Malaysia-only HSR line would have similar earnings impact on local construction firms — Affin Hwang

BY ARJUNA CHANDRAN SHANKAR
theedgemarkets.com

KUALA LUMPUR (Feb 4): The implementation of a Malaysia-only High Speed Rail (HSR) line would have a similar impact on earnings for the Malaysian construction sector as the now-cancelled Kuala Lumpur-Singapore HSR line.

During a question-and-answer session (Q&A) session at Affin Hwang Capital's Malaysia Economic Outlook and Construction Sector Briefing today, senior associate director Loong Chee Wei opined that close to 90% of the infrastructure work for the original HSR alignment is in Malaysia.

"If they proceed with just the Malaysian portion, the infrastructure spending would be quite large and benefit major contractors in Malaysia. Indications are that it is close to RM30 to RM40 billion on just the construction cost alone," Loong said.

The cancellation of the HSR line was announced on Jan 1 after both Malaysia and Singapore could not agree on changes proposed by Malaysia.

The estimated cost of construction of the HSR project was last quoted at around RM60 billion, down from its original price tag of RM110 billion.

It is believed that Malaysia will be undertaking the project with a new alignment stretching from Kuala Lumpur to Johor Baru.

The project was first announced in September 2010 by former prime minister Datuk Seri Najib Razak. The infrastructure project was slated for completion in 2026.

The proposed 350km Kuala Lumpur-Singapore HSR project was put on hold after the change of government in Malaysia due to high cost.

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Affin Hwang's Loong has a 'neutral' call on the construction sector, with the research firm's preference being small- to mid-cap contractors given their more attractive valuations and smaller government contract sizes.

Construction sector to see earnings recovery in 2021, Affin Hwang predicts

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KUALA LUMPUR (Feb 4): The construction sector is expected to post an earnings recovery in 2021 following the government's plans to pump-prime the economy, opined Affin Hwang Capital Research senior associate director Loong Chee Wei.

Loong expects the 2021 aggregate sector core earnings to rebound by 11% year-on-year (y-o-y) in 2021 after contracting by 30% y-o-y in 2020.

He remarked that the lower aggregate core earnings were lower in 2020 on the account of slower progress billings as a result of the Covid-19 control measures causing disruptions.

"We expect an acceleration in progress billings to catch up with ongoing project works in the second half of 2021 (2H21)," he said at Affin Hwang's Malaysia Economic Outlook and Construction Sector Briefing today.

He noted that government project awards are also expected to pick up 2021 to pump-prime the economy. That being said, he added that key earnings risks to the sector are the replenishment of construction order books and a prolonged property downturn.

Loong noted that construction companies' higher order books will sustain operations, but the risk of slow progress billings still remains.

"There is also risk of a profit margin squeeze following stiff competition and rising costs. For most contractors, an order book-to-construction revenue ratio of more than two times is enough to sustain earnings," he added.

Loong gave the example of Malaysian Resources Corp Bhd (MRCB), which he said had the highest order book among its listed peers — with most of these projects being long-term in nature. He pointed out that while it had the highest order book among its listed peers, a key risk is its poor execution track record.

All in all, Loong has a "neutral" call on the construction sector, with the research firm's preference being small- to mid-cap contractors given their more attractive valuations and smaller government contract sizes.

Among his top buys for the sector are Sunway Construction Group Bhd (SunCon) and AME Elite Consortium Bhd. He noted that in the case of SunCon, it stands to benefit from the revival of megaprojects, while for AME Elite, it stands to benefit from robust industrial property demand.

Meanwhile, Loong's top "sell" in the sector is MRCB, given its weak earnings and property sales.

He noted that pivotal revivals of mega infrastructure projects such as the Mass Rapid Transport 3 (MRT 3) are positive catalysts for a rerating. However, he noted that key concerns for the sector are political uncertainties and earnings forecast risk following the impact of Covid-19.

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