

## **Manageable Cost Headwinds Coupled with Prospects of Project Rollouts, POSITIVE Stance on Construction Sector: MIDF**

MIDF Research in its Construction Sector Report has reiterated its POSITIVE rating on local construction sector as cost headwinds remain manageable and on positive developments on project rollouts, led by MRT3.

The main takeaways from the research report are:-

Steady decline. Average steel bar prices in Malaysia declined -1.6% MoM to RM3,663.54 per tonne in Oct-22 (Sept-22: -2.1% MoM to RM3,721.80), marking its fourth consecutive month of downtrend, in line with the easing steel prices globally that is being affected by demand concerns. On a year-on-year (YoY) basis, it was still an increase of +12.3% YoY, but at its slowest pace since May-21. Cement prices also recorded a decline, by -0.5% MoM (Aug-22: -0.53% MoM) to RM20.81 per 50 kg bag.

Steel bar prices. Based on the **Department of Statistics (DOSM)** data released yesterday, the prices of five types of mild steel bars and four types of high tensile deformed bars it tracked were generally lower across the board. Average steel bar prices in the Peninsular retreated -3.3% month on month (MoM) to RM3,212.14 per tonne. The central region saw the highest decline of -4.0% mom to RM3,487.69 per tonne. In East Malaysia, average prices were -0.82% MoM lower to RM3,899.24 per tonne, with the highest decline recorded in Miri at -1.8% mom to RM3,793.97 per tonne. Recall that average steel bar prices in the country peaked at RM3,901.81 per tonne in Jun-22 after 19 consecutive months of increase.

Cement prices. The binding substance averaged at RM20.81 per 50kg bag in Oct-22. The Peninsular recorded a decline of -1.3% mom to RM18.06. The northern region saw the highest reduction of -2.1% mom to RM16.81. In Sabah and Sarawak, average cement prices declined only by -0.18% to RM22.19 per 50kg bag. Prices mostly remained unchanged in the regions tracked except for a -1.1% decline in Sandakan to RM22.75.

As per MIDF's previous reports that it is not overly concerned about the building materials price headwinds being a huge risk to the construction sector. While prices still remain elevated, the research house is comforted by the declining trend that has been observed over the past few months. It expects margins to continue improve in 4Q22 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 it also expects this situation to improve moving forward as construction is among the sectors that are allowed to hire from all 15 permitted source countries.

MIDF has reiterated its POSITIVE recommendation on the construction sector in view of the manageable cost headwinds and the potential rollout of infrastructure projects in Malaysia, with positive developments being driven by the upcoming MRT3 tender awards by the upcoming MRT3 tender awards by the end of 2022.

Prospects are also looking favourable in Sarawak with positive job flows expected, especially due to its RM100b capital injection by 2030.

The research house is looking forward to the potential revival of the axed KL-Singapore High Speed Rail (HSR), which may be a key focus area of the new Government after the general election.

With all the ongoing and upcoming developments, MIDF is staying POSITIVE on the construction sector, with a preference for companies with robust balance sheets and strong overseas presence, namely Gamuda (BUY, TP: RM4.71), IJM Corp (BUY, TP: RM2.18) and Sunway Construction (BUY, TP: 1.87), all of which are front-runners for the MRT3 main contracts.

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