THE BORNEO POST

'Sarawak's construction sector's prospects bright'

KUCHING: Prospects are looking good in Sarawak for the construction sector with positive job flows expected, especially due to its RM100 billion capital injection.

Building materials price are also easing and cost headwinds are expected to remain manageable, analysts observed.

In a report, the research team at MIDF Amanah Investment Bank Bhd (MIDF Research) noted that based on the **Department of Statistics (DOSM**) data, the prices of five types of mild steel bars and four types of high tensile deformed bars it tracked were lower across the board.

Average steel bar prices in the Peninsular retreated 2.3 per cent m-o-m to RM3,400.89 per tonne. The central region saw the highest decline of 4.5 per cent m-o-m to RM3,741.15 per tonne.

In East Malaysia, average prices were 1.9 per cent m-o-m lower to RM4,003.11 per tonne, with the highest decline recorded in Sibu at 2.7 per cent m-o-m to RM3,949.06 per tonne.

It believed that steel bar prices have peaked in June 2022 at RM3,901.81 per tonne and prices are now starting to soften after 19 consecutive months of increase since December 2020, but industry players still remain cautious.

The binding substance also averaged out at RM21.04 per 50kg bag in August 2022, back to the level recorded in June 2022 at RM21.05.

The Peninsular recorded an increase of 0.5 per cent m-o-m to RM18.63, mainly due to a 1.3 per cent m-o-m increase in the northern region to RM17.95 and a 0.3 per cent increase in the central region to RM18.68.

The eastern region of the Peninsular was the only region that recorded a decline, by 0.16 per cent to RM19.25.

In Sabah and Sarawak, average cement prices rose 0.1 per cent to RM22.24 per 50kg bag. Increases were recorded in Kota Kinabalu and Kuching at 0.7 per cent m-o-m and 0.2 per cent m-o-m to RM20.97 and RM22.61 respectively while those in Sandakan, Tawau, Sibu and Miri remained unchanged.

"We reiterate our view as per our previous reports that we are not overly concerned about the building materials price headwinds being a huge risk to the companies under our coverage as it is still able to mitigate the impacts, on top of margin protection measures such as variation-of-price clauses, which allows part of the additional cost to be passed on to clients.

"Even if such elements are not available, some contracts would have priced in potential cost inflation or negotiations would have been engaged with clients to reprice contracts or to put in place huge buffers for possible spike in prices.

"We expect margins to continue improve in 3Q22 onwards though a dampener may be due to higher labour cost due to a shortage of foreign workers as contractors are paying more for critical projects, but we expect this situation to improve moving forward as construction is among the sectors that are allowed to hire from all 15 permitted source countries," MIDF Research opined.

All in, the research team reiterated its 'positive' recommendation on the construction sector in view of the manageable cost headwinds and the potential roll-out of infrastructure projects in Malaysia, with positive developments being driven by the upcoming MRT3 tender awards in 4Q22.

Tender submissions for CMC301 (estimated contract size RM2.79 billion) closed on August 30 while submissions for CMC302 (estimated contract size RM13.94 billion) and CMC303 (estimated contract size RM14.29 billion) have been extended to September 30.

"Prospects are also looking good in Sarawak with positive job flows expected, especially due to its RM100 billion capital injection by 2030," it opined.

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