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Analysts expect tender process to proceed

CONSTRUCTION

PETALING JAYA: The government's plan to delay the rollout of new projects as a result of an austerity drive will cut the pipeline of projects for the construction industry in the second half (2H) of this year.

CGS-CIMB Research said the move, if followed through, would indicate that the pre-election rollout of contracts might not materialise should a general election be called in the fourth quarter or early 2023.

"Under this scenario of a weak contract newsflow period, there could be limited trading opportunities on some construction stocks as investors' sentiment and expectations may be subdued," the research house noted in a report yesterday.

The research house, however, did not expect the RM31bil Mass Rapid Transit 3 (MRT3) to be delayed as its private finance initiative model will see the winning bidders fund the project in the first two years with the Finance Ministry only having to raise up to RM50bil in the third year of construction onwards.

"We believe, at this juncture, MRT3's tender process is unlikely to be affected. In 2H22, we expect sector newsflow to revolve around the progress of the three MRT3 tier-1 civil works tenders (tender submissions in August 22).

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ties for contractors ahead of the new MRT3 contract," it added.

Big projects underway are the MRT2 (to be completed in one year), the Pan Borneo Highway Sabah phase one (78% completed with new packages to be awarded over next 12 months) and the East Coast Rail Line which is 30% completed with biggest tunnel boring works commencing recently.

CGS-CIMB Research said new awards year-to-date (y-t-d) till end-May have been decent and involved mainly residential or commercial buildings which benefited the small to medium-sized contractors.

July saw the award of the RM2bil turnkey contract for the Johor-Singapore Rail Transit System to Ekovest Bhd, the RM2bil water treatment plant package for the Sungai Rasau water supply scheme to Gamuda Bhd and the

RM787mil refurbishment contract for the Shah Alam Stadium (in a land swap deal) to Malaysian Resources Corp Bhd.

"Over the coming months we do not anticipate any more sizeable contract awards. Based on the Construction Industry Development Board's (CIDB) contract flow data, annualised y-t-d sector contract award value works out to RM114bil for 2022, implying a 12% year-on-year decline in the value of projects awarded," it noted.

Sector companies were also facing margin pressures from higher material costs but the larger contractors would likely have escalation clauses which would allow them to manage higher cost for the next six to 12 months.

It has a "neutral" call on the construction sector with its top picks being Gamuda Bhd and HSS Engineers Bhd due to a likely role in the MRT3 project but Gamuda for its sizable order book which include some RM11bil worth of new contract wins recently and its strong balance sheet.

The construction and engineering group also intended to undertake a special dividend of 38 sen a share upon conclusion of the sale of its highway assets not to mention the possibility of winning more work orders on projects it has bid for in the country and abroad.

CGS-CIMB has an "add" call and target price (TP) of RM4.35 on Gamuda and TP of 68.5 sen on HSS. It also likes IJM Corp Bhd (TP RM2.09) as a big-cap sector laggard.

Furthermore sector valuations are depressed, thus capping downside movements.