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Sustainability theme key to recovery

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ESG a driving force for upcycle phase

CONSTRUCTION

PETALING JAYA: A new recovery theme for the local construction sector could likely come from sustainability practices.

CGS-CIMB Research said the rising adoption of sustainable construction will emerge as a longer-term sector recovery theme.

In a report on the sector, it said this will happen on the back of new macro policy measures and the reactivation of the RM31bil MRT 3 project.

"These would mitigate short-to-medium term sector risks, such as weak visibility in other new mega jobs, limitations in the government's fiscal space and uncertainties surrounding mega contracts due to the political landscape," it told clients in a report yesterday.

Malaysia's construction sector has been one of the biggest casualties of the Covid-19 pandemic, with much work and projects experiencing severe slowdowns or even coming to a complete halt as a result of the movement control orders and stringent standard operating procedures.

The industry is now struggling to get back on its feet as new jobs dry up largely due to cutbacks in government spending.

A sustainability theme, according to CGS-CIMB Research, may provide better visibility and an alternative view in terms of resetting the government's strategy in rolling out new contracts and better positioning for contractors in tendering for upcoming new mega projects.

It will also provide investors with a better perspective on the potential longer-term winners and beneficiaries of the rollout of new contracts that are more aligned to the sustainability agenda, it said.

In its view, sustainability matters in a contract downcycles the phase.

"While historically we observed that sector-wide sustainability strategies and plans were somewhat fragmented, the government has placed greater emphasis on the domestic construction sector's pathway to higher sus-

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CGS-CIMB Research

tainability standards, as seen in the 12th Malaysia Plan (12MP)."

Noting that these sustainability initiatives will cause Malaysia's construction industry to enter into a "transformation phase" this year, CGS-CIMB Research said it was seeing a shift towards climate action and sustainable mega projects.

"Water, flood mitigation and transport projects are key potential beneficiaries of this theme, which bodes well for Gamuda Bhd, IJM Corp Bhd and HSS Engineers Bhd," it added.

According to CGS-CIMB Research, the construction sector accounts for 6% of global gross domestic product which implies that development activities will always be an integral part of economic activity and growth.

"This is particularly so for developing countries like Malaysia."

It also said the construction sector is the largest global consumer of building materials and accounts for 25% to 40% of global carbon emissions.

"This directly relates to the building material supply chain and the manner in which main building materials are produced. Cement and steel historically make up 30% to 40% of total construction input.

Construction activities have been linked to up to 50% of climate change, 40% of global energy usage and 50% of landfill waste.

"This also extends to air, water and noise pollution and the destruction of natural habitats," the research house said.

It said its assessment of the sustainability

theme on the overall local construction sector's environmental, social and governance spectrum points to opportunities to further transform and revamp the sector in its post-Covid-19 pandemic recovery phase in 2022 and potentially back to its upcycle phase over the longer-run.

"We believe that if policy and implementation of the various sustainability initiatives under the 12MP and the National Construction Policy 2030 gain greater traction in the later part of the 12MP period (2021 to 2025).

"This, with proper planning and execution, could translate into several positives, mainly a revival in private and public sector job flows coupled with the emergence of new infrastructure project proposals beyond the legacy contracts."

Other positives include a revisit of other legacy mega developments such as the estimated RM50bil to RM100bil gross development value Bandar Malaysia, the emergence of new growth areas such as those proposed under the RM5bil Penang South Islands project and the rollout of backlog water infrastructure projects, it added.

Meanwhile, analysts still remain generally cautious on the construction sector.

While there has been a showing of some green shoots in line with the recent re-opening of the local economy, most are not confident that earnings will come back in a big way this year.

"Issues like labour shortage and a continuous rise in raw material prices will continue to impact earnings for some time."