

Construction outlook seen challenging

CONSTRUCTION

Tuesday, 19 Mar 2019



PETALING JAYA: The competition for construction project tenders is set to intensify following recent cancellations and postponements of mega projects in the country.

TA Securities said contractors might have to sacrifice some margins to secure new projects as they compete for a smaller pie in the market.

“With prices of key construction materials such as cement and steel bars at depressed levels, in the event of an imbalance in the demand and supply of these construction materials that lead to price escalations, it could pose a risk of margin contraction to their existing jobs in hand,” the brokerage said in a report yesterday.

The research house is maintaining an “underweight” call on the construction sector. “We maintain our underweight call on the construction sector as we think valuations have run ahead of its fundamental after the recent rally in share prices.

“Besides, the property market in which most of the contractors have direct or indirect exposure, remains challenging,” it said.

MIDF Research said construction companies under its coverage recorded mixed earnings last year.

“The construction companies under our coverage ended the year mixed with seven out of eleven performed within and above our yearly estimates.

“Muhibbah and KKB have again proved their mettle, posting results beyond our expectations.

“We downgraded Sunway Construction and Gamuda to “neutral” (from buy) as the previously beaten-down counters have recently risen up close to their fair values.”

MIDF Research noted that the Kuala Lumpur Construction Index (KLCon) was beaten down by marred sentiment last year, but noted that it has since rebounded by 26.1% year-to-date.

“The sector-wide outlook was impaired in the second half of 2018 with KLCon recording loss in value of 48.7% following several announcements that were deemed negative by investors.

“The sectoral index tumbled from its pre-election highs following a series of revisions, postponements and shelving of major infra projects.

“Subsequently, the index fell down to its new lows, trading at a reduced multiple below its 10-year average.”

The research house noted that sentiment has somewhat recovered, evident by the recent improvement in the KLCon’s performance. “We have previously expected sentiment to improve (albeit gradually) on the back of still healthy fundamentals and near-term visibility following the Budget 2019 release.

“Going ahead, further gains must be driven by strength in earnings and prospects.”

MIDF Research said the sector’s players will remain beneficiaries of existing projects, namely LRT3 and MRT2.

Given its size of more than RM40bil (combined), it is expected to support earnings in the immediate to medium term.

TAGS / KEYWORDS:

Construction , Mega Projects