

More tender news seen for construction sector, ECRL included

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Work in progress: A file picture showing construction in progress on a stretch of the Pan Borneo Highway project from Donggongan to Papar. HLIB Research says packages 28,29 and 30 of Pan Borneo Sabah will be tendered out by the first quarter of 2020. — Bernama

Despite the impending recovery on the construction sector, Hong Leong Investment Bank (HLIB) Research maintains a Neutral call on the sector as further details and timeline clarity for additional mega infrastructure catalysts such as the High Speed Rail (HSR) and Mass Rail Transit (MRT3) are absent.

"We believe current valuations have baked in the recovery prospects capping the potential of a broad sector rally.

PETALING JAYA: The construction sector should see an uptick in tender news flow during the first half of 2020, which could cast some light on the current mundane scenario in the construction sector.

Some of the tender news expected to be revealed are in relation to the East Coast Rail Link (ECRL) (RM44bil), Pan Borneo Sabah (RM12.3bil), Sarawak Coastal Road Network (SCRN) (RM6bil) and second trunk road (RM5bil).

Other material developments related to the sector are the ramp up of LRT3 project (RM16bil) and potential signing of the project delivery partner (PDP) agreement for Penang Transport Master Plan (RM24bil), which should pave the way for physical works on Bayan Lepas LRT (RM8.4bil).

According to HLIB Research, packages 28,29 and 30 of Pan Borneo Sabah with a cumulative value of RM925mil will be tendered out by the first quarter of 2020, with the remaining 20 packages to be included under the 12th Malaysia Plan which runs from 2021 to 2025.

The government is also considering reviving MRT3 with a decision likely in mid-2020.

"Nonetheless, positive newsflow and healthy order book levels should provide downside risk protection," the research house pointed out.

Meanwhile, demand in the building materials market is expected to pick up in the later quarters of the year, given the slow work progress, with some projects undergoing redesigning and tendering phases.

Kenanga Research opined that 2020 will continue to be a tough year for the building materials sector.

"The resumption of the few mega infrastructure projects at reduced costs, coupled with the intense competition in the tendering phase could dampen profit margins.

"Overall, the building materials market remains challenging largely due to weak selling prices amid an oversupply situation and intense competition in the domestic market, as well as slower construction and property development activities in the domestic market," said Kenanga Research.

On the positive side, aluminium prices are believed to have bottomed from the low base of US\$1,794 per tonne average in 2019, due to the current global supply deficit.

As such, Kenanga Research believes that the recent weakness in aluminium prices is temporary and some recovery could emerge in the near term.