bonds and mortgage-backed securities that it purchased to stimulate the economy following the

rail boost for construction

Prasarana still has seven more packages to be awarded

By GURMEET KAUR

PETALING JAYA: Contract awards related to rail works continue to boost the construction sector with more to come.

This week alone, some RM6.06 billion worth of Light Rail Transit Line 3 (LRT3) contracts were dish out to three companies, which brings to a total of RM7.34 billion worth of LRT3 contracts awarded so far.

CIMB Research said it understood that Prasarana’s project owner of LRT3, still has several major civil works packages to be awarded for LRT3, which is expected to be concluded by year-end.

Besides the recently launched East Coast Rail Link (ECRL), the next big bundle of awards are said to be coming from Mass Rapid Transit 3 (MRT3) in the Klang Valley.

It was recently reported that the Government may consider expediting the construction of MRT3 (Circle Line).

This proposed rail link is estimated to cost RM35.5 billion and is expected to be completed two years earlier than the original 2027 target, CIMB Research said in a report.

According to MRT3, which is being touted as the rail story for 2018, has not been granted Cabinet approval.

CIMB Research said that this approval is targeted to be achieved by mid next year. It will then take at least another six months from Cabinet approval to project awards.

It is no surprise that the construction sector index on Bursa Malaysia has been on the upturn, having risen 15.39% as compared to the broad market’s 7.45%.

A key question though is whether these awards will translate into hefty profits for the winners.

One concern is that construction companies don’t necessarily earn as much as investors hope they do because it is not known the actual cost they have incurred in securing these projects. Large players also have a much higher cost base.

Next phase: A MRT3 train heading towards Kajang from Kuala Lumpur.

MRT3, which is being touted as the rail story for 2018, has not been granted Cabinet approval.

Macquarie Research said that based on its checks with the contract winners, it expected LRT3 to bring a gross margin of between 9% and 11%.

Based on this, Gabungan AQRS Bhd, which last week secured a RM1.2 billion 5G package to build guideways and three stations over a 4.2km stretch of the LRT3 alignment, is estimated to see its financial year 2018 (FY18) and FY19 earnings grow by 8% to 12% in tandem with the project timeline.

Its larger-than-expected order win brought its company’s order book to RM2.81 billion — a jump of 86% from RM1.4 billion as at end of last year.

Notably, the LRT3 award is Gabungan AQRS’ first major rail contract and put it in a better position to land other rail-related projects in the future such as East Coast Rail Link and KL-Singapore High-Speed Railway, said analysts.

Analysts have also upgraded the stock and raised their target prices. Shares of the mid-cap construction player rose 101.11% year-to-date to hit an all-time high of RM3.12 on Monday. In the case of Sunway Construction Group Bhd (SunCon), the RM2.02 billion LRT3 contract won has brought the value of jobs secured so far this year to a whopping RM3.68 billion.

The contract bumps up its outstanding order book by more than half from RM4.3 billion as at end of second quarter 2017 to RM6.56 billion, closing in on its order book of big-cap IIC Corp Bhd’s RM6.7 billion and Gamuda Bhd’s RM7.86 billion, said CIMB Research.

SunCon’s order book also comprised mostly rail works related to MRT2 and LRT3, it added.

Assuming a pre-tax profit margin of 6%, TA Research expects the construction giant’s FY18 and FY19 earnings to grow by 12.9% and 15.9% respectively, contributing a net profit of about RM56.7 million throughout the contract period.

This has upgraded the stock from a “sell” to “buy” on the back of strong earnings visibility over the next three years.

WCT Holdings Bhd is a big beneficiary of LRT3, having won three packages worth RM1.7 billion.

The company’s outstanding order book has hit RM2.5 billion, providing steady earnings for its construction division for the next three years, but its dwindling property sales and high gearing levels are areas of concern.

Alliance DBS noted that WCT’s current focus on clearing inventory via incentives and rebates would have a negative impact on margins, while the timeline for some initiatives to raise funds had been delayed.

“WCT is also bidding for construction contracts such as the Bus Rapid Transit (BRT) project, which may result in higher cashflow contraints in the immediate term,” the firm added.

The stock, which closed at RM1.79 on Friday, is down by about 22% from its peak.

According to CIMB Research, JIC Corp and Multihubah Engineering (M) Bhd could be among the next winners of LRT3 – a double-track rail alignment of 37km covering the areas of Bandar Utama, Shah Alam MRT3 station and ending at Jalan Sei Di in Klang.

Gamuda Bhd remains a contender for the 2km underground package, though it may not be a front-runner, given the potential change in project's scope and alignment.

There’s also spillover effect to the piling and substructure players, in particular the likes of Eicompile Engineering Bhd, which is a long-term client of Gabungan AQRS.

According to Macquarie Research, based on its checks with the piling players, 70%-90% of the contract value likely consist of piling and substructure works.

HSBC may appoint retail head as next CEO

LONDON: HSBC has appointed a former chief executive of the bank’s US retail banking business to manage its consumer operations and lead a search for its next chief executive.

Douglas Flint, who took up his new role on Oct 1, told a news conference that the appointment of his replacement is the first major decision facing the bank’s chief executive at the start of his HSBC career.

He has worked in both the investment banking and retail banking sides of the bank, spending 14 years in Asia at the start of his HSBC career.

Oil producers to meet soon

MOSCOW: A panel of Organisation of Petroleum Exporting Countries (Opec) and non-Opec producers will meet in Vienna on Oct 20 with no definite items on the table for what to do next with a global deal on cutting crude output, Russia’s RIA news agency quoted an Opec source as saying.

Asked if the panel would discuss the possible extension of the deal, which expires in March 2018, the unnamed source said: “All options for the future of the deal are open for discussion,” the news agency reported.

Reuters