Construction outlook tepid

CONSTRUCTION

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Unexciting year: An upgrade to the sector to 'neutral' or 'overweight' is only possible if the government decides to pump prime the economy with public funded projects. — Bloomberg

PETALING JAYA: The prospects for companies involved in the construction industry appear to be unexciting as the country steps into 2020.

This is because of the tight financial situation the country is currently in from the years of the built-up of hidden debt under the previous government administration, according to reports.

AMBank Research said in its report that it is expecting muted prospects for the sector as it continues to retreat from a super-cycle fuelled by debt-funded public infrastructure projects spanning over 10 years from 2008 to 2018, which turned out to be unsustainable.

"Given the still elevated national debt and its commitment towards fiscal prudence, we sense great reluctance and hesitation from the government to revive projects which have been put on hold, or embark on new projects, with the exception of the Johor Baru –Singapore Rapid Transit System (RTS) which costs RM3.6bil and the Sarawak-Sabah Link Road costing RM5.2bil, " AMBank Research said.

It noted that the now revived RTS is not a sign that the government was about to embark on more new projects for the country but is an isolated case.

"Firstly, we believe a revised estimated price tag of RM3.16bil which is a cheaper system, of a light rail transit from the mass rapid transit previously is more palatable to the cost-conscious government, " it said.

"Secondly, Malaysia may be liable to a hefty abortive cost to be paid to Singapore if the project is delayed further or terminated, " it added.

The research house which had maintained an underweight call on the construction industry noted that valuations of construction stocks are lofty with a weighted average price to earnings ratio of 18.3 times on a weighted earnings per share growth rate of only 3.0% next year.

An upgrade to the sector to "neutral" or "overweight" is only possible if the government decides to pump prime the economy with public funded projects should there be external shocks such as an unexpected slump in the global economy, it said.

Meanwhile, UOB Kay Hian Research (UOBKH) said in its report that it is expecting more mega construction projects to kick off within the first half of the year 2020 to allow for the government to sustain economic growth.

"Mega infrastructure projects that are expected to kick off soon include the East Coast Rail Link and potentially the Pan Borneo Highway Sabah, " UOBKH said.

It also said the RTS project that was given the green light by the government in late October 2019 would be undergoing further deliberation between both countries until April 20.

Commenting on another project the light rail transit line 3 (LRT3), UOBKH said Gabungan AQRS Bhd (GAQRS) are in the advanced stages of negotiations to finalise the contract sum with the MRCB-George Kent joint venture.

It expected the LRT3 billings recognition for GAQRS to pick up in full swing next year.

"We believe the other contractors with LRT3 exposure are likely to finalise also in due course, and we expect accelerated billings to follow suit, " it said.

UOBKH maintained its market weight stance on the construction industry noting that it expects only a handful of the previously reinstated mega projects to resume, which will probably not excite the sector or boost sector earnings growth significantly.