CONSTRUCTION

***Maintain* POSITIVE**

Four straight months of decline

KEY INVESTMENT HIGHLIGHTS

- **Average steel bar prices in the country declined -1.6%mom to RM3,663.54 per tonne in Oct-22 while average cement prices declined -0.5%mom to RM20.81 per 50kg bag**
- **Average steel bar prices in the Peninsular retreated -3.3%mom to RM3,212.14 per tonne while East Malaysia saw a -0.82%mom decline to RM3,899.24 per tonne**
- **Peninsular recorded a -1.3%mom decline in cement prices to RM18.06/50kg while East Malaysia reduced marginally by -0.18% to RM22.19/50kg**
- **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)**

Steady decline. Average steel bar prices in Malaysia declined -1.6%mom to RM3,663.54 per tonne in Oct-22 (Sept-22: -2.1%mom to RM3,721.80), marking its fourth consecutive month of downtrend, in line with the easing steel prices globally that is being affected by demand concerns. On a year-on-year basis, it was still an increase of +12.3%yoy, but at its slowest pace since May-21. Cement prices also recorded a decline, by -0.5%mom (Aug-22: -0.53%mom) to RM20.81 per 50 kg 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 -3.3%mom to RM3,212.14 per tonne. The central region saw the highest decline of -4.0%mom to RM3,487.69 per tonne. In East Malaysia, average prices were -0.82%mom lower to RM3,899.24 per tonne, with the highest decline recorded in Miri at -1.8%mom to RM3,793.97 per tonne. Recall that average steel bar prices in the country peaked at RM3,901.81 per tonne in Jun-22 after 19 consecutive months of increase.

Cement prices. The binding substance averaged at RM20.81 per 50kg bag in Oct-22. The Peninsular recorded a decline of -1.3%mom to RM18.06. The northern region saw the highest reduction of -2.1%mom to RM16.81. In Sabah and Sarawak, average cement prices declined only by -0.18% to RM22.19 per 50kg bag. Prices mostly remained unchanged in the regions tracked except for a -1.1% decline in Sandakan to RM22.75.

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 construction sector. While prices still remain elevated, we are comforted by the declining trend that has been observed over the past few months. We expect margins to continue improve in 4Q22 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.

COMPANIES IN FOCUS

Gamuda Bhd
Maintain BUY | Unchanged target price: **RM4.71**
Price @ 10th November 2022: RM3.70

- Order book at record high of RM15.3b, with earnings visibility up to FY26
- Upcoming special dividend of 38 per share expected in November following sale of toll concessions
- Net cash position of RM1.1b

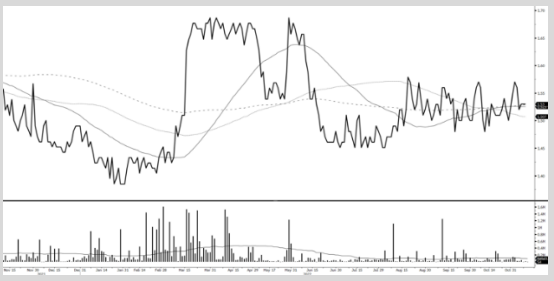
Share price chart



Sunway Construction Group Bhd
Maintain BUY | Unchanged target price: **RM1.87**
Price @ 10th November 2022: RM1.53

- Improving construction margins from full resumption of operations
- Solid outstanding order book of about RM4.32b, earnings visibility up to FY25
- Net cash position of RM442.2m

Share price chart



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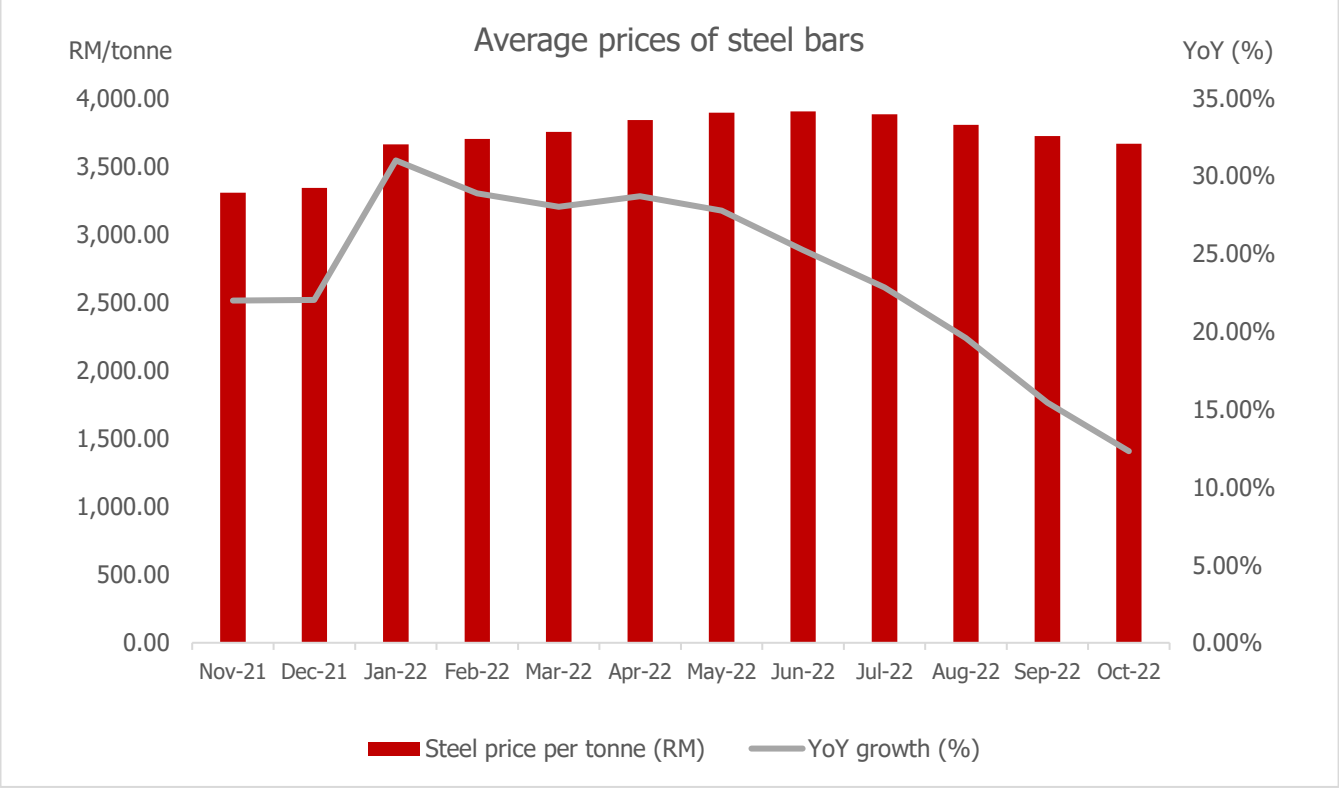
Maintain POSITIVE. We reiterate our **POSITIVE** recommendation on the construction sector in view of the manageable cost headwinds and the potential rollout of infrastructure projects in Malaysia, with positive developments being driven by the upcoming MRT3 tender awards by the upcoming MRT3 tender awards by the end of 2022. Prospects are also looking favourable 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 (October 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")	3,080.16	3,537.85	3,198.06	3,816.90	4,756.14	4,212.28	3,732.20	3,775.30	3,795.55
	12mm (1/2")	3,041.41	3,566.15	3,259.21	3,819.10	4,535.72	4,264.37	3,767.80	3,736.48	3,811.17
	16mm (5/8")	3,146.41	3,473.95	3,238.40	3,310.00	4,367.66	4,260.00	3,876.02	3,678.44	3,753.75
	20mm–25mm (3/4"–1")	2,968.22	3,418.20	2,914.08	3,310.00	4,404.68	4,260.00	3,776.50	3,768.00	3,756.95
	32mm (1 1/4")	2,984.31	3,282.92	2,818.66	n.a	n.a	n.a	n.a	n.a	n.a
High Tensile Deformed Bars	10mm (3/8")	3,011.51	3,777.60	3,447.80	3,492.25	4,432.83	4,043.76	3,771.16	3,803.30	3,831.40
	12mm (1/2")	3,016.15	3,559.85	3,447.80	3,492.25	4,432.83	3,994.85	3,842.36	3,856.45	3,850.85
	16mm–25mm (5/8"–1")	2,890.58	3,512.80	3,307.07	3,286.31	4,313.16	4,005.81	3,774.45	3,826.85	3,787.75
	32mm (1 1/4")	2,740.25	3,228.00	2,809.50	3,179.09	3,830.00	n.a	3,735.65	3,775.95	3,764.31
Cement (RM/50kg)	Ordinary Portland BS 12	16.81	18.41	18.97	20.97	22.75	22.02	22.56	22.99	21.85

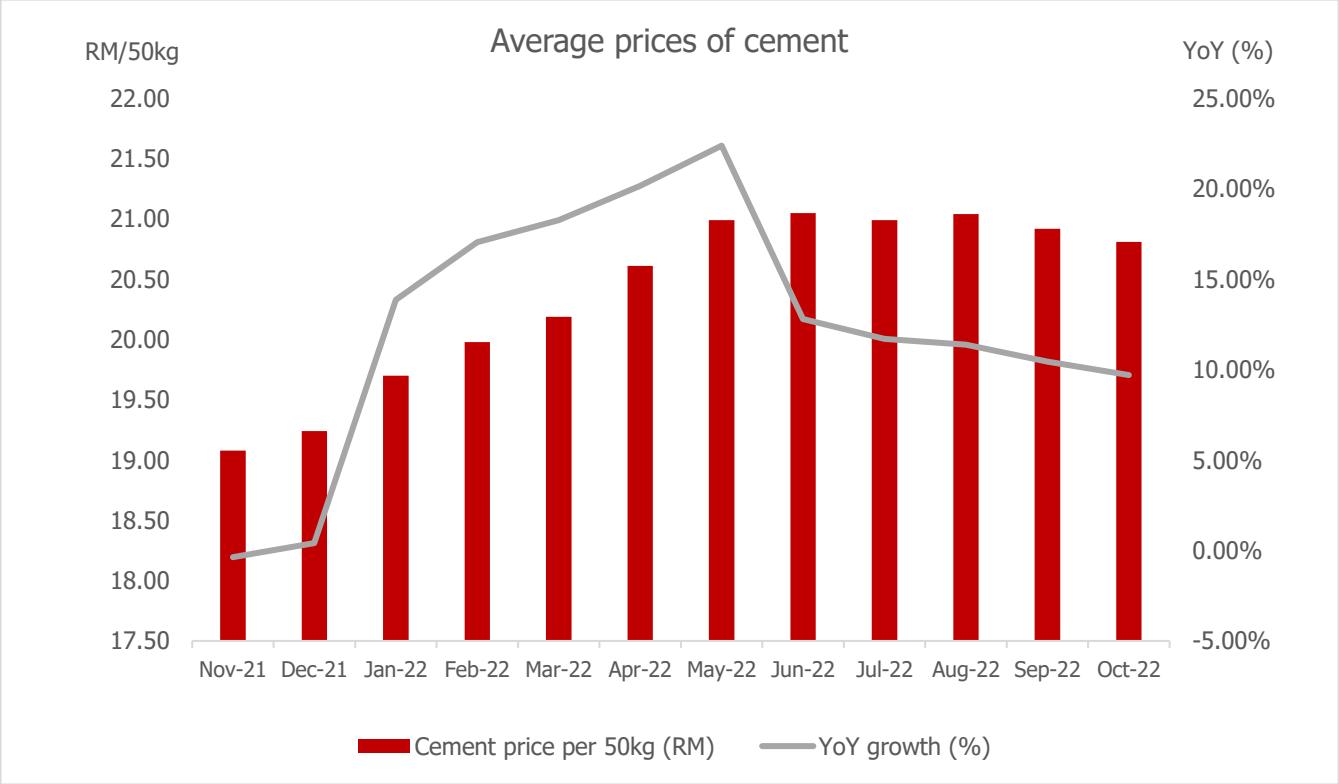
Source: DOSM, MIDF Research

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 @ 10 Nov 2022 (RM)	Target Price (RM)	Core EPS (sen)		Dividend Yield (%)		Net gearing	Net cash/(debt)
					FY22E	FY23F	FY22E	FY23F		
Gamuda	July	BUY	3.70	4.71	31.1	31.4	12	50	12.5%	(RM1.28b)
IJM Corp	Mar	BUY	1.54	2.18	6.7	10.5	2.8	2.8	-	RM327.3m
Sunway Construction	Dec	BUY	1.53	1.87	9.6	10.7	2.7	2.7	-	RM442.2m
MRCB	Dec	BUY	0.29	0.44	1.7	1.5	2.3	4.5	29.7%	(RM1.34b)
Muhibbah Engineering	June	BUY	0.41	0.57	6.4	9.8	2.6	4.4	4.3%	(RM73.8m)
WCT Holdings	Dec	BUY	0.36	0.57	3.6	5.3	-	-	69.4%	(RM2.69b)
Gabungan AQRS	Dec	BUY	0.265	0.52	5.0	6.9	1.7	1.9	28.1%	(RM139m)
Pintaras Jaya	Dec	BUY	2.14	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	2.02	2.88	6.0	9.1	-	-	55.3%	(RM3.2b)
Cahya Mata Sarawak	Dec	BUY	0.92	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