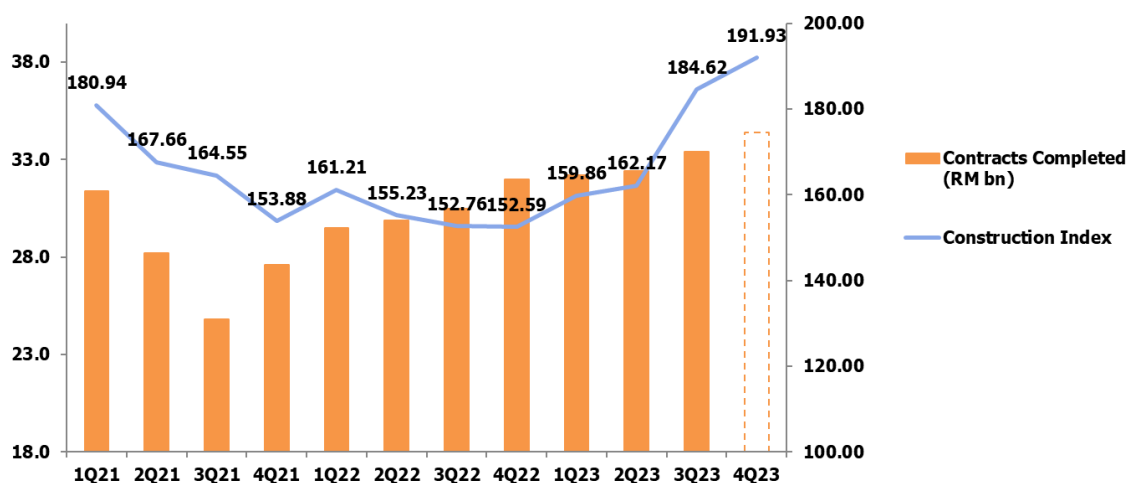
Construction sector

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Full steam ahead

- Review.** The construction sector remained upbeat of growth (+9.6% yoy) in 3Q23 with value completed totalling RM33.4bn, driven by civil engineering (+17.1% yoy) from the construction of road and railways, special trades activities (+16.2% yoy) and residential buildings (+7.9% yoy) that got the better of -0.7% yoy decline in the non-residential buildings. Meanwhile, the private sector makes up to 58.5% or RM19.6bn of the market share, while the remainder (41.5% or RM13.9bn) was contributed from the public sector.
- Along with the recovery in construction activities, the construction index registered +25.8% yoy gains to close at 191.93 pts in 2023. The said improvement came despite slightly softer earnings delivered within the construction sector in 3QFY23 which recorded core EPS of 3.60 sen vs 3.71 sen in 2QFY23. Still, consensus is pointing towards solid improvement in 4QFY23 with core earnings expected to record 4.63 sen.

Historical Value of Contracts Completed vs Construction Sector Index



Source: Department of Statistics, Apex Securities

- Outlook.** We expect the construction sector to shift into higher gear, moving into 2024 as we political uncertainties took a back seat following the favourable outcome from State elections. Driving the construction sector would be acceleration of mega infrastructure projects in the pipeline as well as the upward revision of allocation for development expenditure under the 12th Malaysia Plan mid-term review in bid to spur the Malaysia economic growth. Among the mega infrastructure projects to keep an eye for include East Coast Highway 3, flood-mitigation projects, the West Coast Expressway, the East Coast Rail Link, the Central Spine Road, Mass Rapid Transit 3 (MRT3) which is expected to take off in 1Q24, Bayan Lepas Light Rapid Transit (BLLRT) in Penang, Pan Borneo Highway (Sabah section), and Johor-Singapore Rapid Transit System.
- Elsewhere, the construction activities under private sector are expected to remain vibrant, premised to the revolution of technological advancement which resulted in mushrooming of data centres, warehousing facilities as well as construction of new semiconductor plants. Key initiatives to tackle the housing affordability will also benefit small-mid scale contractors with experience within the space. We expect the construction sector to see sequential improvement with construction contracts value hitting RM34.0bn in 4Q23.

- Valuation & Recommendation.** We gather that the construction sector is trading at forward PERs of 12.7x and 11.6x for 2024F and 2025F is below its historical two-year average of 15.0x implies potential upside over the foreseeable future. Under our coverage universe, we favour **AME Elite Consortium Bhd (BUY; FV: RM1.80)** for its established presence in the industrial building development that will be leveraging onto the construction of new manufacturing facilities and rising foreign direct investment into the country. Meanwhile, the group is also touted as one of the indirect beneficiaries from China Plus One strategy.
- Key Risk.** Increasing labour costs, elevated building material costs, delay or slowdown in projects execution.
- Summary.** We think that the construction sector outlook will remain vibrant, premised to the re-iteration of big-ticket items under Budget 2024. Consequently, we remain **Overweight** on the construction sector, as we view that the construction sector will play an integral role for Malaysia to transform into a high-income nation as early as 2026.

Top Picks

Company	Price (RM)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside
	as at 31Dec23	2023	2024F	2025F			
AME Elite Consortium Bhd#	1.67	10.55	11.97	11.98	1.80	1.95	16.8%
Kerjaya Prospek Group Bhd*	1.55	14.49	11.48	10.84	5.03	1.67	7.7%
Gamuda Bhd*	4.59	16.87	12.61	10.77	2.61	5.35	16.6%
Sunway Construction Bhd*	1.94	17.96	15.40	14.37	3.20	2.10	8.2%

AME Elite Consortium Bhd data based on FYE Mar

* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg