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However, budget cut and slight rollout delay expected

CONSTRUCTION

By **GANESHWARAN KANA**
ganeshwaran@thestar.com.my

PETALING JAYA: The Mass Rapid Transit Line 3 (MRT3) project may face a budget cut and slight delay in civil contract rollouts.

However, ahead of the tabling of Budget 2023 on Feb 24, the market is positive that the government is unlikely to cancel the RM50.2bil mega project.

For the first half of 2023 (1H23), the construction sector's prospects are closely tied to the rollout of the project and analysts are closely watching on whether MRT3 would proceed in its current form, project structure or cost.

"Three diversified contractors, namely, Gamuda Bhd, IJM Corp Bhd and Malaysian Resources Corp Bhd (MRCB), and one engineering consultancy player, HSS Engineers Bhd, were of the collective view that the MRT 3 project would proceed.

"However, most did not discount the possibility that the project may be subjected to minor review or refinement in costing and, in the worst case, tender or awards could be slightly delayed to the later part of 1H23 from the first quarter of 2023 (1Q23).

"IJM Corp and MRCB have, via their own consortiums, submitted bids for all three civil works packages while Gamuda is vying for one tender for the largest underground portion," CGS-CIMB Research analyst Sharizan Rosely wrote in a note.

Hong Leong Investment Bank (HLIB) Research analyst Edwin Woo said his "base case" involved a cost review for MRT3, but with no cancellation.

The much anticipated MRT3 civil contracts did not materialise in December 2022 due to the 15th General Election (GE15).

> ***"They were also hopeful that, with the post-GE15 political overhang out of the way, the construction sector landscape would improve and job rollouts would regain momentum."***
> Sharizan Rosely

"In 2023, the picture remains unclear although we expect the crystallisation of opportunities once Budget 2023 is tabled in February," he added.

Woo said the allocation for development expenditure (DE) could be slashed in the new budget.

Under the pre-election budget, RM95bil was allocated for DE.

"The possible revised DE number could come in at about RM85bil inclusive of US$3bil (RM13.2bil) 1Malaysia Development Bhd bond repayment. This would translate to flattish 'clean' 2023 DE versus projected 2022 DE of RM71.8bil.

"We expect the bulk of DE focus in the upcoming budget to centre on flood mitigation, healthcare or hospitals, water and various infra projects in Sabah and Sarawak.

"Given the late tabling and approval, we think there is a higher DE implementation risk this round," Woo noted in his report.

Looking ahead, HLIB Research and CGS-CIMB Research remained "neutral" on the outlook of the construction sector.

"Post-GE15, there is uncertainties over the timing of mega infra rerating catalysts.

"Our cumulative 2023 earnings forecasts see growth at a muted 2.8%," said Woo.

CGS-CIMB Research's Sharizan noted diversified contractors who participated in the research firm's 15th Annual Malaysia Corporate Day (MCD) were generally more optimistic on the sector's outlook in 2023 compared with 2022.

"They were also hopeful that, with the post-GE15 political overhang out of the way, the construction sector landscape would improve and job rollouts would regain momentum.

"Post the MCD 2023, we maintain our 'neutral' sector rating but still prefer the following themes: strong domestic and overseas execution track record, potential frontrunners for sizeable MRT3 packages, beneficiaries of asset restructuring or monetisation and aggressive strategies to grow renewable energy recurring income base," he said.

The domestic contract awards in 2022 totalled RM18.6bil, down by 4% year-on-year.

"We attribute this to volatile costs and absence of pump priming," he said.

However, he said 4Q22 saw a noticeable pickup in factory, or industrial-type contracts awarded by global multinational companies.

"It is comforting to see domestic contractors successfully pivoting to capitalise on growing opportunities in manufacturing plants and data centres," said Woo.