CONSTRUCTION

***Maintain* POSITIVE**

Easing raw material prices

KEY INVESTMENT HIGHLIGHTS

- **Average steel bar prices in the country declined -2%mom to RM3,802.37 per tonne in Aug-22 while average cement prices inched upwards +0.24% to RM21.04 per 50kg bag**
- **Average steel bar prices in the Peninsular retreated -2.3%mom to RM3,400.89 per tonne while East Malaysia saw a -1.8%mom decline to RM4,003.11 per tonne**
- **The northern region of the Peninsular recorded the highest increase in cement prices by +1.3%mom to RM17.95/50kg while Kota Kinabalu saw a +0.7%mom increase to RM20.97**
- **Maintain POSITIVE on construction sector as cost headwinds remain manageable and on positive developments on project rollouts, led by MRT3**
- **Top BUYS include Gamuda (BUY, TP: RM4.02), IJM Corp (BUY, TP: RM2.18) and Sunway Construction (BUY, TP: 1.87), Gabungan AQRS (BUY, TP: RM0.52) and Cahya Mata Sarawak (BUY, TP: RM1.37)**

On a downtrend. Average steel bar prices in Malaysia declined -2%mom to RM3,802.37 per tonne in Aug-22 (Jul-22: -0.57%mom to RM3,879.64), going into its second consecutive month of downtrend, in line with the softening trend of hard commodities globally. Though on a year-on-year basis it was still an increase of +19.6%yoy, this was lower as compared to +22.8%yoy in Jul-22. Meanwhile, cement prices inched upwards by +0.24%mom in Aug-22 to RM21.04 per 50kg bag. On a year-on-year basis, the increase was +11.38%yoy, lower than +11.71%yoy recorded in Jul-22.

Steel bar prices. Based on the Department of Statistics (DOSM) data released yesterday, the prices of five types of mild steel bars and four types of high tensile deformed bars it tracked were lower across the board. Average steel bar prices in the Peninsular retreated -2.3%mom to RM3,400.89 per tonne. The central region saw the highest decline of -4.5%mom to RM3,741.15 per tonne. In East Malaysia, average prices were -1.9%mom lower to RM4,003.11 per tonne, with the highest decline recorded in Sibu at -2.7%mom to RM3,949.06 per tonne. We believe that steel bar prices have peaked in Jun-22 at RM3,901.81 per tonne and prices are now starting to soften after 19 consecutive months of increase since Dec-20, though we understand that industry players still remain cautious.

Cement prices. The binding substance averaged out at RM21.04 per 50kg bag in Aug-22, back to the level recorded in Jun-22 at RM21.05. The Peninsular recorded an increase of +0.5%mom to RM18.63, mainly due to a +1.3%mom increase in the northern region to RM17.95 and a +0.3% increase in the central region to RM18.68. The eastern region of the Peninsular was the only region that recorded a decline, by -0.16% to RM19.25. In Sabah and Sarawak, average cement prices rose +0.1% to RM22.24 per 50kg bag. Increases were recorded in Kota Kinabalu and Kuching at +0.7%mom and +0.2%mom to RM20.97 and RM22.61 respectively while those in Sandakan, Tawau, Sibu and Miri remained unchanged.

COMPANIES IN FOCUS

IJM Corp Bhd
Maintain BUY | Unchanged target price: **RM2.18**
Price @ 8th September 2022: RM1.73

- Strong order book of RM3.94b, earnings visibility up to FY24
- Property development work progress remains strong; stellar margins from manufacturing and quarrying
- Net cash position of RM327m; potential front runner of MRT3 and infrastructure jobs

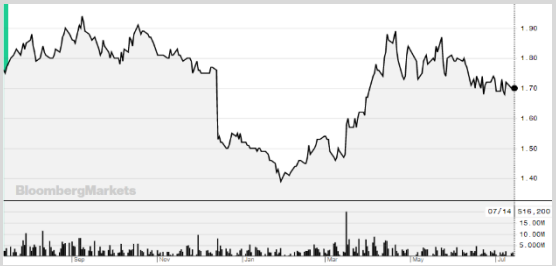
Share price chart



Sunway Construction Group Bhd
Maintain BUY | Unchanged target price: **RM1.87**
Price @ 8th September 2022: RM1.56

- Improving construction margins from full resumption of operations
- Solid outstanding order book of about RM4.23b, earnings visibility up to FY25
- Net cash position of RM442.2m; potential front runner of MRT3 and infrastructure jobs

Share price chart



MIDF Research
research@midf.com.my

Our take. We reiterate our view as per our previous reports that we are not overly concerned about the building materials price headwinds being a huge risk to the companies under our coverage as it is still able to mitigate the impacts, on top of margin protection measures such as variation-of-price clauses, which allows part of the additional cost to be passed on to clients. Even if such elements are not available, some contracts would have priced in potential cost inflation or negotiations would have been engaged with clients to reprice contracts or to put in place huge buffers for possible spike in prices. We expect margins to continue improve in 3QCY22 onwards though a dampener may be due to higher labour cost due to a shortage of foreign workers as contractors are paying more for critical projects, but we expect this situation to improve moving forward as construction is among the sectors that are allowed to hire from all 15 permitted source countries.

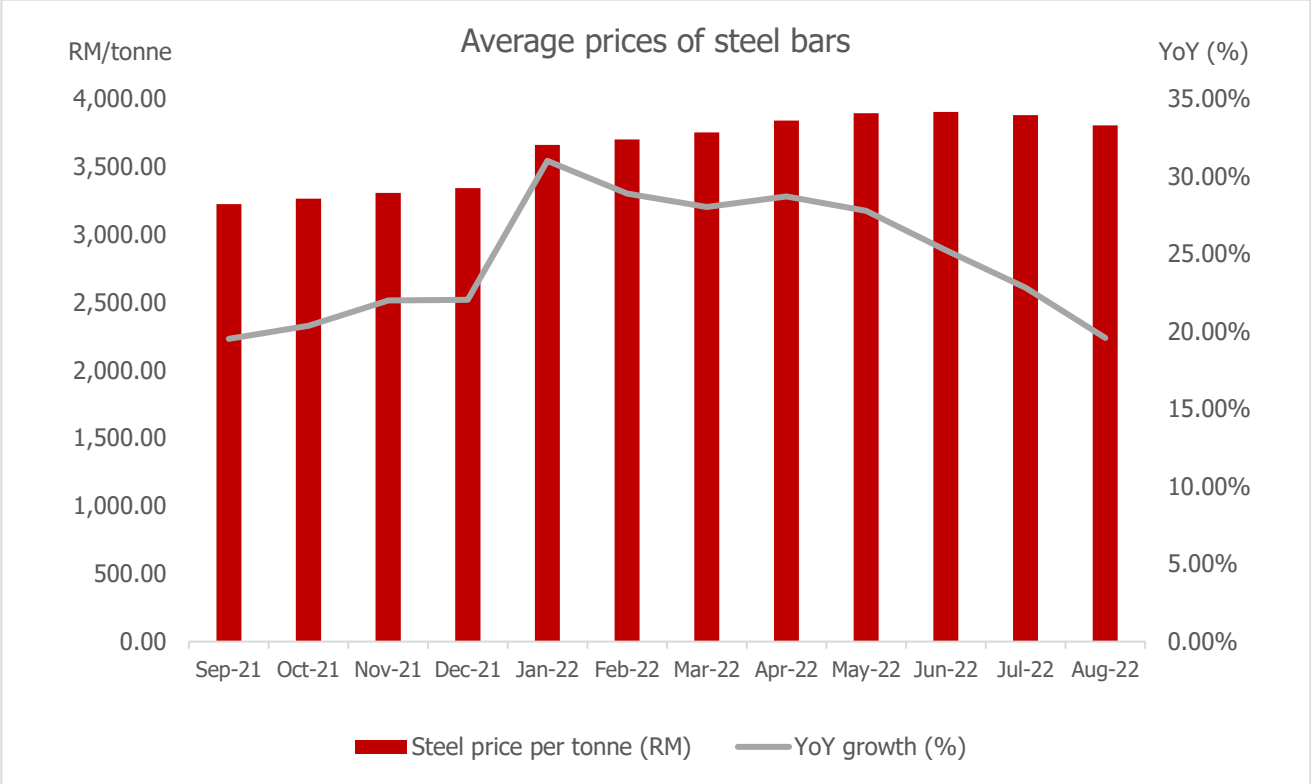
Maintain POSITIVE. We reiterate our **POSITIVE** recommendation on the construction sector in view of the manageable cost headwinds and the potential rollout of infrastructure projects in Malaysia, with positive developments being driven by the upcoming MRT3 tender awards in 4QCY22. Tender submissions for CMC301 (est. contract size RM2.79b) closed on Aug 30 while submissions for CMC302 (est. contract size RM13.94b) and CMC303 (est. contract size RM14.29b) have been extended to Sept 30. Prospects are also looking good in Sarawak with positive job flows expected, especially due to its RM100b capital injection by 2030. Meanwhile, we also take note on the news of a potential new 120km road linking Majid Tanah in Melaka to Dumai in Sumatra, which reemerged yesterday. The feasibility of the project aside, we doubt that it would take off in the near future, as both countries have yet to engage in a detailed study for a project of that magnitude. We would like to reiterate what we said in March that it is not exactly a new idea. Something similar was mooted years back, believed to be 1995, for a bridge connecting Melaka and Dumai, but this was placed in the back burner due to the Asian Financial Crisis in 1997-1998. Talks on the project resurfaced in 2009 but it went silent again after that. A more feasible mega project would be the potential revival of the axed KL-Singapore High Speed Rail (HSR), which is currently being discussed by Malaysia's and Singapore's Transport Ministries. There is also a possibility for the project to be stretched all the way to Bangkok, pending studies and discussion between the governments. With all the ongoing and upcoming developments, we are staying POSITIVE on the construction sector, with a preference for companies with robust balance sheets, namely **Gamuda (BUY, TP: RM4.02)**, **IJM Corp (BUY, TP: RM2.18)** and **Sunway Construction (BUY, TP: RM1.87)**, all of which are front-runners for the MRT3 main contracts. Our smaller-cap pick would be **Gabungan AQRS (BUY, TP: RM0.52)**, a contractor which is selective on jobs undertaken with double digit margins and one with sound margin protection measures in the forms of variation of price (VOP) and ability to renegotiate private contracts with its clients. For the Sarawak-themed play, our choice is **Cahya Mata Sarawak (BUY, TP: RM1.37)**, being the sole cement manufacturer in the state, coupled with a relatively large construction business.

Average prices for steel bars and cement (August 2022)

All prices are RM/tonne unless stated otherwise		Peninsular			Sabah			Sarawak		
		North	Central	East	Kota Kinabalu	Sandakan	Tawau	Kuching	Sibu	Miri
Mild Steel Bars	10mm (3/8")	3,282.84	3,702.80	3,402.90	3,963.08	4,858.07	4,262.28	3,954.03	3,980.57	3,879.98
	12mm (1/2")	3,298.13	3,829.54	3,402.90	3,963.08	4,669.84	4,264.37	3,880.35	3,997.11	3,987.48
	16mm (5/8")	3,334.83	3,692.20	3,412.81	3,600.00	4,371.20	4,175.27	3,995.90	3,831.61	3,990.00
	20mm–25mm (3/4"–1")	3,139.28	3,670.20	2,914.08	3,650.00	4,408.17	4,175.30	3,767.58	3,944.80	3,933.89
	32mm (1 1/4")	3,295.22	3,357.25	2,818.66	n.a	n.a	n.a	n.a	n.a	n.a
High Tensile Deformed Bars	10mm (3/8")	3,219.59	4,099.42	3,652.25	3,690.52	4,560.70	4,118.88	3,960.40	3,963.97	3,957.27
	12mm (1/2")	3,225.27	3,783.85	3,578.79	3,660.52	4,560.70	4,120.90	3,987.39	3,999.39	3,997.27
	16mm–25mm (5/8"–1")	3,105.82	3,851.75	3,321.80	3,292.16	4,240.68	4,005.81	3,968.23	3,989.65	3,984.33
	32mm (1 1/4")	2,992.95	3,592.62	2,754.41	3,298.03	3,990.00	n.a	3,575.96	3,885.35	3,755.31
Cement (RM/50kg)	Ordinary Portland BS 12	17.95	18.68	19.25	20.97	23.00	22.02	22.61	22.99	21.85

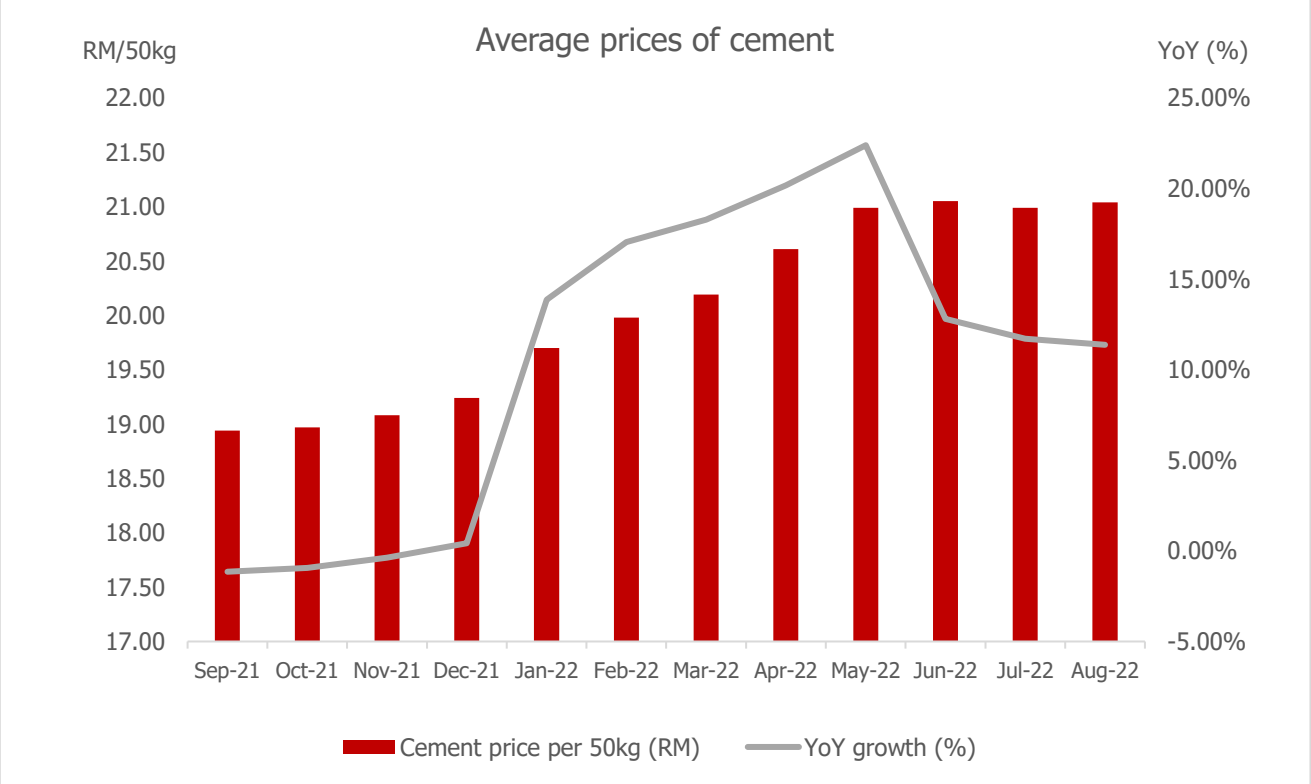
Source: DOSM, MIDF Research

Figure 1: Average prices of steel bars



Source: DOSM, MIDF Research

Figure 2: Average prices of cement/50kg



Source: DOSM, MIDF Research

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 8 Sept 2022 (RM)	Target Price (RM)	Core EPS (sen)		Dividend Yield (%)		Net gearing	Net cash/(debt)
					FY22E	FY23F	FY22E	FY23F		
Gamuda	July	BUY	3.98	4.02	25.9	27.7	3.5	12.4	10.9%	(RM1.1b)
IJM Corp	Mar	BUY	1.73	2.18	6.7	10.5	2.8	2.8	-	RM327.3m
Sunway Construction	Dec	BUY	1.56	1.87	9.6	10.7	2.7	2.7	-	RM442.2m
MRCB	Dec	BUY	0.335	0.44	1.7	1.5	2.3	4.5	29.7%	(RM1.34b)
Muhibbah Engineering	June	BUY	0.435	0.57	6.4	9.8	2.6	4.4	4.3%	(RM73.8m)
WCT Holdings	Dec	BUY	0.455	0.57	3.6	5.3	-	-	69.4%	(RM2.69b)
Gabungan AQRS	Dec	BUY	0.31	0.52	5.0	6.9	1.7	1.9	28.1%	(RM139m)
Pintaras Jaya	Dec	BUY	2.20	2.82	29.1	26.1	4.1	6.4	-	RM93.4m
KKB Engineering	June	NEUTRAL	1.43	1.50	8.6	9.7	3.3	3.3	-	RM174.3m
Malayan Cement	June	BUY	2.15	2.88	6.0	9.1	-	-	55.3%	(RM3.2b)
Cahya Mata Sarawak	Dec	BUY	0.905	1.37	19.1	17.1	2.6	2.2	-	RM30.7m

Source: Company, MIDF Research

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology