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RHB Research stays 'neutral' on construction sector as concerns linger

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KUALA LUMPUR (March 7): Despite the news flow having been active with regard to the reactivation of the Mass Rapid Transit Line 3 (MRT3) project, RHB Research remains "neutral" on the construction sector as it sees many lingering concerns.

Its analyst Adam Mohamed Rahim said in a note on Monday (March 7) that the concerns include delays in the roll-out of tender packages and reluctance by Tier 1 contractors to take on funding risks, assuming a public-private partnership model is implemented.

Concerns over limited fiscal headroom of the government are a worry over whether other mega infrastructure projects can be revived later on, he added.

Meanwhile, the analyst said the reopening of the economy in the fourth quarter of 2021 (4Q21) resulted in a higher value of construction work done, up 11.5% year-on-year (y-o-y) in 4Q21 to reach RM27.6 billion.

In the same period, he said the sector's gross domestic product grew by 6.8% y-o-y to hit RM12.6 billion in 4Q21, following four quarters of sequential decline.

Overall, he said 4Q21 results were a mixed bag, with three companies reported numbers that were in line, three fell below expectations and three more exceeded expectations.

In general, he said activity levels at construction sites had reached pre-Covid-19 pandemic levels, in light of the economic reopening from 4Q21 onwards.

"That said, the cost of sales of construction companies has increased materially, owing to the spike in raw material prices.

"Consequently, we cut [our] FY22 to FY23 earnings [forecasts] by 8% and 9%. In the meantime, we also believe key operational activities have begun normalising since 4Q21," he noted.

Looking further at the risks of higher raw material prices, he said that steel prices appeared to have declined to RM2,979 per tonne in January 2022, versus the peak of RM3,255 per tonne in July 2021 — although the former was still higher than the price of RM2,744 per tonne recorded in January 2021.

He said the overall situation remains fluid, given the global geopolitical tensions at the moment.

"As such, we expect cost pressures to remain tilted towards the upside," he said.

He continues to advocate strong names like Sunway Construction Group Bhd (target price: RM1.74) and MGB Bhd (99 sen).

"Overall, we believe they have supportive catalysts to buffer near-term risks, supported by stable order book replenishment rates and robust balance sheets," he said.