

Construction sector

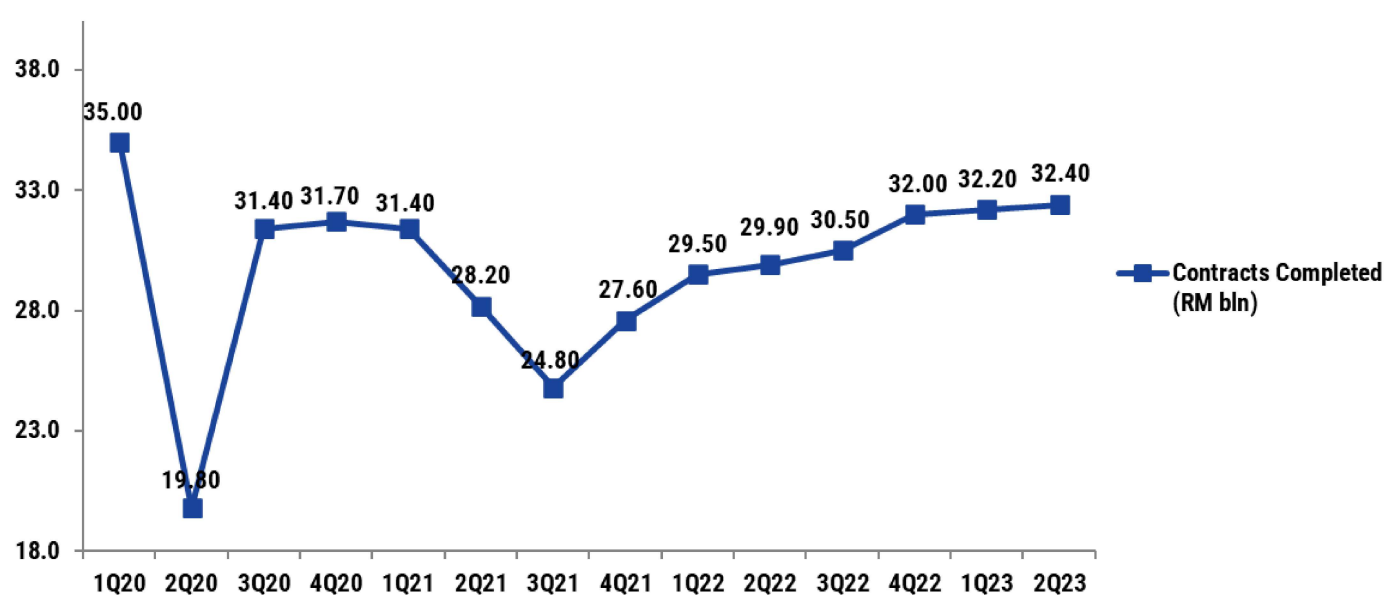
Kenneth Leong

kenneth.leong@apexsecurities.com.my

Shifting into higher gear

- Review.** The construction sector delivered its fifth consecutive quarter of growth (+8.1% YoY) in 2Q23 with value added totalling RM32.4bn, driven by civil engineering (+10.4% YoY), special trades activities (+9.8% YoY), non-residential buildings (+5.7% YoY) and residential buildings (+6.9% YoY). Meanwhile, the private sector makes up to 63.1% or RM20.4bn of the market share, while the remainder (36.9% or RM11.9bn) was contributed from the public sector.
- Elsewhere, 3Q23 construction index registered +13.8% QoQ gains to close at 184.62 pts. The said improvement was backed by stronger earnings growth with the construction sector in 2Q23 recorded EPS of 2.73 sen vs 1.61 sen in 1Q23.

Historical Value of Contracts Completed



Source: Department of Statistics, Apex Securities

- Outlook.** The recovery in the construction sector remained on track moving into 4Q23 ahead of the tabling of Budget 2024. We reckon growth will emanate from the acceleration of government-related projects following the favourable outcome from State elections as well as continuous expansion in private sector. Meanwhile, the easing of acute shortage of foreign workers, coupled with the softening steel bar prices (although cement prices still remain afloat) bodes well for margins stability.
- Key transport mega-infrastructure projects such as Central Spine Road, East Coast Highway 3, West Coast Expressway, ECRL, the Bayan Lepas Light Rail Transit in Penang, Mass Rapid Transit 3 projects are expected to remain on the table under Budget 2024 which will continue to rejuvenate the construction sector. For the time being, construction players should be kept busy with on-going road rehabilitation and upgrade works, construction of mass affordable housing projects and flood mitigation projects.
- Valuation & Recommendation.** Budget 2024 is expected to remain expansionary and is set to surpass RM390.0bn (above RM386.1bn in the revised Budget 2023) and approximately 25.0% (RM97.5-100.0bn) will be channelled into the development expenditure. Moving forward, we expect construction giants with solid track record such as **Gamuda Bhd (NR)**, **Sunway Construction Group Bhd (NR)** and **Kerjaya Prospek Group Bhd (NR)** to remain as focal point in the construction scene. Meanwhile, our top pick would be **MGB Bhd (NR)** that is leveraging onto LBS Bina

Group Bhd's developments and cost-optimisation initiatives and **AME Elite Consortium Bhd (BUY; FV: RM1.80)** for its established presence in the industrial building development that rides onto the rising foreign direct investment. We gather that the construction sector is trading at forward PERs of 15.3x and 12.5x for 2023F and 2024F is below its historical two-year average of 16.1x implies potential upside over the foreseeable future.

- **Key Risk.** Increasing labour costs, elevated building material costs, delay or slowdown in projects execution.
- **Summary.** While the construction sector may continue to operate in a competitive landscape, outlook appears to be brighter in anticipation of the acceleration in mega-infrastructure projects. All in all, we are **Overweight** on the construction sector, premised to the improvement in the country's fiscal position which provide further financial leeway for new mega-infrastructure projects to jump-start.

Top Picks

Company	Price (RM)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside / Downside
	as at 29Sep23	2022	2023F	2024F			
AME Elite Consortium Bhd#	1.46	9.60	14.88	13.50	1.51	1.80	23.3%
MGB Bhd	0.71	23.46	10.47	7.95	1.86	0.87	22.5%
Kerjaya Prospek Group Bhd*	1.21	14.72	13.18	11.08	4.96	1.52	25.6%
Gamuda Bhd*	4.35	13.65	14.63	13.06	9.43	5.16	18.6%
Sunway Construction Bhd*	1.86	15.77	17.91	15.89	3.23	2.01	8.1%

AME Elite Consortium Bhd data based on FYE Mar

* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg