CONSTRUCTION

***Maintain* POSITIVE**

Steel bar and cement prices continue easing

KEY INVESTMENT HIGHLIGHTS

- **Average steel bar prices in the country declined -2.1%mom to RM3,721.80 per tonne in Sept-22 while average cement prices declined -0.6%mom to RM20.92 per 50kg bag**
- **Average steel bar prices in the Peninsular retreated -2.3%mom to RM3,322.60 per tonne while East Malaysia saw a -2%mom decline to RM3,921.40 per tonne**
- **Peninsular recorded a -1.8%mom decline in cement prices to RM18.29/50kg while East Malaysia reduced marginally by -0.04% to RM22.23/50kg**
- **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: RM4.71), IJM Corp (BUY, TP: RM2.18) and Sunway Construction (BUY, TP: 1.87)**

Continuous downtrend. Average steel bar prices in Malaysia declined -2.1%mom to RM3,721.80 per tonne in Sept-22 (Aug-22: -2%mom to RM3,802.79), marking its third consecutive month of downtrend, in line with slowing steel prices globally that is being caused by lower demand, depreciation of regional currencies and high energy costs. On a year-on-year basis, it was still an increase of +15.4%yoy, but at its slowest pace since Jun-21. Cement prices also recorded a decline, by -0.6%mom (Aug-22: +0.2%mom) to RM20.92 per 50kg bag.

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 generally lower across the board. Average steel bar prices in the Peninsular retreated -2.3%mom to RM3,322.60 per tonne. The northern region saw the highest decline of -3.8%mom to RM3,082.28 per tonne. In East Malaysia, average prices were -2%mom lower to RM3,921.40 per tonne, with the highest decline recorded in Kota Kinabalu at -3.4%mom to RM3,520.40 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 as prices still remain elevated.

Cement prices. The binding substance averaged out at RM20.92 per 50kg bag in Sept-22. The Peninsular recorded a decline of -1.8%mom to RM18.29. The northern region saw the highest reduction of -4.3%mom reduction to RM17.17. In Sabah and Sarawak, average cement prices declined only by -0.04% to RM22.23 per 50kg bag. Prices mostly remained unchanged in the regions tracked except for a -0.2% decline in Kuching to RM22.56.

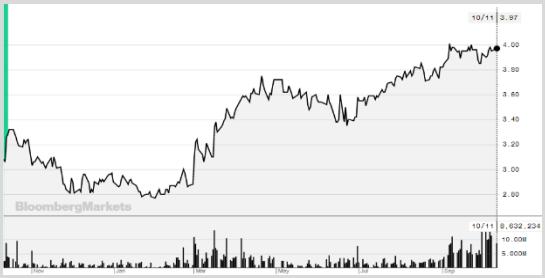
Our take. We reiterate our view as per our previous reports that we are not overly concerned about the building materials price headwinds being a huge risk to the companies under our coverage as they are still able to mitigate the impacts, on top of margin protection measures such as

COMPANIES IN FOCUS

Gamuda Bhd
Maintain BUY | Unchanged target price: **RM4.71**
Price @ 11th October 2022: RM3.97

- Order book at record high of RM14b, with earnings visibility pup to FY26
- Upcoming special dividend of 38 per share expected in November following sale of toll concessions
- Net cash of RM1.1b post-sale of toll business, making it a strong contender for PFI/PPP jobs

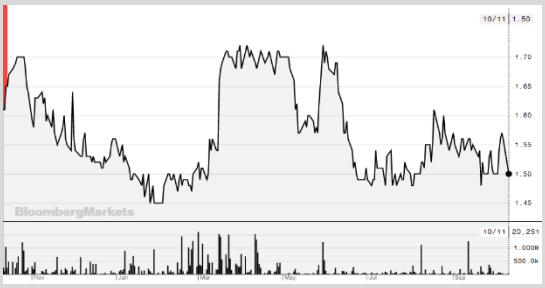
Share price chart



Sunway Construction Group Bhd
Maintain BUY | Unchanged target price: **RM1.87**
Price @ 11th October 2022: RM1.50

- 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



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 to improve in 4QCY22 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.

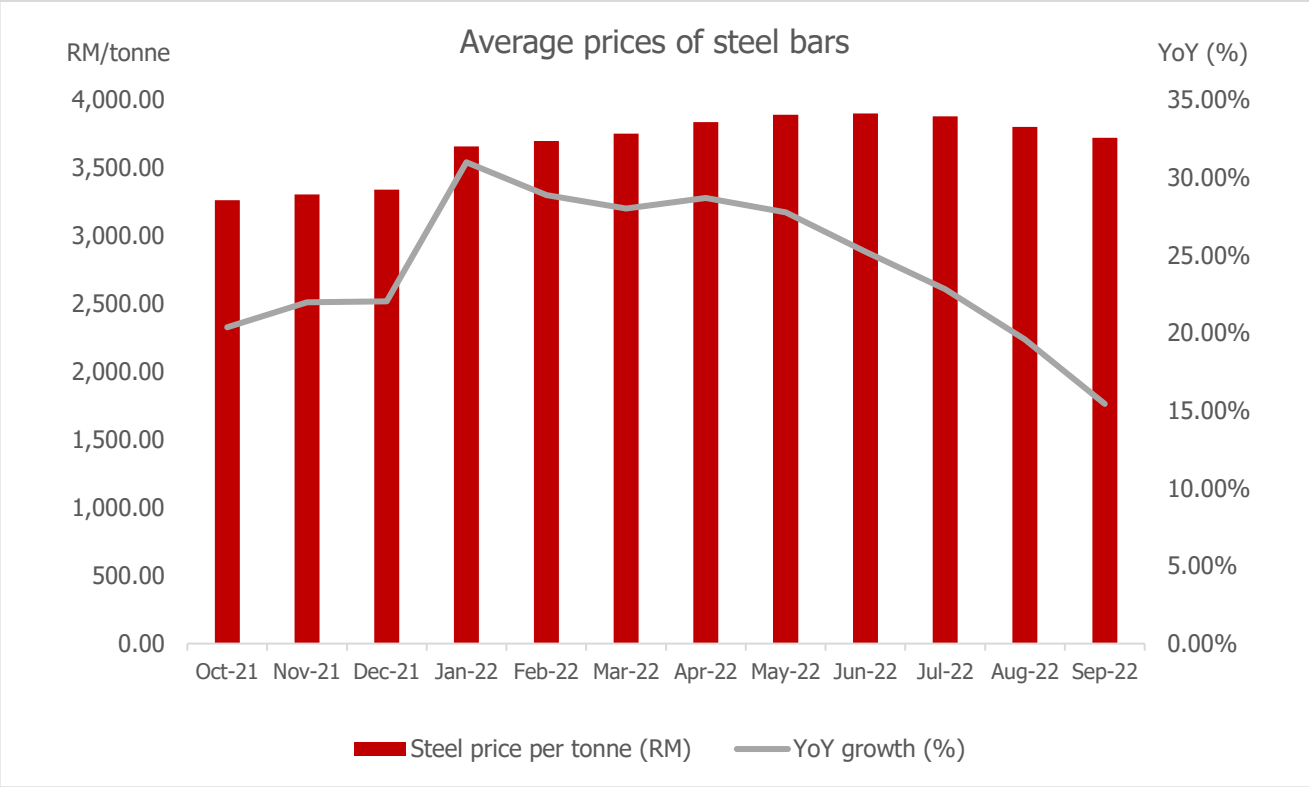
Maintain POSITIVE. We reiterate our **POSITIVE** recommendation on the construction sector in view of the manageable cost headwinds and the potential rollout of infrastructure projects in Malaysia, with positive developments being driven by the upcoming MRT3 tender awards by the end of 2022. Tender submissions for CMC301 (est. contract size RM2.79b) closed on 30th August while submissions for CMC302 (est. contract size RM13.94b) and CMC303 (est. contract size RM14.29b) closed on 30th September. Prospects are also looking good in Sarawak with positive job flows expected, especially due to its RM100b capital injection by 2030. We are also looking forward to the potential revival of the axed KL-Singapore High Speed Rail (HSR), which may be a key focus area of the new Government after the general election. With all the ongoing and upcoming developments, we are staying POSITIVE on the construction sector, with a preference for companies with robust balance sheets and strong overseas presence, namely **Gamuda (BUY, TP: RM4.71)**, **IJM Corp (BUY, TP: RM2.18)** and **Sunway Construction (BUY, TP: 1.87)**, all of which are front-runners for the MRT3 main contracts.

Average prices for steel bars and cement (September 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")	3,173.48	3,647.25	3,355.86	3,866.11	4,756.14	4,212.28	3,813.48	3,813.41	3,872.98
	12mm (1/2")	3,188.13	3,714.65	3,380.78	3,866.11	4,669.84	4,264.37	3,767.80	3,736.48	3,930.65
	16mm (5/8")	3,234.80	3,581.40	3,391.30	3,500.00	4,260.00	4,170.27	3,876.02	3,800.30	3,850.00
	20mm–25mm (3/4"–1")	3,003.46	3,523.69	2,992.40	3,500.00	4,404.68	4,260.00	3,777.58	3,844.80	3,835.14
	32mm (1 1/4")	3,125.22	3,291.51	2,818.66	n.a	n.a	n.a	n.a	n.a	n.a
High Tensile Deformed Bars	10mm (3/8")	3,155.20	3,976.40	3,571.89	3,496.64	4,432.83	4,043.76	3,805.50	3,833.97	3,889.73
	12mm (1/2")	3,125.27	3,708.17	3,568.45	3,496.64	4,432.83	3,994.85	3,877.35	3,895.40	3,889.73
	16mm–25mm (5/8"–1")	3,005.82	3,659.20	3,311.80	3,254.59	4,313.16	3,949.73	3,806.92	3,901.88	3,818.31
	32mm (1 1/4")	2,791.85	3,520.77	2,809.50	3,183.14	3,830.00	n.a.	3,806.92	3,810.25	3,818.31
Cement (RM/50kg)	Ordinary Portland BS 12	17.17	18.60	19.11	20.97	23.00	22.02	22.56	22.99	21.85

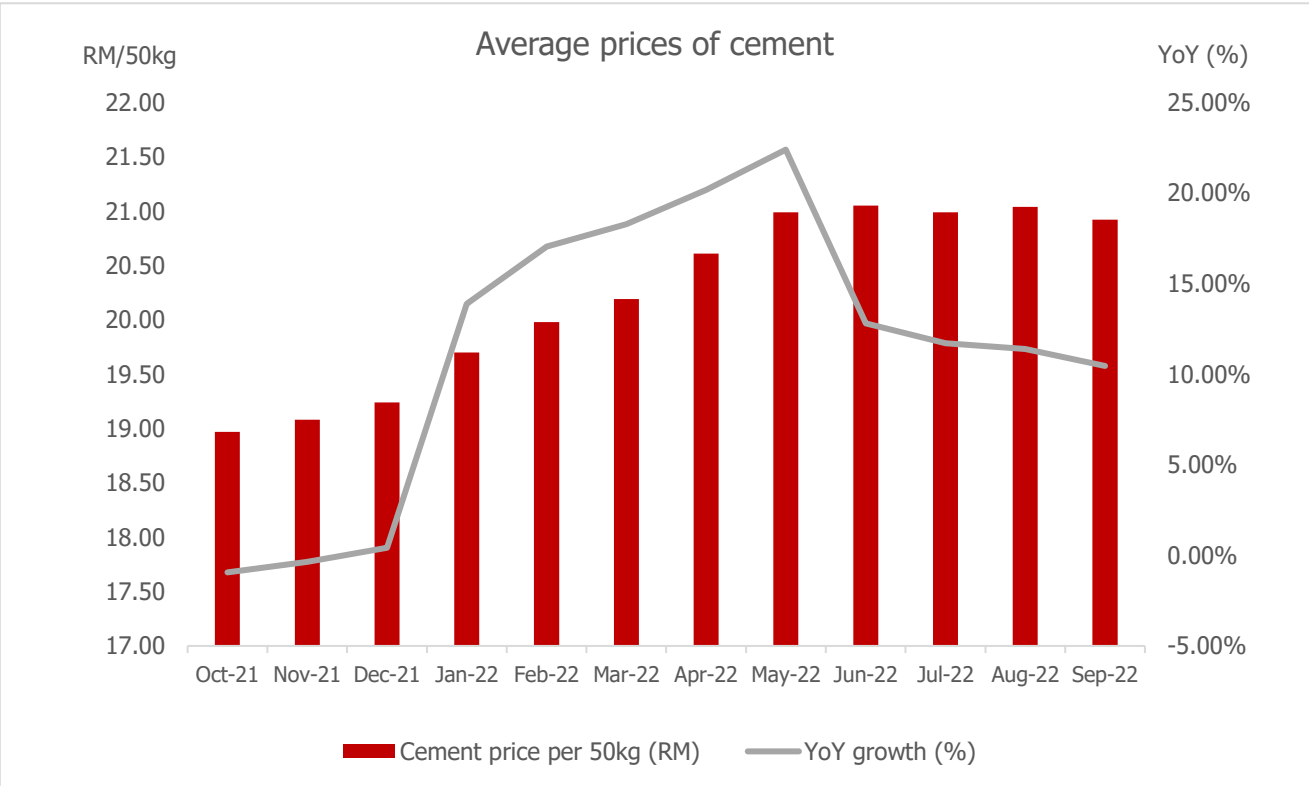
Source: DOSM, MIDF Research

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 @ 11 Oct 2022 (RM)	Target Price (RM)	Core EPS (sen)		Dividend Yield (%)		Net gearing	Net cash/(debt)
					FY22E	FY23F	FY22E	FY23F		
Gamuda	July	BUY	3.97	4.71	31.1	31.4	12	50	12.5%	(RM1.28b)
IJM Corp	Mar	BUY	1.59	2.18	6.7	10.5	2.8	2.8	-	RM327.3m
Sunway Construction	Dec	BUY	1.50	1.87	9.6	10.7	2.7	2.7	-	RM442.2m
MRCB	Dec	BUY	0.315	0.44	1.7	1.5	2.3	4.5	29.7%	(RM1.34b)
Muhibbah Engineering	June	BUY	0.405	0.57	6.4	9.8	2.6	4.4	4.3%	(RM73.8m)
WCT Holdings	Dec	BUY	0.365	0.57	3.6	5.3	-	-	69.4%	(RM2.69b)
Gabungan AQRS	Dec	BUY	0.27	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	1.38	1.50	8.6	9.7	3.3	3.3	-	RM174.3m
Malayan Cement	June	BUY	1.92	2.88	6.0	9.1	-	-	55.3%	(RM3.2b)
Cahya Mata Sarawak	Dec	BUY	0.825	1.37	19.1	17.1	2.6	2.2	-	RM30.7m

Source: Company, MIDF Research

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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