

# CONSTRUCTION

**Maintain POSITIVE**

## All Systems Go for the Pearl of the Orient

### KEY INVESTMENT HIGHLIGHTS

- **Penang LRT receives Cabinet approval; now officially a Federal Government project**
- **29km line to run from Silicon Island-Komtar-Penang Sentral with 20 stations**
- **MRT Corp was appointed as developer and asset owner; Segment 1 (Silicon Island – Komtar alignment) offered to SRS Consortium. Six months to finalise negotiations of contract value and details**
- **Segment 2 and turnkey systems & rolling stocks packages to go through open tender process**
- **Maintain POSITIVE on sector. Preferred names are Gamuda (BUY, TP: RM5.98), IJM Corp (BUY, TP: RM2.57) and Malayan Cement (BUY, TP: RM5.33)**

**Cabinet approves Penang LRT.** The widely anticipated Penang Light Rail Transit (LRT) or the Mutiara LRT Line, has received the Cabinet's approval and is now officially a Federal Government project. The Finance Ministry-owned Mass Rapid Transit Corporation Sdn Bhd (MRT Corp) has been appointed as the project developer and asset owner. The alignment stretches 29km from the Silicon Island to Penang Sentral and will be fitted with 20 stations, including two interchange stations in Komtar and Penang Sentral, which will connect with the existing KTM Komuter and ETS networks. Construction is expected to begin in 4QCY24 and is slated to be completed by six years in 2030.

**Penang LRT packages.** The mega rail project will be divided into three contracts:

1. *Civil construction for Silicon Island to Komtar alignment (Segment 1)*
2. *Civil construction for Komtar to Penang Sentral alignment (Segment 2)*
3. *Turnkey systems and rolling stocks*

The government has offered the Segment 1 job via a single source request for proposal (RFP) to SRS Consortium Sdn Bhd, a 60% Gamuda subsidiary whereas the second and third contracts will be opened for tenders. SRS Consortium has six months to finalise the negotiations of the contract value and detailed information with MRT Corp. While there is no exact timeline on when the tenders for packages 2 and 3 will be called, MRT Corp has put up an RFP on Wednesday to appoint a land survey consultant for the project.

**RM8.2b for Segment 1?** Our channel checks suggests that the price per km for the construction of an LRT line could come up to RM350.0m. Pending confirmation of the alignment, Segment 1 is expected to be about 23.5km of fully elevated tracks from the Silicon Island to Komtar so a back on the envelope calculation would value the contract at about RM8.23b while the alignment for Segment 2 may come up to about 5.5km, also fully elevated tracks, valuing it at about RM1.93b, bringing the total cost to RM10.15b. This may, however, be lower if the total cost would be capped at RM10.00b, including the turnkey systems and rolling stocks. Recall that the Federal Government allocation for the Penang LRT under Budget 2024 was RM10.00b.

### COMPANIES IN FOCUS

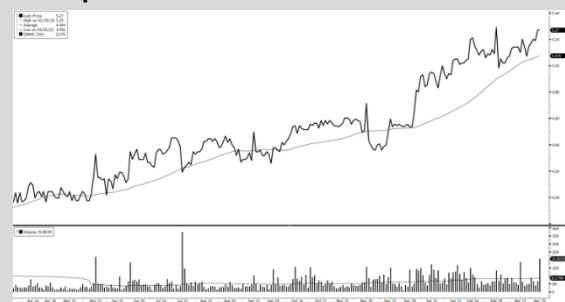
#### Gamuda Bhd

**Maintain BUY** | Unchanged target price: **RM5.98**

Price @ 29<sup>th</sup> March 2024: RM5.27

- Bulging construction order book at RM24.1b
- Strong overseas operations, now contributing 64% of core net profit
- Order book replenishment target of RM25b in two years

#### Share price chart



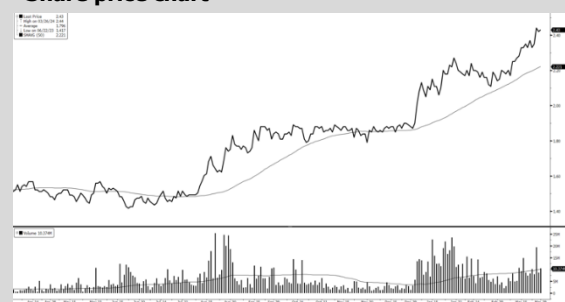
#### IJM Corp Bhd

**Maintain BUY** | Unchanged target price: **RM2.57**

Price @ 29<sup>th</sup> March 2024: RM2.43

- 3QFY24 core earnings of RM300.5m have already surpassed FY23 figures
- Solid outstanding order book of RM6.6b
- Pursuing opportunities in Sarawak and Nusantara

#### Share price chart



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**Who is SRS Consortium?** SRS Consortium is a joint venture between Gamuda (60%), Ideal Property Development Sdn Bhd (20%) and Loh Phoy Yen Holdings Sdn Bhd (20%). Ideal is a Penang-based property developer while Loh Phoy Yen, the namesake of the late tycoon Tan Sri Loh Boon Siew's daughter, is a holding company held by three of the late tycoon's grandchildren. Their father Datuk Seri Lim Su Tong is one of the executive directors of Oriental Holdings. In Aug-15, SRS Consortium was appointed the project delivery partner (PDP) through an open tender for the Penang Transport Master Plan (PTMP), of which the Penang LRT is part of. Throughout the years, the company had conducted the preliminary technical studies and designs and obtaining the approval for environmental impact assessment and social impact assessment.

**Certainty for Gamuda.** There is now a concrete decision in terms of Gamuda's involvement in the Penang LRT as it has been offered Segment 1, the larger of the two civil construction packages. Concerns arose last year on whether the Federal Government would appoint Gamuda for the civil construction works as per the contractual obligation the group has with the Penang state government. While this obligation does not exist with the Federal Government, we believe this is the right move to minimise disruptions in terms of legal issues, apart from expediting the roll out of the project. With the recent developments, pending negotiations with MRT Corp, we are rather certain that **Gamuda (BUY, TP: RM5.98)** will be able to add at least RM5.0b (60% of RM8.4b) to its bulging construction order book of RM24.1b. As the two other packages are open tenders, we opine that Gamuda may potentially secure further wins, provided that it outbids its competitors, as there should be no barriers for it to participate. We believe interested contractors, specifically for Segment 2, are the likes of **IJM Corp (BUY, TP: RM2.57)**, **Sunway Construction (NEUTRAL, TP: RM2.86)** and **MRCB (NEUTRAL, TP: RM0.63)**.

**Depot and TOD.** According to Transport Minister Anthony Loke's announcement, the operations depot for the Penang LRT will be located at Tapak Pesta Sungai Nibong. This will be developed together with a transit-oriented development (TOD) at the site as a joint venture initiative between MRT Corp and the state government, which will pave the way for more construction jobs, albeit smaller ones relative to the main Penang LRT packages. We estimate that the parcel of land measures about 15 to 20 acres. According to the minister, this is a strategy to generate additional non-fare revenue to be reinvested for the maintenance of the Penang LRT line in future. Meanwhile, Penang Chief Minister Chow Kon Yeow had also suggested for another depot to be built at the Silicon Island. According to the Environmental Impact Assessment (EIA) report for the Silicon Island segment of the LRT which has been on public display since March 5<sup>th</sup>, the plan was to build the depot on the northern side of the Silicon Island. In the report, it was stated that this was the most optimally located and designed as it had the least social impacts, land acquisitions, earthworks and zoning issues. It added that other depot options would result in greater social and environmental impacts. Other potential sites for the depot considered were in East Jelutong, Teluk Talip and Permatang Damar Laut.

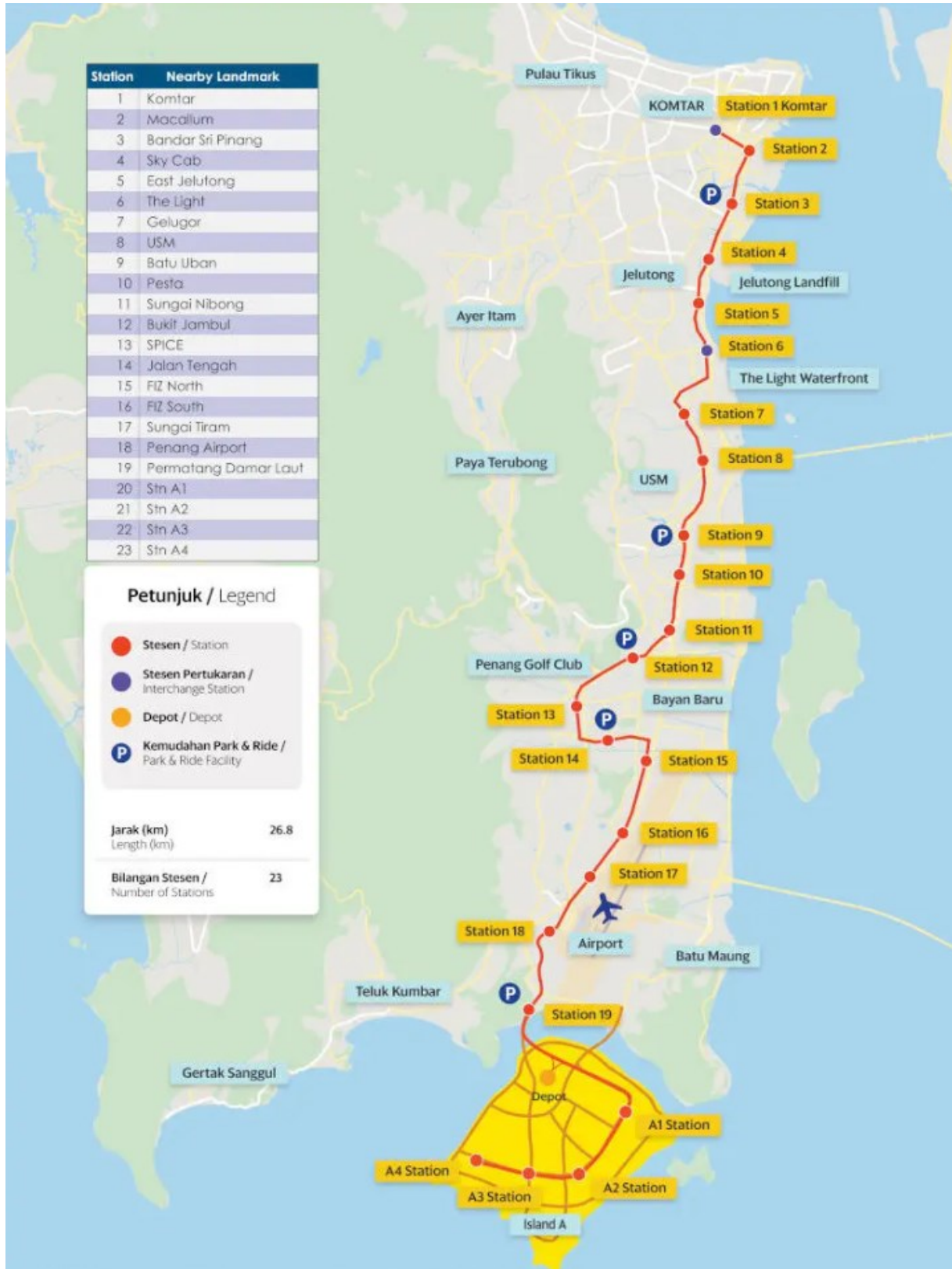
**Background of the Penang LRT.** The Penang LRT was part of the larger RM46.0b Penang Transport Master Plan (PTMP), among which the other proposed components include a Bus Rapid Transit (BRT), a tram line, two highways, two new roads, three major roads and a third link from the island to the mainland. In 2020, the Penang state government inked the master agreement with SRS Consortium, appointing it as the PDP to implement the PTMP. Three new islands were supposed to be reclaimed at the south end of the Penang Island, namely A (2,300 acres), B (1,400 acres) and C (800 acres), of which its land sales were to fund the Penang LRT. The plan has since been scaled down to only Island A (now known as the Silicon Island) after Prime Minister Datuk Seri Anwar Ibrahim announced funding from the Federal Government for the Penang LRT and called for the reclamation project to be reviewed in May-23. An RM10b allocation was then included for the project under Budget 2024.

**Potential line extensions in the future.** Chief Minister Chow Kon Yeow also hoped for the Komtar-Tanjung Bungah line to be built in the next phase. It was reported last year that MRT Corp believed the extension to Tanjung Bungah was necessary. This was among the proposals as well under the PTMP dubbed the Tanjung Tokong Line, a 7km transit line from Komtar to Tanjung Tokong with eight stations, which can be further extended to Tanjung Bungah and Batu Ferringhi, depending on needs.

**Maintain POSTIVE.** The Penang LRT is the first among the few mega projects that the construction sector has been longing for following the dry spell in recent years for sizeable infrastructure projects which has shifted the interest to private sector jobs such as data centres, warehouses and semiconductor foundries. The rollout of the Penang LRT is definitely a boon for the construction sector. Apart from Gamuda, we expect other players to also benefit from the sizeable Segment 2 package and contractors that may be awarded second-tier jobs. Cement producers such as Malayan Cement and steel players are also among beneficiaries, the latter for steel bars, rail and noise barrier requirements. We remain **POSITIVE** on the **CONSTRUCTION** sector as we expect the jobs pipeline to remain strong, from both the civil and private sectors, cementing the earnings quality for construction players over the next few years. Upcoming infrastructure projects on the radar are Phase 1B of the Sabah Pan Borneo, Phase 2 of the Sabah-Sarawak Link Road and the MRT 3, though we do not discount

possibilities of further tender validity extensions for the latter. The Bursa Malaysia Construction Index has seen a strong +39.6% rise over the past year and many strong contractors have seen an uptick in their share prices. Our top picks for now are **Gamuda (BUY, TP: RM5.98)**, **IJM Corp (BUY, TP: RM2.57)** and **Malayan Cement (BUY, TP: RM5.33)**.

Figure 1: Proposed alignment of the Penang LRT or Mutiara LRT Line



Source: Penang Infrastructure Corporation

Note: Figure 1 shows the indicative LRT alignment for the Penang Island, proposed stations and the depot location, prior to the Cabinet approval. The actual alignment and number, and location of stations may vary. The figure for the Komtar-Penang Sentral alignment is not available yet.

Table 1: Cost comparisons with other rail projects

	<b>MRT1</b>	<b>MRT2</b>	<b>MRT3</b>	<b>LRT3</b>	<b>Penang LRT</b>
<b>Length (km)</b>	46	57.7	51.0	37.0	29.0
-Elevated/ground portion (km)	36.5	44.2	39.0	34.8	29.0
-Underground/tunnel portion (km)	9.5	13.5	12.0	2.2	
<b>No of stations</b>	29	36	33	25	20
<b>Construction cost (RM'b)</b>	<b>21.0</b>	<b>32.0</b>	<b>34.2</b>	<b>16.6</b>	<b>10.2</b>
<b>Average price per km (RM'm)</b>	456.5	528.6	627.5	449.5	350.0
<b>Elevated/ground portion (RM'b)</b>	12.8	17.4	18.2	15.5	10.2
<b>Underground/tunnel portion (RM'b)</b>	8.2	13.1	13.8	1.1	
<b>Elevated price per km (RM'm)</b>	350.7	393.7	466.9	445.7	350.0
<b>Underground/tunnel price per km (RM'm)</b>	863.2	970.4	1,148.8	509.1	

Source: MIDFR (note: all average prices, MRT3 and Penang LRT figures are rough estimates)

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology