

Malaysia

**Neutral** (no change)

**Highlighted Companies**
**Gamuda**
**ADD, TP RM4.05, RM3.36 close**

We expect Gamuda's rail and tunnelling credentials from MRT 1 and 2 to provide it with a strong advantage over other bidders for the MRT 3 underground package, which we estimate to be worth RM11bn for the MMC-Gamuda JV (50:50). End-Oct net gearing stood at 0.17x.

**HSS Engineers**
**ADD, TP RM0.685, RM0.54 close**

We believe the implementation of MRT 3 in CY22F bodes well for HSS given its track record of securing sizeable project management consultancy packages for MRT 1 and 2. Tenders and awards for engineering consultancy and project management typically occur earlier than for civil works.

**IJM Corp Bhd**
**ADD, TP RM1.79, RM1.60 close**

Stronger balance sheet post-IJM Plantations sale with end-Sep net gearing of 0.25x position IJM Corp as a strong contender for the tier 1 civil works packages of MRT 3, which have a private sector funding element.

**Summary Valuation Metrics**

| P/E (x)       | Dec-22F | Dec-23F | Dec-24F |
|---------------|---------|---------|---------|
| Gamuda        | 12.65   | 11.85   |         |
| HSS Engineers | 21.63   | 18.99   | 17.24   |
| IJM Corp Bhd  | 22.82   | 20.05   |         |

| P/BV (x)      | Dec-22F | Dec-23F | Dec-24F |
|---------------|---------|---------|---------|
| Gamuda        | 0.92    | 0.92    |         |
| HSS Engineers | 1.23    | 1.24    | 1.24    |
| IJM Corp Bhd  | 0.55    | 0.53    |         |

| Dividend Yield | Dec-22F | Dec-23F | Dec-24F |
|----------------|---------|---------|---------|
| Gamuda         | 3.44%   | 3.44%   |         |
| HSS Engineers  | 0.00%   | 0.00%   | 0.00%   |
| IJM Corp Bhd   | 5.68%   | 4.29%   |         |

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# Construction

## The building blocks of sustainability

- Malaysia's construction space enters the transformation phase in 2022 with sustainability initiatives, which could be an alternative recovery angle.
- We see a shift towards climate action and sustainable mega projects; RM31bn MRT 3 has been reactivated as part of "green growth" agenda.
- Water, flood mitigation and transport projects are key potential beneficiaries of this theme, which bodes well for Gamuda, IJM Corp and HSS Engineers.
- Neutral sector rating unchanged. Execution and funding are key risks.

### Sustainability as an alternative recovery pathway in 2022F

This report explores the domestic construction sector's sustainability space (the 'E' in ESG). Based on our findings, we believe that rising adoption of sustainable construction will emerge as a longer-term sector recovery theme - supported by new macro policy measures and the reactivation of the RM31bn MRT 3 project. These would mitigate short-to-medium term sector risks, such as weak visibility in other new mega jobs, limitation in the government's fiscal space and uncertainties surrounding mega contracts due to the political landscape. These findings substantiate our stock selection criteria - key beneficiaries of the MRT 3 project.

### Rollout of contracts more aligned to sustainability agenda

We believe the sustainability theme may provide better visibility and an alternative view in terms of: 1) resetting the government's strategy in rolling out new contracts, 2) better positioning for contractors in tendering for upcoming new mega projects, and 3) providing investors with a better perspective on the potential longer-term winners/beneficiaries of the rollout of new contracts that are more aligned to the sustainability agenda (climate action and urban transportation projects with higher economic multipliers).

### The ground is shifting towards sustainability-driven projects

The Construction Industry Transformation Programme (CITP), National Construction Policy (NCP) 2030 and 12<sup>th</sup> Malaysia Plan (12MP) have laid down the groundwork for a green agenda, green procurement practices and sustainability rating tools in the sector. The recently reactivated RM31bn MRT 3 will be an anchor economic recovery project given its higher multiplier effect and longer-term sustainability benefits along the rail supply chain with greater adoption of alternative (i.e. sustainable) building methods, such as Industrialised Building System (IBS).

### Execution and funding are key risks; retain Neutral sector rating

Rail contractors with superior ESG ratings have demonstrated their ability to adopt, roll out and improve their sustainability strategies, allowing them to benefit from mega contracts tenders. Gamuda is our top pick for both the MRT 3 and ESG themes while we also like IJM Corp and HSS Engineers. We retain our Neutral rating on the construction sector and remain cautiously positive on the post-pandemic recovery of other mega jobs in 2022. Political uncertainties and funding limitations for mega jobs beyond MRT 3 remain key risks. Upside risk: Re-emergence of new and legacy infra proposals more aligned to the sector's sustainability goals. Downside risk: Project delays (negative for order book growth, earnings and sentiment on overall sector).

**Figure 1: Construction sector's key metrics for assessing sustainability drivers**

| Metrics  | Weak | Moderate | Strong |
|--|------|----------|--------|
| Policy framework   |      |          | Strong |
| Implementation / execution   |      | Moderate | Strong |
| Rollout of sustainability related contracts                            | Weak |          |        |
| Sustainability rating tools  |      | Moderate | Strong |
| Availability of government funding                                     |      | Moderate | Strong |
| Availability of private sector funding (PFI, PPP, Hybrid)              |      | Moderate | Strong |
| Contractors' track record in executing sustainability related jobs     |      |          | Strong |
| Contractors' level of adopting sustainability strategies / disclosures |      | Moderate | Strong |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## TABLE OF CONTENTS

|  |    |
|--|----|
| An alternative recovery pathway .....  | 4  |
| Where Malaysia stands in the sustainability spectrum.....                          | 6  |
| Post the pandemic: NCP 2030 provides the macro platform .....                      | 8  |
| Tracking sustainability ratings for projects .....                                 | 11 |
| 12MP reemphasises sustainability .....   | 15 |
| MRT 3 encapsulates “green growth” agenda .....                                     | 16 |
| Flood mitigation and climate action initiatives .....                              | 18 |
| How ESG ratings of contractors stack up .....                                      | 22 |
| Valuation and recommendation.....  | 23 |
| Appendix # 1: Gamuda’s ESG initiatives.....  | 26 |
| Appendix # 2: IJM Corp’s ESG initiatives.....                                      | 28 |
| Appendix # 3: ESG highlights of other diversified contractors under coverage ..... | 30 |

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**Figure 2: Sector comparison**

| Company                  | Bloomberg Ticker | Recom. | Price<br>(local curr) | Target Price<br>(local curr) | Market Cap<br>(US\$ m) | Core P/E (x) |             | 3-year EPS<br>CAGR (%) | P/BV (x)    |             | Recurring ROE (%) |             | Dividend Yield (%) |             |
|--------------------------|------------------|--------|-----------------------|------------------------------|------------------------|--------------|-------------|------------------------|-------------|-------------|-------------------|-------------|--------------------|-------------|
|                          |                  |        |                       |                              |                        | CY2022F      | CY2023F     |                        | CY2022F     | CY2023F     | CY2022F           | CY2023F     | CY2022F            | CY2023F     |
| Gamuda                   | GAM MK           | Add    | RM3.36                | RM4.05                       | 2,035                  | 12.8         | 11.6        | 9.1%                   | 0.92        | 0.92        | 6.8%              | 7.3%        | 1.4%               | 3.4%        |
| HSS Engineers            | HSS MK           | Add    | RM0.54                | RM0.69                       | 63                     | 88.1         | 21.6        | 9.8%                   | 1.17        | 1.23        | 1.3%              | 5.5%        | 0.0%               | 0.0%        |
| IJM Corp Bhd             | IJM MK           | Add    | RM1.60                | RM1.79                       | 1,341                  | 27.3         | 22.8        | 0.0%                   | 0.57        | 0.55        | 2.1%              | 2.4%        | 9.0%               | 5.7%        |
| Malaysian Resources Corp | MRC MK           | Hold   | RM0.36                | RM0.38                       | 376                    | 104.9        | 40.6        | na                     | 0.35        | 0.36        | 0.3%              | 0.9%        | 2.1%               | 2.1%        |
| Muhibbah Engineering     | MUHI MK          | Reduce | RM0.55                | RM0.52                       | 62                     | na           | 8.7         | na                     | 0.24        | 0.23        | -0.3%             | 2.7%        | 0.0%               | 2.9%        |
| Sunway Bhd               | SWB MK           | Hold   | RM1.70                | RM1.83                       | 1,971                  | 22.6         | 19.7        | 9.0%                   | 0.70        | 0.66        | 3.8%              | 3.8%        | 0.9%               | 0.9%        |
| WCT Holdings             | WCTHG MK         | Add    | RM0.52                | RM0.65                       | 175                    | 17.2         | 13.3        | na                     | 0.19        | 0.21        | 1.1%              | 1.5%        | 4.7%               | 4.1%        |
| YTL Corporation          | YTL MK           | Add    | RM0.58                | RM0.65                       | 1,495                  | na           | 41.0        | na                     | 0.49        | 0.49        | -0.9%             | 1.2%        | 4.3%               | 4.8%        |
| <b>Average</b>           |                  |        |                       |                              |                        | <b>34.6</b>  | <b>23.3</b> | <b>37.2%</b>           | <b>0.48</b> | <b>0.47</b> | <b>1.4%</b>       | <b>2.0%</b> | <b>7.2%</b>        | <b>4.8%</b> |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS  
DATA AS AT 22 MAR 2022

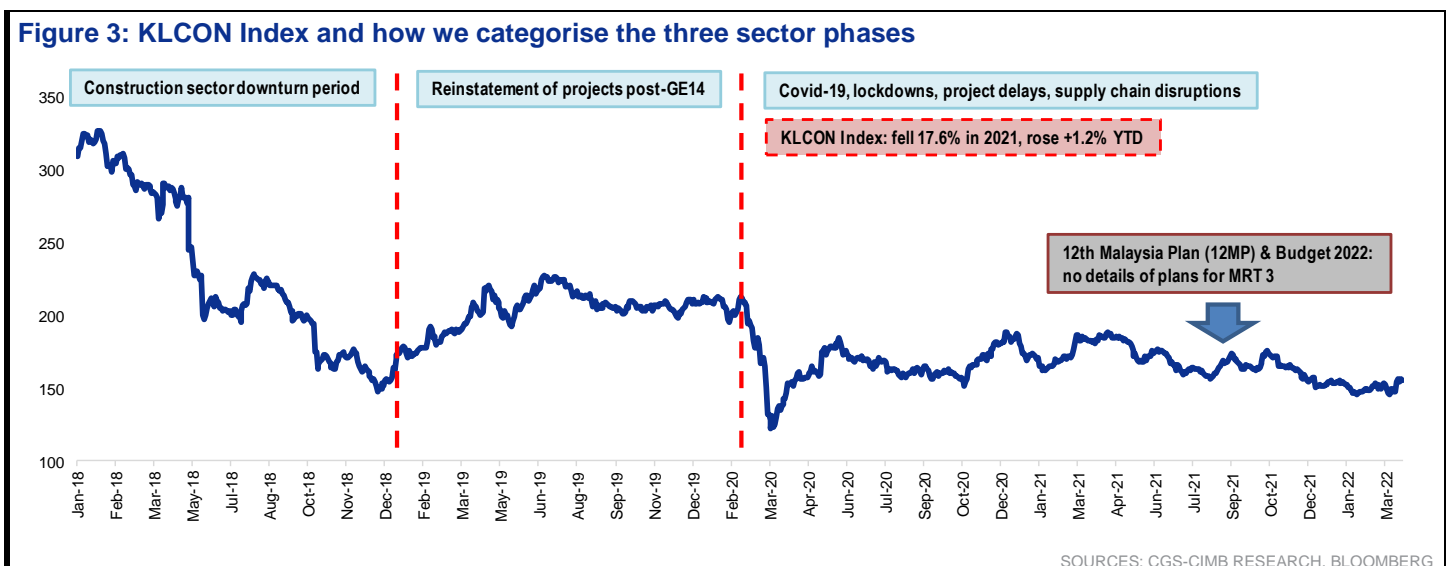
# The building blocks of sustainability

## An alternative recovery pathway

### Why sustainability matters in a contract downcycle phase ▶

In light of: 1) the absence of visibility in contract flows, 2) the disruptive impact of Covid-19 on job prospects and industry supply chain in the past two years (2020-2021), 3) the government's limited fiscal space to pump-prime the construction sector with new mega contracts, and 4) the potential risks of weak take-up from the private sector in larger-value hybrid funding (private-public partnership or PPP and private-finance initiative or PFI) projects, and 5) the current political landscape in 2022, which may impact the implementation and timing of new contracts, we explore the domestic construction sector's sustainability space based on the three perspectives below:

- Based on our assessment, the construction sector's transformation plans have so far mainly followed a top-down approach, i.e. the adoption of industry best practices in the area of sustainability, while industry players have been gradual in their embrace of higher sustainability standards and fairly selective in terms of types of projects. To promote and implement the construction sector's transformation strategies (including enhancing sustainability practices and introducing new sustainability rating tools), the government spent a total of RM761m over the five years of 2016-2020.
- Putting things into perspective, the Malaysian construction sector underwent an extended contract downcycle phase in 2020-2021, which was exacerbated by the lockdown and mobility restrictions to contain Covid-19. Given the prevailing uncertainties, funding risks and challenges in 2022 for a turnaround to the pre-pandemic contract upcycle phase, we believe the sustainability theme may provide better visibility and an alternative view in terms of: 1) resetting the government's strategy in rolling out new contracts, 2) better positioning for contractors in tendering for upcoming new mega projects, and 3) providing investors with a better perspective on the potential longer-term winners/beneficiaries of the rollout of new contracts that are more aligned to the sustainability agenda (climate action and urban transportation projects with higher economic multipliers).



- We identify selected macro policies, initiatives and targets that were in place prior to the pandemic (pre-2020) and how those success stories integrate with the construction sector's long-term transformation agenda under the National Construction Policy 2030 (NCP 2030). While, historically, we observed that sector-wide sustainability strategies and plans were somewhat fragmented, the government has placed greater emphasis on the domestic construction sector's pathway to higher sustainability standards, as seen in the 12<sup>th</sup> Malaysia Plan (12MP; 2021-2025). Our assessment of the sustainability framework, policies, implementation capability, funding availability and contractors' track record in participating/executing sustainability-related contracts (water, flood mitigation, urban rail systems, which directly and indirectly contribute to climate action plans and the reduction in carbon footprint), among others, is that it is a mixed bag, with the key limitation being funding risks.

**Figure 4: CGS-CIMB's view of where the domestic construction sector stands in the sustainability space vis-à-vis contract rollout**

| Metrics  | Weak | Moderate | Strong | Comments  |
|--|------|----------|--------|---|
| Policy framework   |      |          |        | Backed by 12MP and NCP 2030                               |
| Implementation / execution   |      |          |        | Expected to improve over time (longer-term)               |
| Rollout of sustainability related contracts                            |      |          |        | Water, flood mitigation, urban rail systems (MRT 3)       |
| Sustainability rating tools  |      |          |        | Ratings not available for all major projects              |
| Availability of government funding                                     |      |          |        | Committed to raise green bonds for MRT 3                  |
| Availability of private sector funding (PFI, PPP, Hybrid)              |      |          |        | Supportive of new mega contracts - MRT 3                  |
| Contractors' track record in executing sustainability related jobs     |      |          |        | Prefer Gamuda, IJM Corp and HSS Engineers                 |
| Contractors' level of adopting sustainability strategies / disclosures |      |          |        | Better disclosures and clearer targets for selected names |

*12MP: 12th Malaysia Plan*  
*NCP 2030: National Construction Policy 2030*  
*MRT 3: Mass Rapid Transit (phase 3, Circle Line)*

SOURCES: CGS-CIMB RESEARCH, 12MP, NCP 2030

### A broad view of industry players' sustainability profiles ➤

Our observations and discussions with key industry players revealed several points relating to sustainability:

- Firstly, sustainability initiatives and the sector-wide implementation of sustainability measures have been fragmented and are best studied on a case-to-case basis. The degree of adoption and disclosure of sustainability strategies vary across companies.
- Secondly, the domestic construction industry is entwined with 120 other sectors (upstream and downstream). According to the Construction Industry Development Board (CIDB), the construction sector output to GDP has a 2x multiplier effect. The injection of development spending is therefore one of the recovery strategies in an economic downturn or amid the fallout of a pandemic (in this case, Covid-19).
- Thirdly, the adoption of new technologies and alternative construction methods in line with the United Nations Sustainable Development Goals (UNSDGs) has been selectively applied on certain projects but not mandatory. This may be a case of achieving a balance between maintaining job creation and the additional cost of employing non-traditional methods. As an indicator, the domestic construction sector contributes about 9.6% to overall employment, translating into a workforce of about 1.2m.

**Figure 5: How sustainability is relevant along the construction value chain**



## Where Malaysia stands in the sustainability spectrum

### Sustainability-related initiatives kicked off with CITP in 2016 ➤

Malaysia's construction industry transformation towards sustainability gained traction during the 2016-2020 period under the Construction Industry Transformation Programme (CITP). As an overall masterplan, the CITP outlined the industry challenges/initiatives and identified changes needed over the longer term. The CITP was led by the Ministry of Works and implemented by the Construction Industry Development Board (CIDB) in collaboration with 17 government ministries, 20 government agencies and 20 construction industry associations. CITP was deemed to be the pilot project, laying the groundwork for overall sector transformation and identifying critical areas of improvements covering key targets, addressing sustainability issues and implementing sustainability rating tools:

#### Areas of focus included:

- To reduce carbon emission per GDP by 40% by 2020, using 2005 as the base line reference. For the overall construction industry, this translates into 5.5m mega tonnes of CO<sub>2</sub> p.a. (according to the Department of Environment, DOE).
- Wider usage and application of alternative construction methods, such as building information modelling (BIM), industrialised building system (IBS) and modular construction.
- Malaysia Carbon Reduction and Environment Sustainability Tool (MyCREST) was used as the main sustainable building rating tool under CITP. This was a comprehensive guide used mainly during the design stage of the construction process.

### CITP: first sector transformation initiatives incorporating sustainability agendas ➤

We consider CITP's deliverables as indicators in terms of where Malaysia's construction sector stands on the sustainability spectrum. Based on the report card presented by the Construction Industry Development Board (CIDB) in Mar 2021, the CITP's 5-year programme (2016-2020) achieved improvements in four key areas that were relevant to longer-term sustainability goals:

- Quality, safety and professionalism
- Environmental sustainability
- Productivity

- Internationalisation and competitiveness

**Figure 6: Focus areas of CITP that incorporate sustainability agendas**

| Focus areas of CITP                      | Success rate in achieving key initiatives<br>(Period: 2016-2020) |
|--|--|
| Quality, safety and professionalism      | 90%  |
| Environmental sustainability             | 90%  |
| Productivity                             | 93%  |
| Internationalisation and competitiveness | 91%  |
| <b>Average</b>                           | <b>91%</b>   |

SOURCES: CGS-CIMB RESEARCH, CITP, CIDB

### Higher levels of productivity achieved under CITP ➤

Raising the productivity of the overall construction industry is a key priority and the usage of technology and alternative building methods was identified under the CITP as the main driver of transformation. At the end of the 5-year CITP, the productivity level of general construction workers rose from RM27,000 per worker in 2014 to RM45,000 in 2020 (66% improvement over the CITP period). We note that productivity levels may have likely declined or stagnated during the peak of the Covid-19 lockdown phases in 2021. However, this is generally expected to improve in 2022 on the full reopening of economic sectors and the resumption of construction activities.

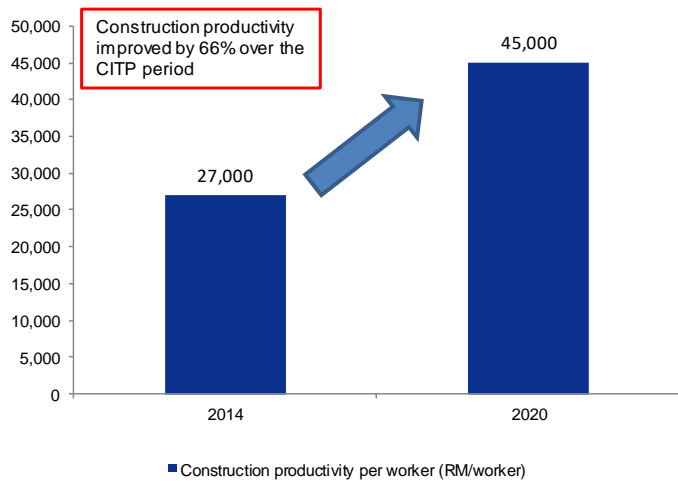
### IBS adoption exceeded target for government jobs ➤

We gathered that the adoption of industrial building systems (IBS) in Malaysia as part of the construction process lagged behind other countries globally, particularly in Europe, with Sweden the global leader; prefabricated buildings made up more than 80% of homes constructed in the country (as reported in [www.propertyguru.com](http://www.propertyguru.com) in April 2021). By simple definition, the IBS method is the construction of a building by fitting together preconstructed parts made in a factory. This mainly applies to the construction of residential homes or commercial buildings and is typically relevant to property developers or building contractors. IBS is not widely used for transport infrastructure projects, although it may be applied to the construction of stations along an urban rail line, for example, the MRT and LRT projects in Klang Valley.

Under the CITP, the use of IBS rose from 24% in public sector projects in 2014 to 87% in 2020 and from 14% in private sector projects in 2014 to 41% in 2020. The average IBS adoption rate of 64% in 2020 between private sector and public sector projects exceeded CIDB's target of 50% by the end of the CITP period. According to CIDB, greater adoption of IBS over the longer run (while at the same time contributing to the reduction of carbon footprints) will be able to further raise industry productivity from 2.3 sq ft per man-day with conventional methods to 10.4 sq ft per man-day.

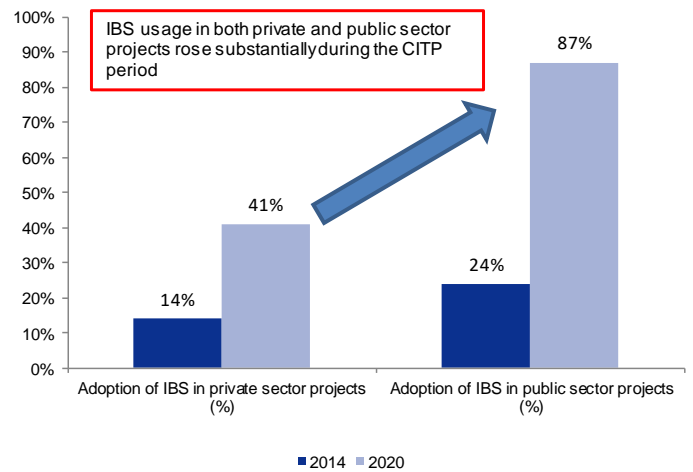
Separately, in terms of pushbacks, one of the key reasons as to why IBS adoption at private sector projects lags behind that of public sector jobs is the additional construction cost, which may translate into limited room to pass on the cost to consumers for certain categories of properties.

**Figure 7: Construction productivity levels rose under the CITP**



SOURCES: CGS-CIMB RESEARCH, CIDB, CITP

**Figure 8: Usage of IBS in private and public sector contracts**



SOURCES: CGS-CIMB RESEARCH, CIDB, CITP

## Post the pandemic: NCP 2030 provides the macro platform

### Sustainability through construction lifecycle ➤

The Works Ministry continues to promote sustainable development in the lifecycle of the construction sector with the National Construction Policy 2030 (NCP 2030). Under its sustainability theme, the key focus areas in NCP are: 1) development planning, 2) implementation of design, 3) green procurement, and 4) construction management method. Key targets within NCP 2030 align with that of the United Nations Sustainable Development Goals (UNSDGs).

### Platform for national construction development ➤

The launch of the NCP 2030 in Nov 2021 can be viewed as timely as the domestic construction sector gradually recovers in a post-pandemic world in 2022. In a post-pandemic scenario, the NCP 2030 aims to promote sustainable construction practices, interlinked with global sustainability initiatives. It therefore serves as a framework for ongoing and future construction development plans. According to NCP 2030's targets: "the fundamentals of the NCP 2030 are set to adapt and adopt future trends and embrace digital technologies. Construction players will be encouraged to leverage on breakthrough technologies and data systems; innovation and automation at all levels of operations to build quality and sustainable infrastructures".



Figure 9: Four objectives of the NCP 2030

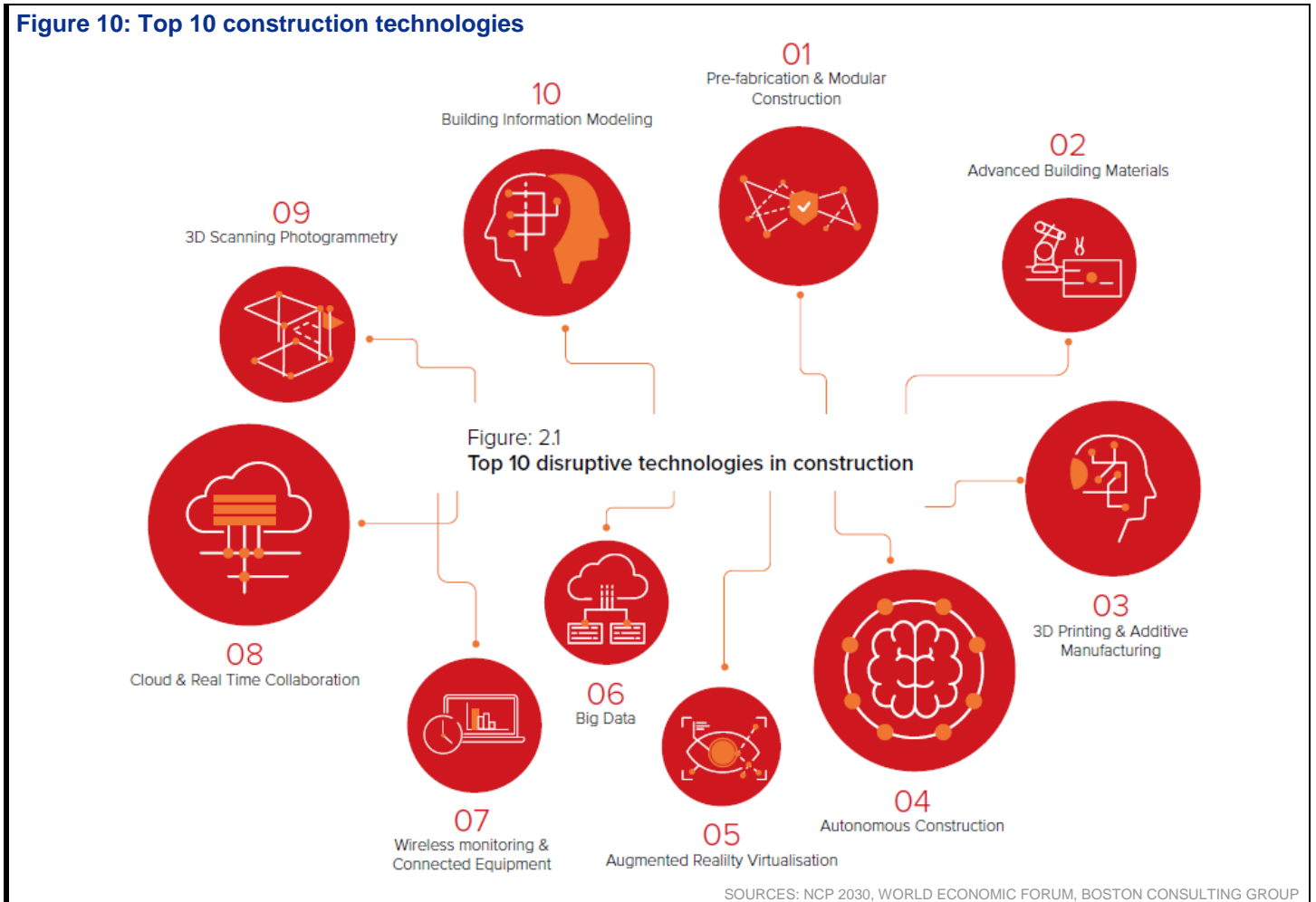


### Digitalising the construction sector >

Key policies under the NCP 2030 were set with the objective of digitalising the construction sector, which is considered one of the emerging new areas under sustainability goals. Digitalisation initiatives require greater adaptation and innovation of the nine pillars of the Fourth Industrial Revolution (IR 4.0). Advances in building technologies globally, over the years, have made available digitalised building methods that can either be partially or fully adopted by Malaysian construction players. Key examples of digitalised building methods include:

- Prefabricated modular construction: already being adopted in some construction projects in Malaysia.
- Advanced building materials: construction in Malaysia still widely uses traditional building materials.
- Printing and additive manufacturing: not widely used in Malaysia.
- Autonomous construction: not widely employed in Malaysia, not particularly adaptable to the type of construction.
- Augmented reality visualisation: used in large-scale construction in Malaysia, to a certain extent.
- Wireless monitoring and connected equipment: not commonly used in Malaysia.
- Cloud and real-time collaboration: relevant to certain construction contracts in remote areas.
- Scanning photogrammetry: widely used in Malaysia.
- Building information modelling (BIM): common in Malaysia but not mandatory.

**Figure 10: Top 10 construction technologies**



### Sector’s qualities relating to sustainability/environment >

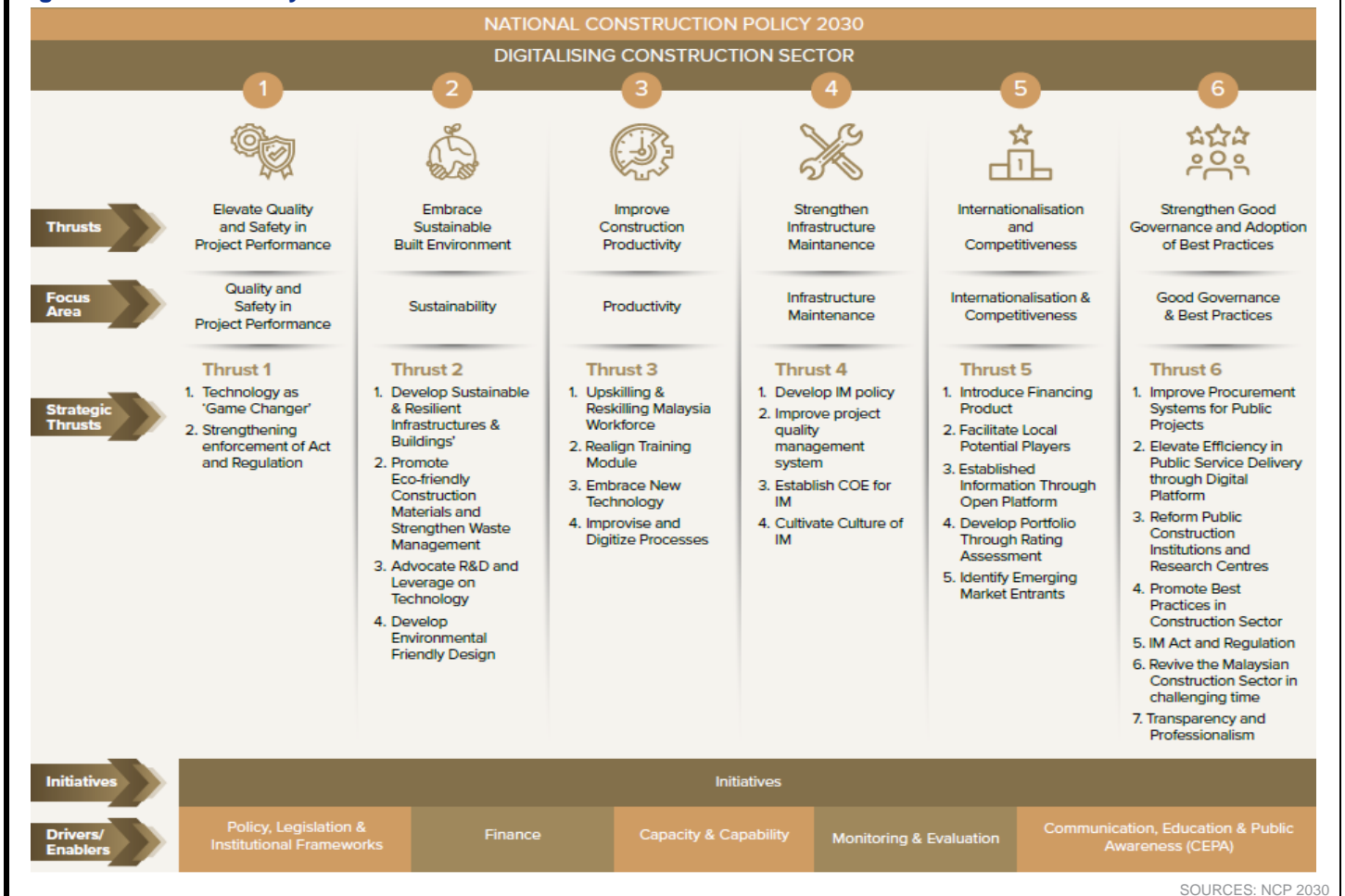
According to NCP 2030’s data, the global construction sector has several negatives in terms of sustainability and climate/environmental protection:

- The construction sector accounts for 6% of global gross domestic product (GDP), which implies that development activities will always be an integral part of economic activity and economic growth; this is particularly so for developing countries like Malaysia.
- The construction sector is the largest global consumer of building materials and accounts for 25-40% of global carbon emissions. This directly relates to the building material supply chain and the manner in which the main building materials are produced. Cement and steel historically make up 30-40% of total construction input.
- Construction activities have been linked to up to 50% of climate change, 40% of global energy usage, and 50% of landfill waste. This also extends to air, water and noise pollution and the destruction of natural habitats.

### Sustainable built environment as one of the six thrusts >

From Malaysia’s perspective, we are encouraged that, at the policy level, working towards a more sustainable construction value chain is listed as one of the six main thrusts of the NCP 2030. Strategic action plans towards achieving higher levels of sustainability practices over the longer term include: 1) developing sustainable and resilient infrastructures and buildings, 2) promoting eco-friendly construction materials and improve waste management, 3) advocating R&D and leverage on technology, and 4) developing environmental-friendly design.

**Figure 11: Sustainability as one of the main thrusts of NCP 2030**



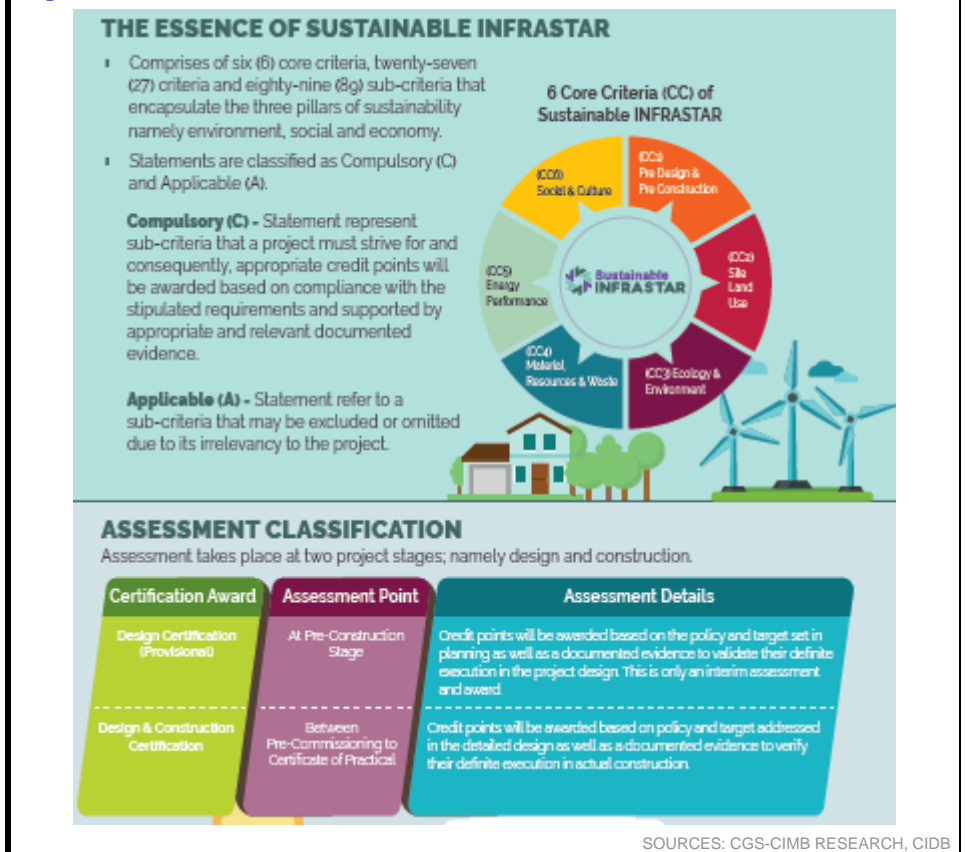
SOURCES: NCP 2030

## Tracking sustainability ratings for projects

### Sustainable INFRASTAR still in its infancy ➤

Sustainable INFRASTAR is an assessment tool developed by the Construction Industry Development Board (CIDB) to fill the gap in addressing environmental concerns for the construction industry. Projects are assessed during the design stage with a provisional rating and will receive full rating upon completion. Projects with points of more than 40% will be given one star, with five stars the highest score. Essentially, the tool provides an objective and evidence-based evaluation system to assess an infrastructure project on key sustainability factors, such as land use planning and management, resource management, energy and water management, biodiversity and other ecosystem services, social and cultural protection and stakeholder coordination.

**Figure 12: What Sustainable INFRASTAR entails**



### Complements other rating tools ➤

The Sustainable INFRASTAR rating tool was launched in March 2019. It complements other rating tools, such as CIDB's Malaysian Carbon Reduction and Environmental Sustainability Tool (MyCREST) for building construction and the Malaysian Highway Authority's (MHA) Malaysia Green Highway Index (GHI). Sustainable INFRASTAR is benchmarked against similar rating tools or systems used internationally, such as CEEQUAL from the UK, Envision from the US, ISCA from Australia and Pearl Estidama from the UAE.

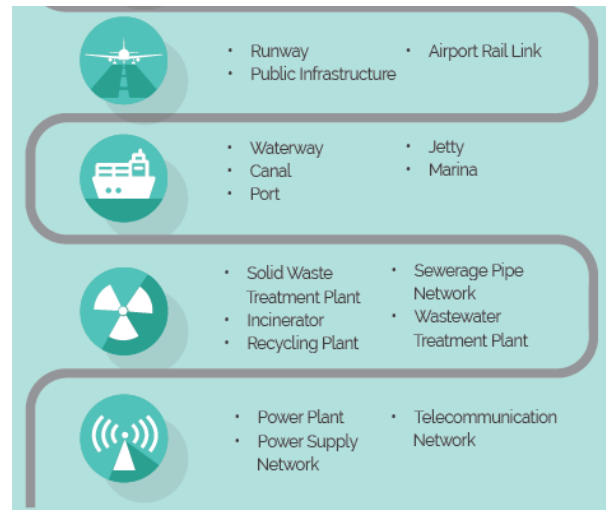
During the implementation of the CITP, the Ministry of Works (MOW) set a target of certifying 50% of the nation's infrastructure projects under Sustainable INFRASTAR or any other sustainable infrastructure rating tool. To encourage more companies to participate in the rating programme, CIDB bears the assessment costs of between RM8,000 and RM30,000, based on the scale of the project.

**Figure 13: Type of infrastructure and classification**



SOURCES: CGS-CIMB RESEARCH, CIDB

**Figure 14: Type infrastructure and classification (con't)**



SOURCES: CGS-CIMB RESEARCH, CIDB

### Rising number of projects rated under INFRASTAR ➤

In 2019, five pioneer infrastructure projects were assessed under the rating tool, namely the regional sewage treatment plant in Bandar Indera Mahkota, Kuantan; a power generation plant in Sandakan, Sabah; the Kahang Dam construction in Kluang, Johor; the Setiawangsa-Pantai Expressway; and the West Coast Expressway (Banting to Taiping). The Sungai Besi-Ulu Kelang Elevated Expressway (SUKE) and Damansara-Shah Alam Elevated Expressway (DASH) were subsequently added to the list.

In 2020, the RM16.6bn LRT 3 project (Bandar Utama-Klang) was the first project to be awarded with a five-star rating under Sustainable INFRASTAR certification.

Key sustainable characteristics of the project include:

- The usage of green rail features that reduce energy consumption and the usage of U-trough technology for rail spans.
- U-trough technology enables construction components to be formed at the casting yard and subsequently assembled at the construction site along the alignment, thus reducing construction activities on site.
- The LRT 3 project is scheduled to be completed in Feb 2024.

In April 2021, Mass Rapid Transit Corporation (MRT Corp) received a five-star Sustainable INFRASTAR rating for the MRT SBK Line (MRT 1) and MRT SSP Line (MRT 2) projects and its efforts to prioritise continuous sustainability practices in all stages of the projects.

**Figure 15: Assessment points and ratings under Sustainable INFRASTAR**

| Finalised assessment point (FAP) | Certified assessment rating |
|----------------------------------|-----------------------------|
| 30% - 39%                        | Pass                        |
| 40% - 49%                        | 1-star                      |
| 50% - 59%                        | 2-star                      |
| 60% - 69%                        | 3-star                      |
| 70% - 79%                        | 4-star                      |
| 80% - 100%                       | 5-star                      |

SOURCES: CGS-CIMB RESEARCH, CIDB

**Figure 16: Key projects assessed by Sustainable INFRASTAR as at end-2020**

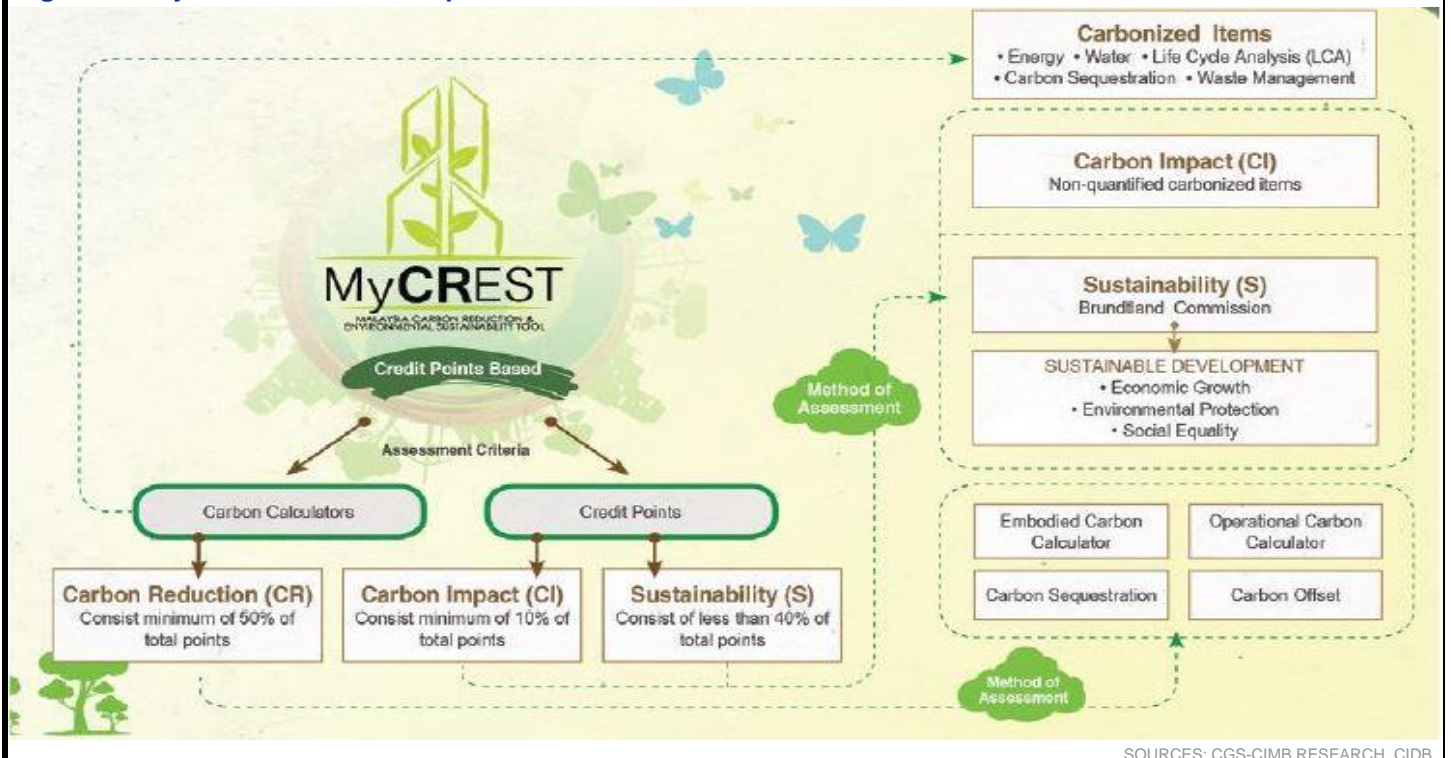
| Projects  | Location                             | Assessment/rating | Status    |
|---|--------------------------------------|-------------------|-----------|
| Regional Sewage Treatment Plant (STP)               | Kuantan, Pahang                      | Unknown           | Completed |
| Power Generation Plant                              | Sandakan, Sabah                      | Unknown           | Completed |
| Kahang Dam  | Kluang, Johor                        | Unknown           | Completed |
| Setiawangsa-Pantai Expressway (SPE)                 | Kuala Lumpur                         | Unknown           | Completed |
| West Coast Expressway (WCE)                         | Banting (Selangor) - Taiping (Perak) | Unknown           | Ongoing   |
| Sungai Besi - Ulu Kelang Elevated Expressway (SUKE) | Kuala Lumpur                         | Unknown           | Ongoing   |
| Damansara - Shah Alam Elevated Expressway (DASH)    | Selangor                             | Unknown           | Ongoing   |
| LRT 3   | Bandar Utama - Klang (Selangor)      | Five-star         | Completed |
| MRT SBK Line (MRT 1)                                | Sungai Buloh - Kajang (Selangor)     | Five-star         | Completed |
| MRT SSP Line (MRT 2)                                | Sungai Buloh - Serdang - Putrajaya   | Five-star         | Completed |

SOURCES: CGS-CIMB RESEARCH, CIDB

### Adoption rate for MyCREST remains low ➤

Based on our checks with CIDB, the adoption rate of sustainability rating tools for projects remains low. Less than 2% of all building and infrastructure projects nationwide are rated for environmental sustainability. Another key initiative under CITP was the introduction of The Malaysian Carbon Reduction and Sustainability Tool (MyCREST). MyCREST essentially quantifies the actual carbon emission at every stage of a building’s lifecycle (embodied carbon and operational carbon). CIDB aimed to establish MyCREST as a national rating tool that also covers large-scale building projects. MOW has since 2017 (during the rollout of the 11<sup>th</sup> Malaysia Plan, 11MP) committed to adopting MyCREST as its main sustainability rating tool and targets to assess all projects with contract values of RM50m and above.

**Figure 17: MyCREST assessment process**



**Figure 18: Examples of buildings certified under MyCREST as at end-2020**

| Buildings   | Location                |
|---|-------------------------|
| SP Setia Headquarters   | Setia Alam, Selangor    |
| Wisma REHDA (Real Estate and Housing Developers' Association)                           | Petaling Jaya, Selangor |
| Komplex Kerja Raya 2 (KKR 2) - HQ for the Ministry of Works and Public Works Department | Kuala Lumpur            |

SOURCES: CGS-CIMB RESEARCH, CIDB

## 12MP reemphasises sustainability

### To introduce government green procurement (GGP) ➤

A key takeaway from the release of the 12<sup>th</sup> Malaysia Plan (12MP) was that a guideline on government green procurement (GGP) for construction works will be introduced to encourage green practices in the construction sector. Nationwide implementation of the GGP is expected to catalyse a shift towards more sustainable and green construction practices. Under this initiative, industry players will be urged to adopt green certification and performance tools for new development projects. The tools include the Malaysian Carbon Reduction and Environmental Sustainability Tool (MyCREST), Sustainable INFRASTAR, Malaysia Green Highway Index (GHI), Green Building Index (GBI) and Building Information Modelling (BIM). Over the longer term, the adoption of green certification tools under the 12MP will be expanded to more government buildings and infrastructure projects. The GGP initiative will also be implemented in Sabah and Sarawak to bolster the green economy, including the adoption of sustainable practices in the construction sector.

- A total of 10 targets were set in the previous 11<sup>th</sup> Malaysia Plan (11MP) to achieve green growth, most of which spilled over into the 12<sup>th</sup> Malaysia Plan (12MP).
- 12MP's green growth initiatives further focuses on facilitating the reduction of greenhouse gas (GHG) emissions, minimising pollution and ensuring sustainable utilisation of resources.
- The average proportion of GGP for selected products and services was 20.7% between 2016 and 2019.
- Efforts will also be focused on promoting green and resilient cities and townships and further enhancing/developing green mobility (key example is urban rail systems).
- Accelerating the adoption of integrated water resources management (IWRM). Key issues to be addressed cover inefficient water resources management, unconsolidated data, inadequate infrastructure and limited water-based technology innovation.

### RM94.5bn worth of infra contracts are ongoing under 12MP ➤

We note that major transport infrastructure and highway projects under the 12MP are not new additions and most were affected by various work stoppages and supply chain disruptions brought about by the Covid-19 pandemic since 2020. Based on our calculations, the total value of ongoing contracts works out to RM95bn, with the largest being the East Coast Rail Line (ECRL). The government did not provide status updates for the widely-anticipated MRT 3 (Circle Line) and the KL-JB High Speed Rail (HSR) during the 12MP announcement but the 12MP booklet highlighted that, in view of the constraints in the allocation of development expenditure (DE), projects under the 12MP will be implemented in phases to ensure fiscal sustainability. We hence believe the finalisation of the public-private partnership (PPP) 3.0 model by mid-2022 could be a springboard for the government to relaunch new mega contracts and reactivate MRT 3. At this juncture, the status of PPP 3.0 remains unknown.

**Figure 19: Major ongoing infrastructure projects under the 12MP (2021-2025) as announced in Sep-2021**

| Projects   | Cost            | % completion            | Completion |
|--|-----------------|-------------------------|------------|
|  | (RM m)          | as at mid-2021          |            |
| East Coast Rail Link (ECRL)  | 50,000.0        | 22.0%                   | 2026       |
| Pan Borneo Highway (PBH) Sabah - phase 1   | 15,272.0        | 15.4%                   | 2040       |
| Gemas-JB electrified rail double tracking  | 9,550.0         | 70.0%                   | 2023       |
| Central Spine Road (CSR) (296km) and Kota Bharu-Kuala Krai (KBKK) highway (86km) | 9,500.0         | CSR: 58.2%, KBKK: 37.8% | 2025       |
| West Coast Expressway (WCE) - 313km  | 5,044.0         | 70.0%                   | 2025       |
| JB-Singapore Rail Transit System (RTS) - Malaysia portion                        | 3,715.0         | 0.0%                    | 2026       |
| Klang Valley Double Tracking phase 1 (42km)                                      | 1,410.0         | 90.0%                   | 2022       |
| <b>Total contract value</b>  | <b>94,491.0</b> |                         |            |

**Notes:**  
 Status of MRT 3 (Circle Line) was not mentioned when 12MP was tabled in Sep-21  
 Status of KL-JB High Speed Rail (HSR); est. RM30bn was not mentioned

SOURCES: CGS-CIMB RESEARCH, 12MP

## MRT 3 encapsulates “green growth” agenda

### MRT 3 offers long-term sustainability benefits ►

In our view, 12MP’s green growth agenda could have implications beyond project procurement and the sustainability of the construction value chain. We believe the negative fallout from the pandemic presents an opportunity to reset the construction industry and align job procurement closer to UNSDGs. This can conceivably be achieved via a large-scale anchor project; the RM31bn MRT 3 (Circle Line) is a viable candidate. The longer-term sustainability benefits of the MRT 3 project lend support to our view that it could be a key sector recovery project to be rolled out during the 12MP period and to drive the green growth agenda. To achieve a higher economic multiplier of 3-4x vs. the low of 2x for MRT 1 and 2, the domestic rail supply chain will be maximised, including greater usage of Industrial Building Systems (IBS) and more work package contractors.

### Granted the greenlight to proceed ►

On 4 Mar 2022, the government announced new initiatives as part of infrastructure projects to drive economic recovery: 1) approval for the MRT 3 (Circle Line) project to proceed; 2) revival of the Pan Borneo Highway (PBH) Sabah project with additional 19 packages; 3) implementation of Sarawak-Sabah Link Road (SSLR) and Trans Borneo Highway (TBH); and 4) acceleration of flood mitigation projects with additional allocation of RM15bn over eight years (RM1.9bn p.a. from 2023) from RM1bn p.a. under the 12th Malaysia Plan (12MP, 2021-2025). We view the approval of the MRT 3 project as the biggest positive, as it provides mega job continuity post-pandemic. However, the challenge now is the execution of the proposed hybrid funding model which would require strong take-up and sizeable private sector participation to kick-off the initial stages of civil works. The MRT 3 hybrid model is the first of its kind under the purview of project owner MRT Corp. The hybrid funding will make up for potential funding shortfall in the first 1-2 years. For the remaining 5-6 years, the Ministry of Finance (MOF) will raise up to RM50bn to fund MRT 3 via government-guaranteed (GG) bonds (sustainable sukuk). According to MRT Corp, the Private Finance Initiative (PFI) model is treated as upfront project financing given the government’s limited fiscal space and MOF’s other immediate funding priorities.

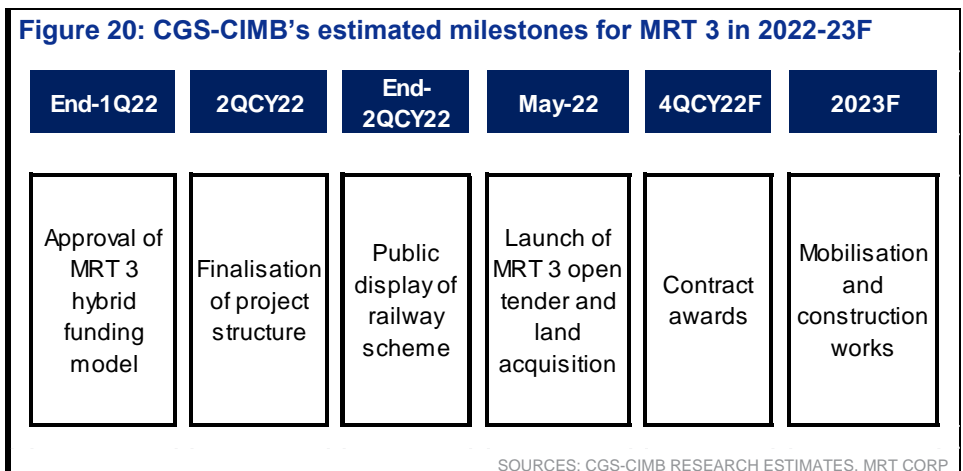
#### According to the MRT 3 masterplan:

- Total project cost is estimated at RM31bn (8-year construction period, operational in 2030), consisting of five main packages.
- The five main packages will comprise: 1) two turnkey contractor packages for elevated works, 2) one turnkey contractor package for underground works, 3) one integrated rail systems, and 4) one project management consultant (PMC).



- Launch of the MRT 3 open tender is targeted for May 22. The single turnkey scope for the underground portion (RM11bn as per our estimate) will be awarded to one main contractor.

**Figure 20: CGS-CIMB's estimated milestones for MRT 3 in 2022-23F**



**Figure 21: MRT Corp's implementations targets for MRT 3 project**

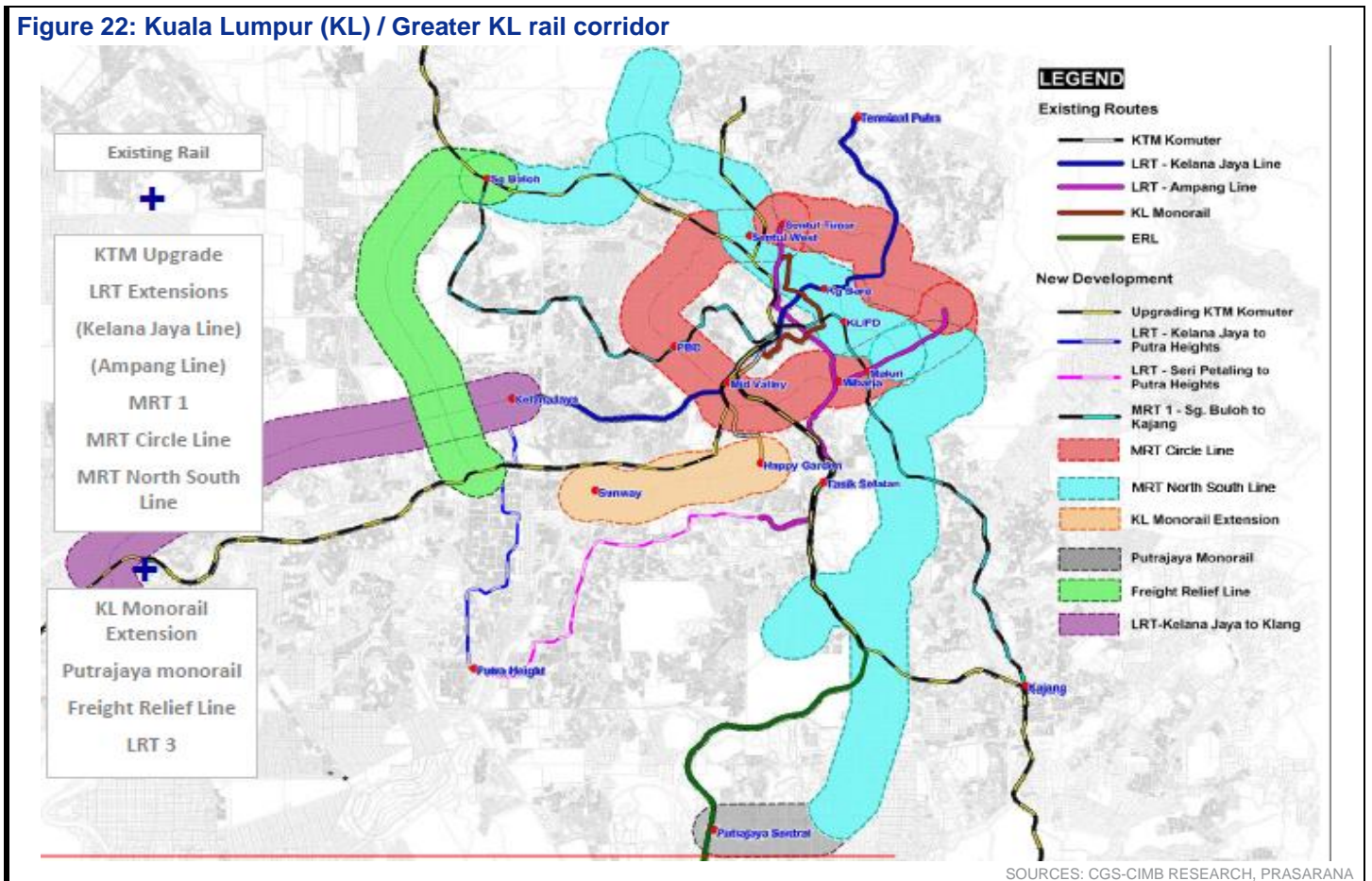
| Milestones for MRT 3                      | Time line  | Notes  |
|---|------------|--|
| Government approval of MRT 3              | End-1QCY22 | - Government approval for MRT 3 hybrid funding scheme<br>- Private sector funding to kick-off MRT 3 project in 2022<br>- Government/MOF has committed to raise up to RM50bn in sustainable sukuk<br>- Total 42 submissions under the request for information (RFI) round<br>- RFI submissions include JVs and consortiums  |
| Finalising project structure              | 2Q CY2022  | - MRT 3 to be divided into five main packages<br>- Elevated works: 2 turnkey contractors, underground scope: 1 turnkey contractor<br>- Civil works packages will include stations<br>- Tunneling works will only be awarded as one single package<br>- Rail systems works will only be awarded as one single package   |
| Turnkey contractor/lead contractor        | 2Q CY2022  | - Role of turnkey/lead contractor to be finalised likely by end-2QCY22<br>- Possible award of turnkey/lead contractors to more than one JV/consortium<br>- Tier 1 JVs/consortiums will undertake funding of each civil works packages<br>- MRT Corp prefers tier 1 lead contractors with strong balance sheet  |
| Public display of MRT 3 railway scheme    | 2Q CY2022  | - MRT 3 alignment will cover 51km of above ground and underground line<br>- To include 30 stations and 10 interchange stations<br>- To include 11km of underground line<br>- CGS-CIMB estimated tunneling cost of RM11bn (based on cost of RM1bn/km)<br>- Land acquisition to commence upon full approval of railway scheme<br>- Land acquisition cost to be borne by the government (RM8bn) |
| Open tender for main civil works packages | May CY2022 | - Open tender method; including private financing proposals<br>- Tenders will be based on the 42 RFI submissions<br>- Tenders for above ground scope to be based on a 5-year construction schedule<br>- Tenders for the underground scope to be based on an 8-year work schedule   |
| Awards of MRT 3 civil works               | 4QCY22     | - Tender evaluation period : 6 months (minimum)<br>- If tender evaluation begins in May-22, contract awards should occur in 4QCY22<br>- Contract awards will include the tunneling package   |
| Start of initial construction works       | CY2023     | - Mobilisation of machineries and tunnel boring machines (TBMs)<br>- Site preparation and land clearing<br>- Advanced works<br>- Site possession by contractors will depend on the progress of land acquisition  |
| Start of civil works                      | CY 2023    | - All packages to commence civil works   |

SOURCES: CGS-CIMB RESEARCH, MRT CORP

### MRT 3's sustainability benefits ➤

Viewing MRT 3 from the sustainability perspective, the longer-term benefits of the project are likely to be felt along the entire rail supply chain during the construction period while the benefits of full integration with other MRT lines (MRT 1, SBK Line and MRT 2, Putrajaya Line) could come in the form of increased ridership. Higher overall ridership would, in turn, increase Klang Valley's transport modal share from 20-25% in 2020 to the government's targeted 40% by 2030 (indirectly contributing, to a certain extent, to the lowering of carbon emissions as personal transport usage falls over the longer run). We also do not discount MRT 3 potentially being accorded a Sustainable INFRASTAR rating and emerge as 12MP's green infrastructure benchmark featuring high sustainability standards.

Figure 22: Kuala Lumpur (KL) / Greater KL rail corridor



### Flood mitigation and climate action initiatives

#### New focus area ➤

Under the government's revised initiatives to accelerate economic recovery projects, we observe an increasing emphasis on flood mitigation and climate action-type projects. Incorporated as part of the 12MP economic recovery plans, the government aims to accelerate flood mitigation projects with additional allocation of RM15bn over eight years (RM1.9bn p.a. from 2023) from RM1bn p.a. under the 12th Malaysia Plan (12MP, 2021-25). In Sep 21, the minister for environment and water Datuk Seri Tuan Ibrahim Tuan Man was quoted in The Star as saying that the government had allocated RM9bn for 98 flood mitigation and urban drainage projects. As at end-Sep 21, seven projects have been completed, 27 projects were being implemented and 64 projects were at the early stages.

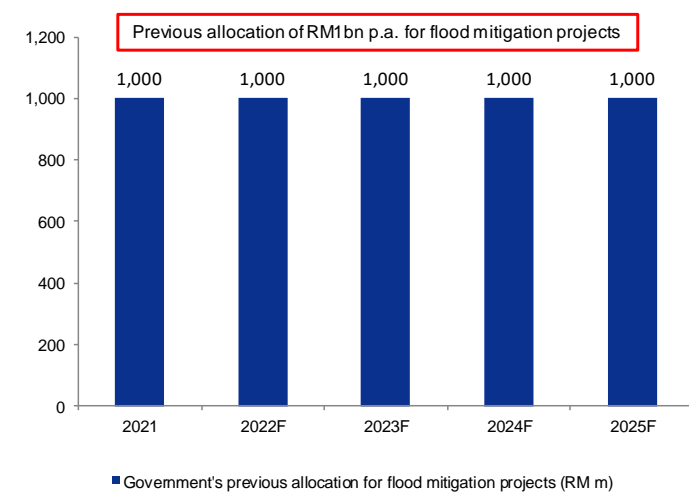
**Figure 23: Status of flood mitigation and urban drainage projects under 12MP and Budget 2022 as at Sep-21**

|   | No. of projects | % of total    |
|---|-----------------|---------------|
| Completed projects  | 7               | 7.1%          |
| Ongoing (awarded)   | 27              | 27.6%         |
| Early stages of implementation (mostly yet to be awarded) | 64              | 65.3%         |
| <b>Total</b>  | <b>98</b>       | <b>100.0%</b> |

*\*The government has allocated RM9bn for flood mitigation and urban drainage under the 12th Malaysia Plan (12MP) and Budget 2022*

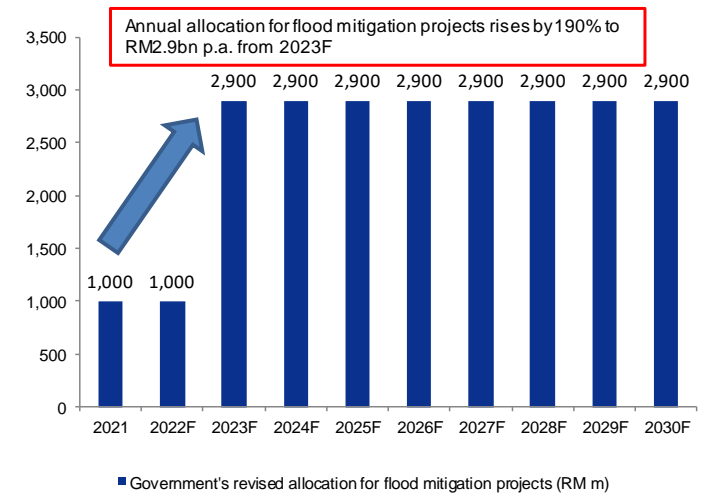
SOURCES: CGS-CIMB RESEARCH, ENVIRONMENT AND WATER MINISTRY

**Figure 24: Existing allocation for flood mitigation projects**



SOURCES: CGS-CIMB RESEARCH, PMO PRESS STATEMENT

**Figure 25: New allocation for flood mitigation projects**



SOURCES: CGS-CIMB RESEARCH, PMO PRESS STATEMENT

### RM300bn over the next 50 years? ➤

In Jan 22, and amidst the aftermath of the major flood incidences in Selangor and Pahang at end-2021, environment and water minister Tuan Ibrahim Tuan Man was quoted in Free Malaysia Today (FMT) as saying that over RM300bn will be needed for long-term solutions to the country's flood problems over the next 50 years.

- This would include projects to develop water infrastructure such as flood mitigation systems and embankments, as well as prevention of coastal erosion.
- One of the new initiatives is the Water Sector Adaptation Act (WSAC) in order to better protect the country's drainage and coastal infrastructure. Under the act, the ministry will propose a special fund to increase the adaptive capacity of the water sector and coastal areas through infrastructure that takes climate change into account.
- Other measures include a National Adaptation Centre (NAC) to coordinate policies and climate change adaptation, integration of disaster risks and prevention of loss and damage to vulnerable sectors caused by climate change.
- For global benchmarking and best practice in flood management, the ministry had engaged with The Netherlands, via the Dutch Risk Reduction team to assess the impact of floods in the country and to propose appropriate solutions.

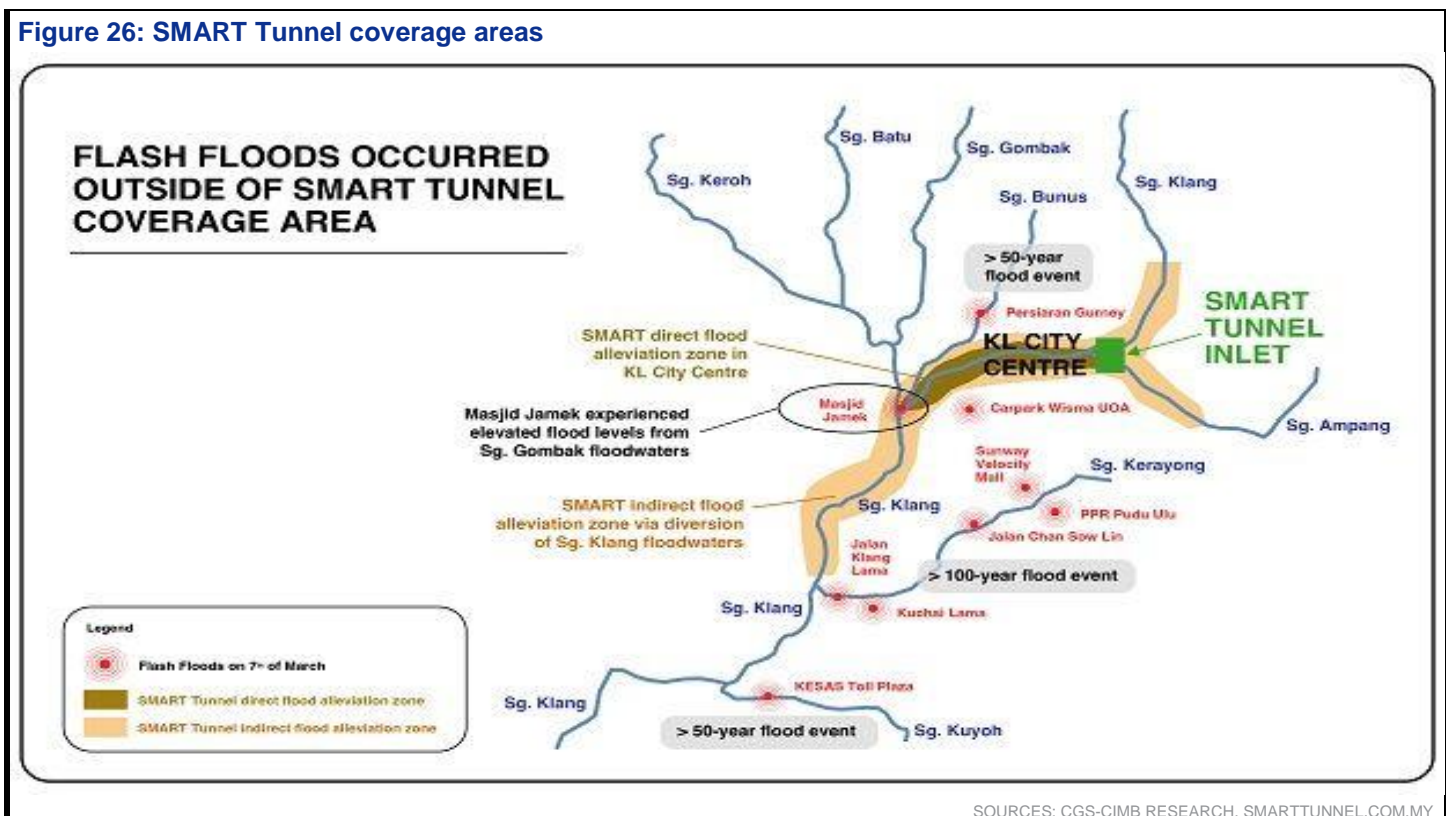
### Case study: SMART Tunnel becoming increasingly relevant ➤

Considering the devastating flood incidence in late Dec 21 and early Jan 22, we believe that large-scale flood mitigation infrastructure like the Stormwater Management and Road Tunnel (SMART) could become increasingly relevant in terms of the government exploring potential new climate action infrastructure proposals. The SMART Tunnel is a storm drainage and road structure in Kuala Lumpur. The 9.7km tunnel is the longest stormwater drainage tunnel in Southeast Asia and second longest in Asia. At a construction cost of RM1.9bn, construction began in 2003 and was completed in 2007. SMART tunnel has since been fully operational under a design and build toll concession agreement (CA) undertaken by MMC-Gamuda JV (50:50). In addition to receiving a UN-Habitat Scroll of Honour Award, the SMART Tunnel was recognised in 2011 for its climate mitigation functions.

#### Key findings on the benefits of the SMART tunnel post-recent flood events:

- The Department of Statistics of Malaysia (DOSM) estimated that the floods in late Dec 20 and early Jan 22 caused losses amounting to RM6.1bn.
- The RM6.1bn losses include damage to public assets and infrastructure, which suffered the highest loss of RM2bn, followed by housing (RM1.6bn) and vehicles (RM1bn). The manufacturing industry suffered a loss of RM900m, followed by business premises (RM500m) and agriculture (RM91m).
- During the floods, the SMART Tunnel diverted 5m cubic metres of water (equivalent to almost 2,000 Olympic-size swimming pools), way above its design/maximum capacity of 3m cubic metres.
- This implies that the SMART Tunnel can handle and divert 45% of Klang Valley's major floods.
- Following the floods, Prime Minister Datuk Seri Ismail Sabri Yaakob was quoted in The Star (Feb-22) as saying that Shah Alam in the state of Selangor is considering undertaking a similar SMART Tunnel system in order to mitigate the risk of future floods.

Figure 26: SMART Tunnel coverage areas



**Figure 27: SMART Tunnel at full activation**



SOURCES: CGS-CIMB RESEARCH, THE STAR

**Figure 28: SMART Tunnel water diversion in progress**



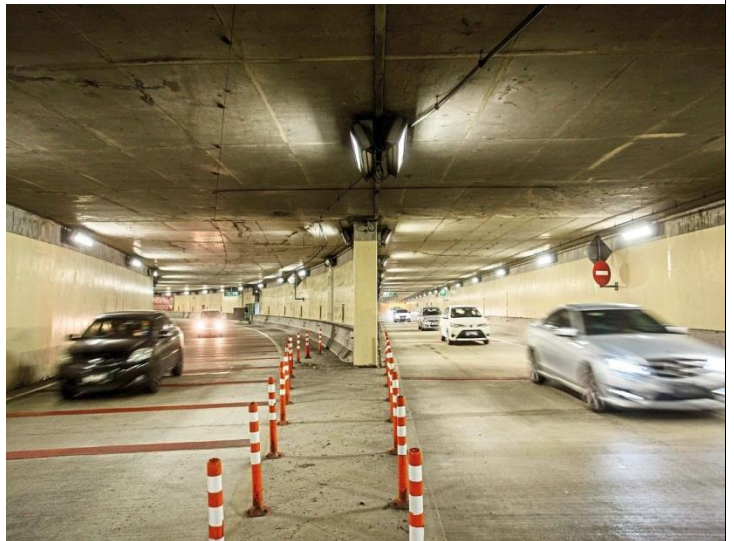
SOURCES: CGS-CIMB RESEARCH, THE STAR

**Figure 29: SMART Tunnel clean up post-water diversion**



SOURCES: CGS-CIMB RESEARCH, THE STAR

**Figure 30: SMART Tunnel reopened for traffic**



SOURCES: CGS-CIMB RESEARCH, THE STAR

## How ESG ratings of contractors stack up

### Comparison between contractors under coverage based on FTSE and Refinitiv scores ➤

Preferred large-cap contractors under the MRT 3 revival theme:

- 1) **Gamuda (Add, TP RM4.05)**: Gamuda's FTSE Russell ESG rating improved from 2 star in 2020 to 3 star in 2021. Under Refinitiv's overall rating, it scored the highest (B+ overall) among large-cap diversified contractors under coverage, i.e. ahead of IJM Corp's overall C rating and YTL Corp's B overall score. Our TP is based on a 10% discount to RNAV/share of RM4.50. Downside risks: Delay in MRT 3 implementation, weaker-than-expected prospects to secure MRT 3 underground package.
- 2) **IJM Corp (Add, TP RM1.79)**: IJM Corp's FTSE Russell ESG rating remained unchanged (4 star) in 2021 ((likely due to earlier adoption of sustainability disclosures ahead of Gamuda) but attained a lower C+ overall score under Refinitiv. Our TP is based on a 20% discount to RNAV/share of RM2.24. Downside risks: contract delays and weaker earnings.

**Figure 31: FTSE Russell and FTSE4G ESG ratings of contractors under coverage: June 2021 vs. June 2020**

| Companies            | Based on June 2020 review |        | Based on June 2021 review |        | Notes                     |
|----------------------|---------------------------|--------|---------------------------|--------|---------------------------|
|                      | FTSE Russell              | FTSE4G | FTSE Russell              | FTSE4G |                           |
| Gamuda               | 2 star                    | No     | 3 star                    | No     | Improved to 3 star rating |
| HSS Engineers        | 1 star                    | No     | 1 star                    | No     | No change                 |
| IJM Corp             | 4 star                    | No     | 4 star                    | No     | No change                 |
| MRCB                 | 3 star                    | Yes    | 3 star                    | Yes    | No change                 |
| Muhibbah Engineering | 1 star                    | No     | 1 star                    | No     | No change                 |
| Sunway               | 3 star                    | Yes    | 4 star                    | Yes    | Improved to 4 star rating |
| WCT Holdings         | 2 star                    | No     | 2 star                    | No     | No change                 |
| YTL Corp             | 4 star                    | Yes    | 4 star                    | Yes    | No change                 |

ESG grading bands are based on companies in

FBM EMAS assessed by FTSE Russell:

1 star: Bottom 25%

2 star: Top 51% - 75%

3 star: Top 26% - 50%

4 star: Top 25%

SOURCES: CGS-CIMB RESEARCH, FTSE RUSSELL, FTSE4G

**Figure 32: Refinitiv ESG scores available for large cap diversified contractors under coverage**

|          | Environment |      |      | Social |      |      | Governance |      |      | Overall |      |      |
|----------|-------------|------|------|--------|------|------|------------|------|------|---------|------|------|
|          | 2019        | 2020 | 2021 | 2019   | 2020 | 2021 | 2019       | 2020 | 2021 | 2019    | 2020 | 2021 |
| Gamuda   | B +         | B +  | A -  | B -    | C +  | B    | B -        | B -  | B +  | B       | B -  | B +  |
| IJM Corp | C +         | C +  | C +  | B      | B    | B -  | B +        | B -  | C    | B       | B -  | C +  |
| YTL Corp | B +         | B    | B +  | C +    | B -  | B +  | B -        | B -  | C +  | B -     | B    | B    |

SOURCES: CGS-CIMB RESEARCH, REFINITIV

### Labour issues in the “S” spectrum of ESG does not pose a potential material issue ➤

We do not foresee the emergence of material labour issues in the construction sector. This would be supported by the improving standards for the centralised labour quarters (CLQs) and wages that are currently much higher than the new RM1,500/month minimum wage announced by the government. In terms of labour shortage issue, we expect this to be manageable as: 1) labour supply from jobs completed in 2022 can be redeployed to new contracts, 2) negotiations between Malaysia and Indonesia on labour supply matters (though delayed) would ease foreign labour inflow.

## Valuation and recommendation

### Sustainability and ESG: opportunities for sector transformation and revamp ►

Our assessment of the sustainability theme on the overall construction sector's Environmental, Social, and Governance (ESG) spectrum points to opportunities to further transform and revamp the sector in its post-pandemic recovery phase in 2022 and potentially back to its upcycle phase over the longer run. We believe that if policy and implementation of the various sustainability initiatives under the 12MP and NCP 2030 gains greater traction in the later part of the 12MP period (2021-2025), this, with proper planning and execution, could translate into several positives, mainly:

- 1) A revival in private and public sector job flows coupled with the emergence of new infrastructure project proposals beyond the legacy contracts, such as the KL-Singapore High Speed Rail (HSR, RM60bn-100bn)/KL-Johor Bahru High Speed Rail (HSR, estimated at RM30bn), and new flood mitigation and climate action initiatives.
- 2) A revisit of other legacy mega developments, such as the estimated RM50bn-100bn GDV Bandar Malaysia, also originally part of the planned KL terminus and transport-oriented development (TOD) for the HSR project.
- 3) The emergence of new growth areas, such as those proposed under the RM5bn Penang South Islands (PSI) project located in Penang state in the northern Peninsular Malaysia.
- 4) The rollout of the backlog of water infrastructure projects driven by the IWRM (RM26bn) initiatives under the 12MP and resolution to the water tariff setting mechanism (TSM) to support water capex funding.

**Figure 33: Other infrastructure initiatives under the 12MP (2021-2025)**

| Projects  | Cost<br>(RM m)  |
|---|-----------------|
| Water Sector Transformation Agenda (WSTA) 2040: improve water services, NRW | 25,800.0        |
| Flood mitigation projects (for 12MP and 13MP periods)                       | 16,000.0        |
| Housing assistance for the poor (85.5k houses)                              | 2,250.0         |
| Rural road connectivity network   | 1,600.0         |
| Upgrade of schools  | 1,600.0         |
| Four new school complexes and five new schools                              | 848.0           |
| Upgrade of four rural roads (Sabah, Sarawak, Pahang and N. Sembilan)        | 695.5           |
| Social amenities in rural areas   | 310.0           |
| 500 units of new affordable homes (B40 and M40 categories)                  | na              |
| Upgrade of 1,400km of roads in Sabah and Sarawak                            | na              |
| <b>Total</b>  | <b>49,103.5</b> |

SOURCES: CGS-CIMB RESEARCH, 12MP SPEECH

- 5) New opportunities for order book replenishment for contractors, supported by improved visibility of contract tenders.

### Sustainability as an alternative sector recovery angle ►

We believe the sustainability theme may provide better visibility and an alternative approach in terms of: 1) resetting the government's strategy in rolling out new contracts, 2) better positioning for contractors in tendering for upcoming new mega projects, and 3) providing investors with a better perspective on the potential longer-term winners/beneficiaries of the rollout of new contracts that are more aligned to the sustainability agenda (climate action and urban transportation projects with higher economic multipliers).

**Figure 34: CGS-CIMB's view of where domestic construction sector stands in the sustainability space vis-à-vis contract rollout**

| Metrics  | Weak | Moderate | Strong | Comments  |
|--|------|----------|--------|---|
| Policy framework   |      |          |        | Backed by 12MP and NCP 2030                               |
| Implementation / execution   |      |          |        | Expected to improve over time (longer-term)               |
| Rollout of sustainability related contracts                            |      |          |        | Water, flood mitigation, urban rail systems (MRT 3)       |
| Sustainability rating tools  |      |          |        | Ratings not available for all major projects              |
| Availability of government funding                                     |      |          |        | Committed to raise green bonds for MRT 3                  |
| Availability of private sector funding (PFI, PPP, Hybrid)              |      |          |        | Supportive of new mega contracts - MRT 3                  |
| Contractors' track record in executing sustainability related jobs     |      |          |        | Prefer Gamuda, IJM Corp and HSS Engineers                 |
| Contractors' level of adopting sustainability strategies / disclosures |      |          |        | Better disclosures and clearer targets for selected names |
| <b>12MP: 12th Malaysia Plan</b>  |      |          |        |   |
| <b>NCP 2030: National Construction Policy 2030</b>                     |      |          |        |   |
| <b>MRT 3: Mass Rapid Transit (phase 3, Circle Line)</b>                |      |          |        |   |

SOURCES: CGS-CIMB RESEARCH, 12MP, NCP 2030

### Maintain Neutral sector rating ➤

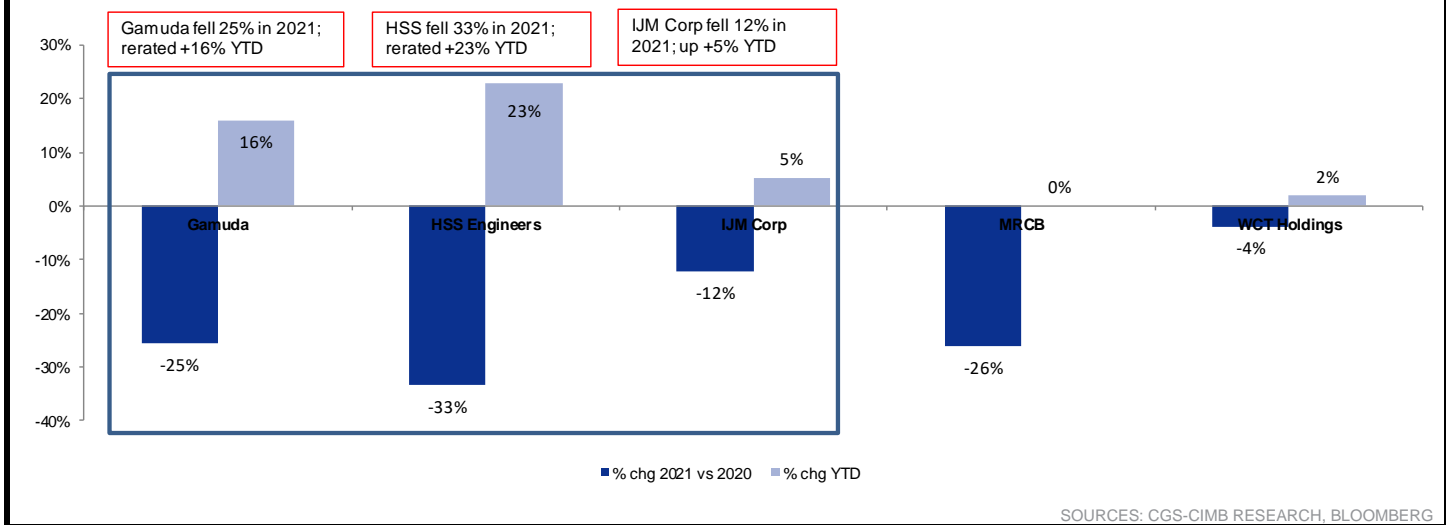
We retain our Neutral sector rating on the construction sector and remain cautiously positive on the post-pandemic recovery of mega jobs in 2022. While the reactivation of the RM31bn MRT 3 (Circle Line) is overall positive, our cautious stance is underpinned by the success of the hybrid funding model for MRT 3 (prior to full government funding in later years of construction) and uncertainties surrounding the KL-JB and KL-Singapore HSR projects. A recovery and reactivation of other mega contracts is a key upside risk. Downside risks include: 1) Delays in MRT 3 execution plans including challenges in land acquisition, 2) Weak take-up of the hybrid funding model; Private Finance Initiative (PFI), and 3) Delays in the government's implementation strategies for other mega contracts due to political uncertainties.

### Our stock selection criteria are as follows:

- We like Gamuda and IJM Corp for their rail credentials and strong balance sheets given MRT 3 private sector funding and as likely potential frontrunners of tier 1 civil works tenders. Between the two, we advocate Gamuda as our top construction pick as MRT 3, Penang South Islands (PSI), Australia tenders and highway divestment proposal could emerge as favourable developments in 2022F. Gamuda, via the MMC-Gamuda JV (50:50), is a strong contender for the underground (tunnelling) works of MRT 3; we estimate a contract value of RM11bn, based on the benchmark cost/km of RM1bn.
- Our more positive outlook for Gamuda is also supported by its ESG/sustainability perspective: Superior ESG rating (B +, overall) under Refinitiv's scoring and potential further improvements in its ESG rating under the FTSE Russell metrics (current rating: 3 star, from 2 star previously), driven by greater disclosures and achievements outlined under its 5-year "Green Plan".
- In the small-cap space, we prefer HSS Engineers (FTSE Russell 1 star ESG rating) as the group could secure a sizeable engineering consultancy scope for MRT 3 ahead of the civil works tenders.


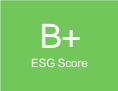

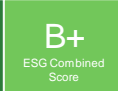





**Figure 35: 2021 and YTD share price performance of major MRT contractors under coverage**



A horizontal bar consisting of a red segment on the left and a blue segment on the right.


## Appendix # 1: Gamuda's ESG initiatives

| Refinitiv ESG Scores   |  |
|--|--|
|   |  |
|         |  |
| <b>ESG in a nutshell</b>   |  |
| <p>Gamuda's Green Plan is a comprehensive framework that charts tangible targets driven by environmental, social and governance (ESG) dimensions set forth over the next five years, with an extended view to 2030 and beyond. The plan commits the entire group to circular construction with specific steps to reduce direct and indirect corporate greenhouse gas emission intensity by 30% in 2025, and by 45% in 2030. As a leading contractor and township developer, Gamuda has comprehensively incorporated ESG-type deliverables in all of its ongoing and incoming new projects.</p> <p>Gamuda's sustainability approach is divided into four pillars, namely: (1) Sustainable planning, design and circular construction, (2) ESG efforts within the community and business environment, (3) Environment and biodiversity conservation, and (4) Enhancing sustainability via digitalisation.</p>  |  |
| <p><b>Keep your eye on</b></p> <p>The group is undertaking The Penang South Islands (PSI) project, its landmark mega land reclamation project, with a more comprehensive ESG approach. Key action points to be achieved 5-10 years from project completion: 1) 50% reduction in overall CO2 emissions, 2) climate responsive design with 40% reduction in urban planning emissions, 3) green mobility with 80% reduction in transport emissions, 4) 65% reduction in landfill waste, and 5) 100% renewal energy (RE) via the Green Tech Park.</p>  | <p><b>Implications</b></p> <p>Earnings contributions from PSI are not factored into our RNAV valuations and forecasts. On a straight-line basis, we estimate annual pretax profit of RM83m from PSI, derived from the potential RM5bn in new order book.</p>   |
| <p><b>ESG highlights</b></p> <p>We consider Gamuda's overall ESG initiatives/approach/exposures as ahead of other contractors' due to its diversified business model covering toll roads, water treatment, property/townships, and construction, and at least on par with more established players.</p> <p>In terms of ESG approach, key highlights are: 1) incorporating environmentally- and climate-friendly features in township masterplans, and 2) the deployment of more environmentally-friendly construction methods and incorporation of Industrial Building Systems (IBS) via its IBS plant into housing projects.</p> <p>Key benchmark projects with notable ESG features focusing on pillars (1) and (3) as described above are: 1) the SMART Tunnel highway project – flood mitigation, 2) KVMRT 1 and 2 – public transport modal-focused and digitisation of transportation systems, 3) Gamuda Gardens township, and 4) Gamuda Cove township.</p> | <p><b>Implications</b></p> <p>We believe that, as a leading contractor, Gamuda's ESG efforts/initiatives and its strategy of incorporating ESG features into its projects will result in the group undertaking and executing more ESG-driven large-scale construction projects and property townships. This would also raise its profile and track record, placing it among the potential contractors of future large-scale mega contracts, such as the MRT 3.</p> |
| <p><b>Trends</b></p> <p>Gamuda Green Plan (launched in 5 Jun 21) carries the main objective of enhancing its ESG profile and how it translates into its operations/business model. Notably, the group was the only Malaysian construction company to be included in the Dow Jones Sustainability Indices (DJSI) in 2019. In 2021, Gamuda achieved an improved global ESG score of 38 (2020: 30). The group is also a constituent of FTSE4Good with a 3-Star ranking based on 2021's annual assessment and a part of the MSCI Sustainability index with a BB rating (Apr 2021).</p>   | <p><b>Implications</b></p> <p>As part of the group's initiatives to increase its ESG visibility among investors, ESG updates have been incorporated into its quarterly results briefings, which we will monitor to evaluate its progress.</p>  |

SOURCES: CGS-CIMB RESEARCH, REFINITIV

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## Appendix # 2: IJM Corp's ESG initiatives

| Refinitiv ESG Scores   |  |
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|  |  |
| <h2>ESG in a nutshell</h2> <p>In 2022, IJM Corp is strengthening its ESG agenda by enhancing its best practices in sustainability through the development of a Group Sustainability Roadmap for 2022-2024. Key milestones in 2020 included strengthening the framework for compliance and risk management, where it implemented an anti-bribery and corruption system. A dedicated Chief Risk Management and Integrity Officer has been appointed to drive robust risk management across the group. IJM Corp first established its group-wide sustainability framework in 2017.</p>  |  |
| <h3>Keep your eye on</h3> <ol style="list-style-type: none"> <li>1) Repackaging public transport projects as “green infrastructure” under the 12<sup>th</sup> Malaysia Plan (12MP), beginning with the rollout of the RM31bn MRT 3 project.</li> <li>2) New tenders for the East Coast Rail Link (ECRL) project, particularly Section C. IJM recently secured a RM258m ECRL package.</li> <li>3) Recovery of supply chain, which has been disrupted by various lockdowns, and how construction productivity normalises in a post-pandemic world.</li> </ol>  | <h3>Implications</h3> <ol style="list-style-type: none"> <li>1) Opportunities to improve job replenishment and secure new urban rail contracts, categorised as sustainable infrastructure projects. IJM Corp has a strong track record in MRT contracts.</li> <li>2) Opportunity to tender for more packages in the East Coast Rail Link (ECRL) project, which will be built to address the expected increase in the demand for logistics and freight between the East and West coasts of Peninsular Malaysia via Kuantan Port and ports in Selangor’s west coast.</li> </ol>  |
| <h3>ESG highlights</h3> <ol style="list-style-type: none"> <li>1) Kuantan Port has been pursuing green and energy saving solutions by adopting solar energy, shore power and the usage of four hybrid rubber tyred gantry cranes (RTGs). It also kicked off its digital transformation initiative.</li> <li>2) The construction division implements a self-regulated assessment system, IJM Quality and Safety Assessment System (IQSAS), for civil engineering projects. The adoption of building information modelling (BIM) will be expanded over time.</li> <li>3) IJM commissioned its fully automated Industry 4.0 Industrialised Building System (IBS) in April 2021 with an annual capacity of 500k square metres.</li> <li>4) New Pantai Expressway (NPE) Kuchai Link 2 was assessed with an IQSAS score of 87%, above the target score of 85%.</li> <li>5) 46% of IJM Corp’s energy use is from renewable sources (biomass and solar). Plantation, industry and port divisions collectively constituted 81% of the total consumption.</li> </ol> | <h3>Implications</h3> <ol style="list-style-type: none"> <li>1) As one of the leading diversified contractors in Malaysia, IJM has been playing a leading role in building sustainable infrastructure in collaboration with various agencies. IJM is part of working groups and committees to advance sustainability rating tools in the areas of environmental management and green technology, such as the Sustainable Infrastructure Rating Tool (Sustainable INFRASTAR).</li> <li>2) The group invests in water treatment systems at projects with high water discharge to manage its water footprint and meet environmental standards.</li> <li>3) In FY2021, IJM Group generated a total of 64,402 tonnes of scheduled and non-scheduled waste, mainly from the construction, industry and toll divisions. About 13% of waste footprint was reused or recycled.</li> <li>4) Under the group’s Community Investment Policy, IJM aims to help build sustainable and vibrant communities, focusing on community development, sports and education.</li> </ol> |
| <h3>Trends</h3> <p>Although IJM Corp is not a constituent of the FTSE4Good Bursa Malaysia Index, the group received a 4-star rating from FTSE Russell at the end-Jun 2021 review, maintaining its achievement in 2020.</p>   | <h3>Implications</h3> <p>We project improved transparency in the group’s overall ESG initiatives as the group finalises and refines its Group Sustainability Roadmap 2022-2024, which will be featured in FY22’s annual report.</p>  |

SOURCES: CGS-CIMB RESEARCH, REFINITIV

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## Appendix # 3: ESG highlights of other diversified contractors under coverage

## ESG in a nutshell:

### Sunway Berhad



Sunway's ESG targets cover five key areas: 1) transforming the group's portfolio of property developments into low-carbon sustainable cities, 2) advocating a responsible value chain, 3) developing a safe, equal and dignified workforce, 4) investing in community inclusivity, and 5) respecting ethical principles. The group adopts a holistic approach to ensure sustainable long-term growth by leveraging innovation and technology to create value.

#### Keep your eye on

- 1) As a conglomerate, Sunway's ESG initiatives are adopted across all its nine key business activities: property development, construction, trading and manufacturing, quarry, building materials, hospitality, property investment, healthcare, and leisure.
- 2) Repackaging of new mega public infrastructure projects as "green infrastructure", e.g. the RM31bn MRT 3 project, as this would be supportive in increasing the nation's share of public transport usage.
- 3) Opportunities to participate in sustainable developments by building green buildings and promoting integrated mobility via transit-oriented developments (TODs).

#### Implications

- 1) All its ESG initiatives will be aligned with five global megatrends i.e. rapid urbanisation, social change, technological breakthroughs, resource scarcity, and shifting economic power. These will be more in focus over the span of the post-Covid 19 pandemic recovery period in 2022, in our view.
- 2) Sunway could contribute to nation-building through its various business divisions. The nation's focus in 2022 would be on economic recovery and the 12<sup>th</sup> Malaysia Plan (12MP) which would directly benefit cyclical divisions such as property development, construction and quarry.
- 3) Opportunities for listed subsidiary Sunway Construction to further grow its order book, leveraging on its strong track record in rail projects in the past.

#### ESG highlights

- 1) Sunway aims to be carbon neutral by 2050 and targets to achieve its ESG goals by 2030, in line with the targeted achievement year of the United Nations Sustainable Development Goals (UN-SDGs).
- 2) Tree planting, energy efficiency, renewable energy (RE) and waste management enabled the group to reduce 11,611 tonnes of CO<sub>2</sub>e emissions in 2020. In the same year, its solar energy consumption increased from 1% to 3%.
- 3) In 2020, it reduced its water consumption by 28% compared to 2019 and recorded 538,706 m<sup>3</sup> of water sourced from water treatment plants; it also achieved zero reported incidents of human rights violations and discrimination, including forced labour and child labour.

#### Implications

- 1) Sunway City Kuala Lumpur has been designated as one of the three overarching United Nations Sustainable Development Solutions Network (UN-SDSN) centres alongside New York City and Paris.
- 2) The group targets that by 2030, it would have achieved green building certification for all Sunway-owned and/or managed townships and buildings completed from 2025 onwards (currently six building are in the process of green building certification).
- 3) Sunway City Kuala Lumpur and Sunway City Iskandar Puteri have been green certified by the Green Building Index (GBI).

#### Trends


- 1) Sunway Berhad is a constituent of the FTSE4Good Bursa Malaysia Index and achieved a 4-star rating under the FTSE Russell grading band (as per Jun 2021 review) – an improvement from the 3-star rating in 2020. The group is a FTSE4Good index constituent since 2014.
- 2) In terms of notable ESG achievements, in Mar-22, Sunway was ranked top 15<sup>th</sup> percentile of its Industry Classification Benchmark (ICB) Supersector (assessed by FTSE Russell) and awarded an ESG rating upgrade from "BBB" to "A" by MSCI.

#### Implications

Notable recognitions in ESG:

- 1) Listed associate Sunway REIT was awarded Bronze in the category of Asia's Best Integrated Report (Design) at the Asia Sustainability Reporting Awards (ASRA) in 2020.
- 2) Sunway Iskandar received Special Awards on Sustainable Development Goals and Best Green Product & Technology at the Malaysia Green Building Council's Leadership in Sustainability Awards 2020.
- 3) Sunway Berhad was awarded Gold in the category of Asia's Best Sustainability Report (Digital) at the Asia Sustainability Reporting Awards (ASRA) in 2020.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

| <div style="display: flex; justify-content: space-between; align-items: center;"> <div style="width: 30%;"> <p><b>ESG in a nutshell:</b><br/><b>YTL Corporation</b></p> </div> <div style="width: 20%; text-align: center;">  </div> <div style="width: 40%; text-align: right;"> <p><b>Refinitiv ESG Scores</b></p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: #90EE90; padding: 5px; border: 1px solid black; text-align: center;"> <b>B</b><br/>ESG Score         </div> <div style="background-color: #90EE90; padding: 5px; border: 1px solid black; text-align: center;"> <b>A+</b><br/>ESG Controversies Score         </div> <div style="background-color: #90EE90; padding: 5px; border: 1px solid black; text-align: center;"> <b>B</b><br/>ESG Combined Score         </div> <div style="background-color: #90EE90; padding: 5px; border: 1px solid black; text-align: center;"> <b>B+</b><br/>ESG Environment Pillar Score         </div> <div style="background-color: #90EE90; padding: 5px; border: 1px solid black; text-align: center;"> <b>B+</b><br/>ESG Social Pillar Score         </div> <div style="background-color: #90EE90; padding: 5px; border: 1px solid black; text-align: center;"> <b>C+</b><br/>ESG Government Pillar Score         </div> </div> </div> </div> |   |
|---|---|
| <p>YTL Corp's sustainability strategies are premised on the four pillars of the group's sustainability framework: 1) Protection of the environment, 2) Empowering its people, 3) Enriching communities, and 4) Embracing the marketplace. These are aligned with selected United Nations Sustainable Development Goals (UNSDGs).</p>  |   |
| <p><b>Keep your eye on</b></p> <p>Developments in Malaysia's new infrastructure initiatives under the 12<sup>th</sup> Malaysia Plan (12MP) as the government repackages new mega rail projects as "green infrastructure". This would provide opportunity for YTL to expand its domestic construction order book.</p>  | <p><b>Implications</b></p> <p>The proposed KL-JB High Speed Rail (HSR) project is still undergoing feasibility studies and may make a comeback under the 12MP. If this materialises, YTL's valuations could re-rate and its track record in rail projects, in addition to its existing Express Rail Link (ERL) concession, would stand it in good stead in the tender process.</p>  |
| <p><b>ESG highlights</b></p> <ol style="list-style-type: none"> <li>1) Advocating for climate change action and mitigation measures for the past 30 years by building and progressing sustainably since 1955. .</li> <li>2) Targets to eliminate single-use plastics from its operations globally by 2025 through SNAP (Say No to All Plastic) campaign. Since 2018, the group has saved on the usage of 1.9m plastic bottles and 252,000 plastic straws.</li> <li>3) Express Rail Link (ERL) continues to keep 4m-5m cars off the roads from KL Sentral to KLIA yearly, and has reduced around 140,000 tonnes of CO<sub>2</sub>e since 2014.</li> <li>4) Notable ESG achievements in 2020 related to climate change/environment were contributed by YTL Jaya Timur (YTLJT), YTL Power Seraya, Starhill Global REIT, and Wessex Water.</li> </ol>   | <p><b>Implications</b></p> <ol style="list-style-type: none"> <li>1) 5% reduction in CO<sub>2</sub> emissions, 7% reduction in energy consumption, 25% fall in waste generated, and 38% increase in water recycled over 2015-2020.</li> <li>2) YTL Power Seraya has completed its solar PV panel installation at its Jurong Island Power Plant, YTLJT began solar PV installation to reduce grid electricity consumption by 20% yoy, Wessex Water successfully integrated solar power generation at two of its larger facilities.</li> <li>3) YTL Cement's manufacturing facilities managed to reduce its carbon footprint over time by gradually replacing traditional fossil fuels and raw materials with processed and repurposed waste. In FY20, the division saved 17,800 m<sup>2</sup> of land from being used as landfill for waste</li> </ol> |
| <p><b>Trends</b></p> <p><b>Key selected awards and recognition in 2019/2020</b></p> <ol style="list-style-type: none"> <li>1) YTL Hotels: Platinum category for CSR Leadership Award at the 12<sup>th</sup> Global CSR Summit Awards (2020).</li> <li>2) YTL Power International: Silver category for Best Environmental Excellence Award; Bronze category for Best Community Programme Award at the 12th Global CSR Summit and Awards and the Global Good Governance Awards (2020).</li> <li>3) YTL Jawa Timur: PROPER Green (Environmental Category) by Indonesia's Ministry of Environment and Forestry; Zero Accidents Award by East Java Governor of Indonesia and Indonesia's Ministry of Manpower (2020).</li> <li>4) Wessex Water: Commended Sector Award at the RoSPA Health and Safety Awards; SGS Customer Service Excellence Accreditation (2020).</li> <li>5) Express Rail Link (ERL): Partnership of the Year Award - Global AirRail Alliance (GARA) Awards (2019)</li> </ol>   | <p><b>Implications</b></p> <ol style="list-style-type: none"> <li>1) YTL Corp has been a constituent of the FTSE4Good Bursa Malaysia Index since 2017. The group achieved a 4-star rating band from FTSE Russell in 2021 (as per Jun 2021 review), unchanged from its score in 2020. We regard the group as among the conglomerates with improving levels of disclosures in ESG reporting.</li> <li>2) The group is a member of various bodies related to ESG, including the Global Compact Network Singapore and the Sustainable Energy Association of Singapore</li> </ol>  |

SOURCES: CGS-CIMB RESEARCH, REFINITIV



## ESG in a nutshell: WCT Holdings



2020 marked WCT Holdings's 5<sup>th</sup> year of sustainability disclosures. The group adopts a progressive approach for its sustainability journey, which is centred on delivering shared value, collective economic growth, responsible environmental stewardship, and impactful community engagement. ESG materiality issues are specifically addressed across the group's three key divisions: 1) property development, 2) property investment – retail and hospitality, and 3) construction.

### Keep your eye on

WCT's ESG materiality scope covers key areas including: 1) enhancement of competitiveness, 2) construction waste management, 3) climate change, 4) labour relations, 5) innovative growth, and 6) procurement process. They are all aligned to the United Nations Sustainable Development Goals (UNSDGs). In 2021, WCT conducted a refreshed materiality assessment in view of the impact of Covid-19 and potential new areas of focus ahead of a post-pandemic recovery landscape in 2022.

### Implications

A more sustainable recovery momentum in the country will be guided by the 12<sup>th</sup> Malaysia Plan (12MP). This would lead to the normalisation of its construction billings, more robust outlook for property sales and a turnaround in the operating conditions of the group's retail mall and hotel assets. This will enable WCT to refocus on its ongoing ESG initiatives, to be more aligned to a post-pandemic recovery.

### ESG highlights

- 1) The group's construction and property development divisions have identified environmental matters such as biodiversity and conservation impact as areas that require greater focus. For its retail malls and hotels, more focus will be placed on exploring waste management initiatives, enhancing customer engagement and interaction, and improving its digital/online platforms.
- 2) Ongoing usage of Building Information Modelling (BIM) and Industrial Building Systems (IBS) support WCT's efforts to adopt sustainable construction methods.
- 3) Its property development division launched a Virtual Sales Experience microsite to showcase key projects to enhance sales. WCT Virtual Gallery was also launched to enhance the 3D virtual home buying experience.

### Implications

- 1) Sustainable construction methods would allow for a more efficient construction work process in terms of reducing lead time, reliance on labour and wastage – three core areas that are crucial in a post-pandemic construction landscape.
- 2) WCT has successfully rolled out WCT E-Shop to bridge the gap between retailers/tenants and consumers; this should help it develop a more comprehensive e-commerce platform ahead.
- 3) Quality of its construction works is guided by ISO 9001 standards coupled by its in-house Project Quality Plan (PQP), which covers procurement, construction and delivery stages

### Trends

- 1) Some key points on environment/climate issues: 1) Its construction division registered a 37% yoy increase in waste recycled and reused while the property investment division achieved a 14% yoy drop in total waste produced in 2020. 2) The group introduced a Landfill Waste Reduction Programme in 2020, and 3) Increased focus on green building certifications.
- 2) Overall ESG ratings and recognitions: WCT is not a constituent of the FTSE4Good Bursa Malaysia Index. However, it achieved a 2-star rating band under FTSE Russell (as per Jun 2021 review), similar to 2020's achievements.

### Implications

- 1) Green Building certification has become an increasingly important area. WCT's green building projects include gateway@KLIA airport mall, Ministry of International Trade (MITI) Headquarters and MyTown Shopping Centre.
- 2) Ongoing construction projects with potential green building certifications are 1) The Exchange TRX retail complex, 2) superstructure works for Pavilion Damansara Heights parcel 1, and 3) Merdeka 118 Retail Mall.
- 3) WCT targets to enhance its ESG disclosures. It plans to track and disclose its GHG emissions to manage its environmental impact and address climate change concerns.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

**ESG in a nutshell:**  
**Muhibbah Engineering**



Muhibbah Engineering started incorporating sustainability and ESG in its annual reporting in 2020. As far as governance of overall ESG (sustainability) is concerned, it is led by the group’s sustainability steering committee (SSC) and sustainable working committee (SWC) and overseen by the deputy chief executive officer (DCEO).

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|---|---|
| <p><b>Keep your eye on</b></p> <p>Potentially more sustainability initiatives relating to its four key divisions. The group’s business portfolio comprises: 1) infrastructure construction, 2) concessions, 3) cranes, and 4) shipyard. The infrastructure and construction division is primarily engaged in infrastructure, civil and structural engineering, marine, oil and gas, shipbuilding and contract works, while the concessions division consists of Cambodia Airports privatisation and road maintenance for the federal government of Malaysia.</p> <p>In FY20, the group’s sustainability reporting only covered its operations in Malaysia.</p>  | <p><b>Implications</b></p> <p>One way to improve the group’s ESG profile is to participate in future domestic rail urban projects (electrified), which are part of the overall 12<sup>th</sup> Malaysia Plan (12MP) green infrastructure plans.</p> |
| <p><b>ESG highlights</b></p> <p>Major ESG materiality areas are employee well-being, contribution to society, energy and water consumption, air emissions, biodiversity, and labour practices.</p> <p>In matters relating to mitigating the impact of Covid-19, the group has undertaken various initiatives in protecting stakeholders throughout the pandemic. This includes strict implementation of Muhibbah’s Covid-19 safe operating procedures (SOPs), regular awareness and prevention circulars, implementation of work from home (WFH) or rotational work schedules, regular sanitisation and disinfection of office premises and virtual meetings.</p> <p>The group’s environmental policy statement is driven by the setting up of Specific, Measurable, Achievable, Realistic and Time (SMART) bound objectives, targets and an Environment Management Programme (EMP).</p> <p>At various project sites, it practises operational control plans on waste management in accordance with the Environmental Quality (Scheduled Waste) Regulations (2005).</p> | <p><b>Implications</b></p> <p>Over time, we expect the group to improve its sustainable reporting, as what was disclosed in its FY20 annual report lacked detail and breakdown of ESG plans across all divisions.</p>                               |
| <p><b>Trends</b></p> <p>Although the group is not a constituent of Bursa Malaysia’s FTSE4Good index (FTSE4G), it received a 1-star rating from FTSE Russell, based on the Jun 2021 review. This is unchanged from its achievement in 2020.</p>  | <p><b>Implications</b></p> <p>Compared to other diversified contractors under our coverage, we would regard Muhibbah Engineering as having the least comprehensive ESG disclosures.</p>   |

SOURCES: CGS-CIMB RESEARCH, REFINITIV

## ESG in a nutshell:

### Malaysian Resources Corporation (MRCB)



MRCB's sustainability framework revolves around building livable and resilient communities, caring for the environment, and driving sustainable growth. Its sustainability focus areas include: 1) Internal action, 2) Sustainable impact, 3) Risk and governance, 4) Corporate social responsibility, and 5) Stakeholder engagement. All its ESG-related initiatives are aligned to the United Nations Sustainability Development Goals (UN-SDGs).

#### Keep your eye on

- 1) Key targets of the group's 5-year sustainability roadmap include 1% yoy reduction in carbon intensity by 2022, 1% yoy reduction in energy, water and waste intensity by 2022, and net zero carbon by 2040. The roadmap is supervised by the group's Sustainability Management Committee (SMC).
- 2) The government potentially repackaging new public transport infrastructure projects as "green infrastructure" under the 12<sup>th</sup> Malaysia Plan (12MP). New urban and interstate rail projects include the MRT 3 (Circle Line) and the KL-JB High Speed Rail (HSR).

#### Implications

- 1) As an urban property developer with a niche in transit-oriented developments (TODs), the rollout of new rail public transport projects should bode well for MRCB, allowing it to expand its growth area in TODs – similar to KL Sentral.
- 2) Opportunities to increase its construction order book and to participate in new rail contract tenders should the MRT 3 and KL-JB HSR projects be implemented

#### ESG highlights

- 1) The group's transit-oriented developments (TODs), such as the MRT 2 and LRT 3, encourage the use of public transport, which reduces carbon emissions.
- 2) MRCB is a pioneer in Green Building developments; it received sustainability accreditation for various projects and has adopted various Green Building Certification criteria across all its developments.
- 3) Major sustainability ratings/certifications: Green Building Index (GBI), GreenRE, MyCrest, and BCA Green Mark.
- 4) Channelled RM1.4m of Covid-19-related donations to various government agencies, NGOs and the community in 2020

#### Implications

- 1) MRCB is the first contractor to achieve the 5-star Sustainable INFRASTAR rating by the Construction Industry Development Board (CIDB), which it received for the LRT 3 project.
- 2) It has selectively adopted Building Information Modelling (BIM) to reduce construction waste. It developed and deployed the MRCB Building System (MBS) which focuses on modular construction (aligned to six UN-SDGs).

#### Trends

- 1) MRCB is a constituent of the FTSE4Good Bursa Malaysia Index. It achieved a 3-star grading band under FTSE Russell (at the Jun 2021 review), similar to 2020. It has been an FTSE4Good constituent since 2017.
- 2) MSCI ESG rating: BBB.
- 3) To enhance its sustainability initiatives and ESG profile, the group said it will over the longer-term continue to focus on core sustainability issues, i.e. high dependency on foreign labour, environmental risks, and energy/material wastage (shifts towards sustainable construction methods)

#### Implications

- Recognition of best practices in governance/ESG includes:
- 1) 1SO 37001 – Anti-Bribery Management System
  - 2) Ranked 38th for Overall Good Corporate Governance Disclosures in the MSWG-ASEAN CG Scorecard
  - 3) Gold Award (2017/2018) recipient of the Australian Reporting Awards (ARA)
  - 4) Recipient of the ASEAN Class Award for the 2019 ASEAN Corporate Governance Scorecard Assessment
  - 5) Ranked 1st in Malaysian Institute of Corporate Governance's Transparency in Corporate Reporting in 2019.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

**ESG in a nutshell:**  
**HSS Engineers**



As an ongoing initiative, HSS Engineers will continue to align its business operations with the nation's Environmental, Social and Governance concerns, particularly in the areas of carbon neutrality and reducing its adverse impact on the environment.

|  |   |
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| <p><b>Keep your eye on</b></p> <p>Public transportation accounts for 23% of energy-related carbon dioxide emissions. Taking this into consideration, HSS, as the leading engineering consultant in the public transportation space, targets to incorporate all aspects of environmentally friendly elements into its engineering and consultancy works.</p>  | <p><b>Implications</b></p> <p>HSS has participated in numerous domestic public transport projects in the past. In aligning its focus to undertaking environmentally sustaining rail projects, the RM31bn MRT 3 contract, which has yet to be implemented, provides a platform to enhance its ESG-driven exposure to rail contracts.</p>   |
| <p><b>ESG highlights</b></p> <p>Renewable energy (RE) remains HSS's long-term agenda and the group intends to utilise RM15m of its balance IPO proceeds to pursue recurring income and long-term contracts in the RE sector. This will support Malaysia's commitment to Phase 2 of the ASEAN Plan of Action and Energy Cooperation, whereby ASEAN member states collectively agree to increase the RE installed capacity target from 25% to 35% by 2025.</p>                               | <p><b>Implications</b></p> <p>This target may give rise to new opportunities in RE/solar ventures. We have not imputed any potential RE ventures into our forecasts.</p>  |
| <p><b>Trends</b></p> <p>Water sector infra backlog could pick up under the 12<sup>th</sup> Malaysia Plan (12MP). According to the group's FY20 annual report, the RM18bn estimated allocation for water supply projects in Sarawak (aimed at transforming the water supply system from scattered and decentralised systems to an integrated one comprising of a water grid that links all water treatment plants) is an overall initiative supportive of sustainability-type projects.</p> | <p><b>Implications</b></p> <p>We believe that water infrastructure will emerge as HSS's niche area of focus in 2022 given the group's strong track record in undertaking water engineering consultancy projects. This is one of the key areas of growth directly linked to sustainable infrastructure that could be supportive of HSS's order book growth in a post-Covid-19 world.</p> |

SOURCES: CGS-CIMB RESEARCH, REFINITIV

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| Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021 |                         |                                |
|--|-------------------------|--------------------------------|
| 619 companies under coverage for quarter ended on 31 December 2021                                 |                         |                                |
|  | Rating Distribution (%) | Investment Banking clients (%) |
| Add  | 71.1%                   | 1.5%                           |
| Hold   | 21.8%                   | 0.0%                           |
| Reduce   | 7.1%                    | 0.0%                           |

### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a,

n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

### Recommendation Framework

#### Stock Ratings

Definition:

|        |   |
|--------|---|
| Add    | The stock's total return is expected to exceed 10% over the next 12 months.                     |
| Hold   | The stock's total return is expected to be between 0% and positive 10% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below 0% or more over the next 12 months.          |

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

|             |  |
|-------------|--|
| Overweight  | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.  |
| Neutral     | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.       |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

#### Country Ratings

Definition:

|             |  |
|-------------|--|
| Overweight  | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral     | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.           |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |