CONSTRUCTION

***Maintain* POSITIVE**

Steel bar prices-maintained downtrend

KEY INVESTMENT HIGHLIGHTS

- **Average steel bar prices in the country declined -0.6%mom to RM3,602.94 per tonne in Dec-22 while average cement prices rose +0.3%mom to RM21.04 per 50kg bag**
- **Average steel bar prices in the Peninsular retreated -0.5%mom to RM3,135.05 per tonne while East Malaysia saw a -0.7%mom decline to RM3,836.88 per tonne**
- **Peninsular recorded a +1.8%mom increase in cement prices to RM18.73/50kg while East Malaysia reduced marginally by -0.4% to RM22.19/50kg**
- **Maintain POSITIVE on construction sector as cost headwinds remain manageable**
- **Preferred names are Gamuda (BUY, TP: RM4.67), Sunway Construction (BUY, TP: RM1.87) and IJM Corp (BUY, TP: RM1.93)**

Continuous decline. The prices of steel bars maintained its downward trend in Dec-22, marking its sixth consecutive month of decline. Based on the Department of Statistics (DOSM) data released yesterday, the average prices of five types of mild steel bars and four types of high tensile deformed bars it tracked saw a reduction of -0.6%mom to RM3,602.94 per tonne (Nov-22: -1.04%mom to RM3,625.50). On a year-on-year basis, the it was still an increase of +7.8%yoy but at its slowest pace since Mar-21. This was in line with the global decline in iron ore and steel prices.

Lower in most regions. Average steel bar prices in the Peninsula were -0.5%mom lower to RM3,135.05 per tonne. The central region saw the highest decline by -1.2%mom to RM3,335.48 per tonne. In East Malaysia, average prices retreated -0.7%mom to RM3,836.88 per tonne, with the highest decline recorded in Tawau by -1.6%mom to RM4,070.92.

Cement prices. The binding substance averaged at RM21.04 per 50kg bag in Dec-22, a +0.3%mom increase from RM20.98 in Nov-22, its second straight month of increase. This was mainly due to an increase in the Peninsula by +1.8%mom to RM18.73. The East of the Peninsular posted the strongest increase by +3.6%mom to RM19.92. Over in Sabah and Sarawak, average prices saw a marginal decline by -0.4%mom to RM22.19, on the back of declines of -1.1%mom in Kota Kinabalu and Sandakan. Cement prices in Tawau, Kuching, Sibu and Miri remained unchanged.

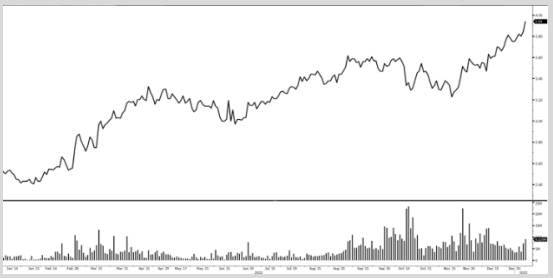
Our take. The ongoing decline in steel bar prices remains a positive development for construction players as they have been taking on higher price pressures over the past two years when steel bar prices rose for 19 consecutive months to its peak of RM3,901.81 per tonne in Jun-22. On the flip side, we expect cement prices to remain elevated at current levels and we do not discount the possibility of further hikes, especially in the Peninsula due to elevated coal prices and the impact of higher electricity surcharge from January to June this year. In Sarawak, the sole cement manufacturer Cahya Mata Sarawak raised prices by an average of 10% in Feb-22 for the first time in six years and has no plans for further increases, as the group seeks to focus on improving its plant efficiency, procurement and logistic arrangements to better manage its margins.

COMPANIES IN FOCUS

Gamuda Bhd
Maintain BUY | Unchanged target price: **RM4.67**
Price @ 9th January 2023: RM3.94

- Record high construction order book at RM14.8b
- Strong project wins overseas, especially in Australia
- Net cash position of RM1.1b

Share price chart



Sunway Construction Group Bhd
Maintain BUY |Unchanged target price: **RM1.87**
Price @ 9th January 2023: RM1.60

- Solid outstanding order book of RM5.7b providing strong earnings visibility up to FY24
- Currently negotiating a RM10b power plant project in Vietnam
- Strong balance sheet with a net cash position of RM175.5m

Share price chart



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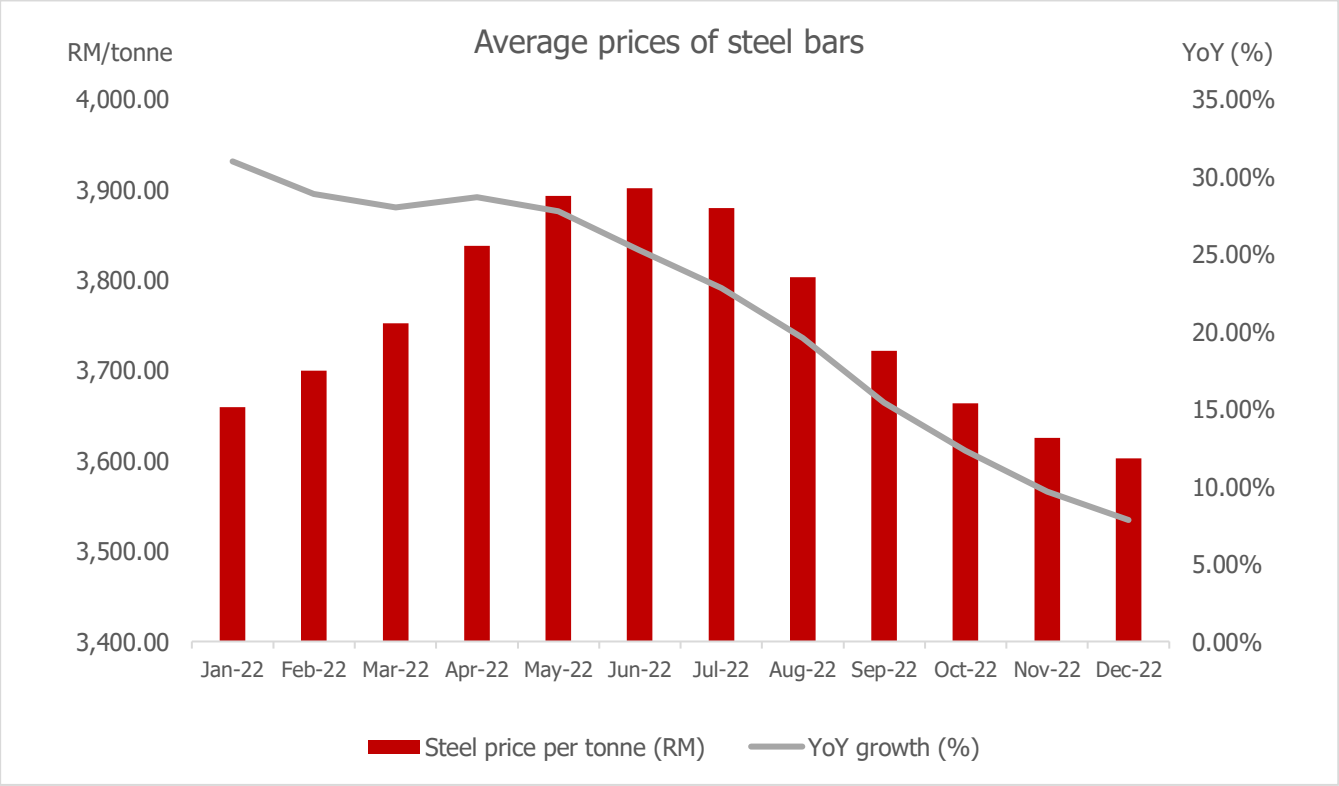
Maintain POSITIVE. We maintain our **POSITIVE** view on the construction sector as the current cost headwinds remain manageable. The issue of foreign labour shortage is also alleviating, which will go on to improve further as the government agreed to ease the conditions for the hiring of foreign workers and to shorten the process. Uncertainties for the sector remain with the potential reviews, delays or even termination of infrastructure projects but we still expect MRT3 to be the bright spot for the sector, albeit a delay in the rollout of its main packages, as it is a crucial final piece to complete the urban rail network in the Klang Valley. Our preferred names for the sector are still the larger players with strong balance sheets and considerable overseas presence namely **Gamuda (BUY, TP: RM4.67)**, **Sunway Construction (BUY, TP: RM1.87)** and **IJM Corp (BUY, TP: RM1.93)**.

Average prices for steel bars and cement (December 2022)

All prices are RM/tonne unless stated otherwise		Peninsula			Sabah			Sarawak		
		North	Central	East	Kota Kinabalu	Sandakan	Tawau	Kuching	Sibu	Miri
Mild Steel Bars	10mm (3/8")	3,030.28	3,456.90	3,155.37	3,800.52	4,756.14	4,063.93	3,813.41	3,715.00	3,618.00
	12mm (1/2")	3,041.75	3,477.50	3,211.90	3,807.57	4,535.72	4,014.77	3,767.80	3,792.50	3,679.02
	16mm (5/8")	3,100.18	3,356.65	3,173.39	3,220.00	4,367.66	4,260.00	3,965.77	3,733.62	3,622.40
	20mm–25mm (3/4"–1")	2,953.99	3,337.12	2,884.90	3,220.00	4,404.68	4,260.00	3,660.43	3,730.30	3,723.33
	32mm (1 1/4")	2,919.31	3,225.31	2,818.66	n.a	n.a	n.a	n.a	n.a	n.a
High Tensile Deformed Bars	10mm (3/8")	2,943.57	3,611.90	3,253.13	3,470.01	4,432.83	4,043.76	3,813.41	3,783.14	3,618.83
	12mm (1/2")	2,965.09	3,115.94	3,249.50	3,470.01	4,432.83	3,994.85	3,767.80	3,835.90	3,679.02
	16mm–25mm (5/8"–1")	2,829.91	3,373.33	3,122.23	3,328.35	4,313.16	3,937.90	3,660.43	3,806.55	3,616.21
	32mm (1 1/4")	2,734.12	3,099.89	3,228.00	3,158.51	3,830.00	n.a	3,623.83	3,411.62	3,616.63
Cement (RM/50kg)	Ordinary Portland BS 12	17.39	18.87	19.92	20.97	22.75	22.02	22.56	22.99	21.85

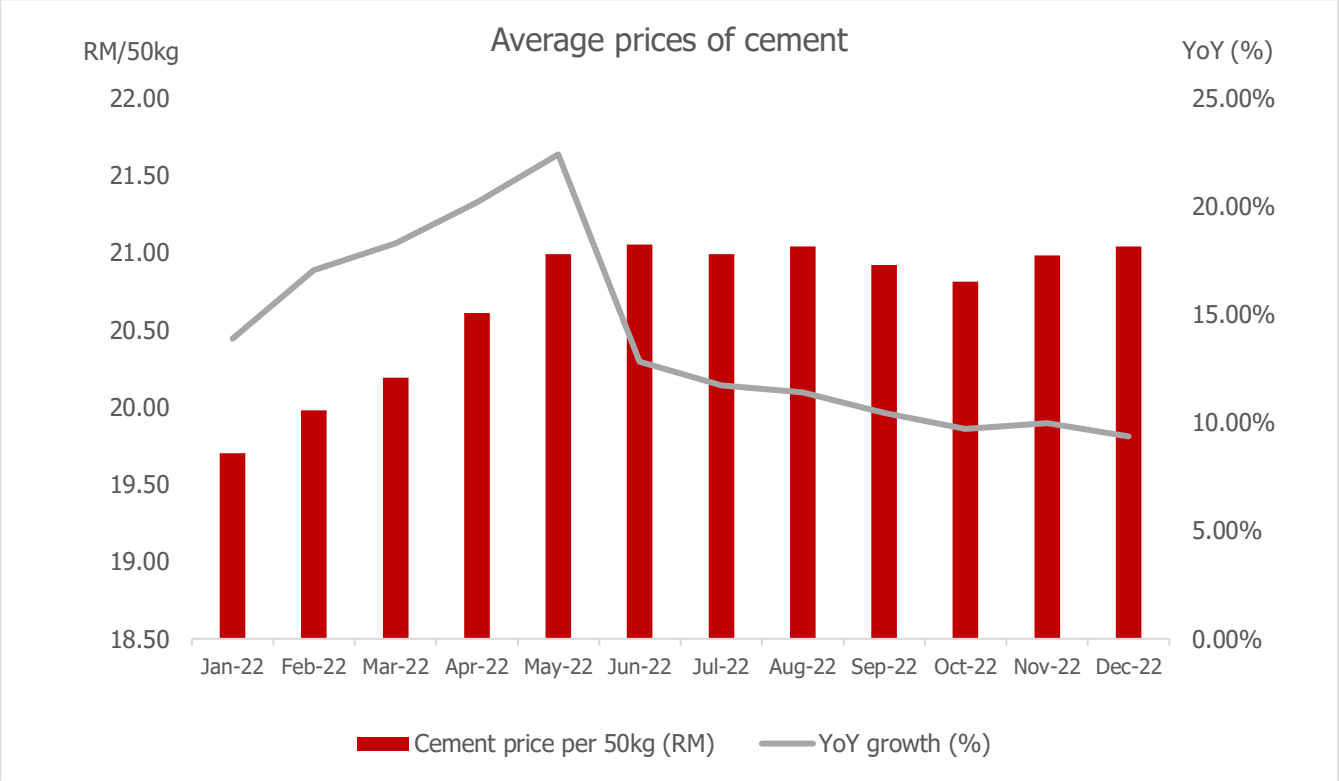
Source: DOSM, MIDF Research

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 @ 9 Jan 2023 (RM)	Target Price (RM)	Core EPS (sen)		Dividend Yield (%)		Net gearing	Net cash/(debt)
					FY22E	FY23F	FY22E	FY23F		
Gamuda	July	BUY	3.94	4.67	31.1	31.1	3.1	10.7	2.4%	(RM266.5m)
IJM Corp	Mar	BUY	1.60	1.93	6.7	9.5	13.1	3.1	-	RM600.5m
Sunway Construction	Dec	BUY	1.60	1.87	9.6	10.7	2.1	2.1	-	RM175.5m
MRCB	Dec	BUY	0.30	0.44	1.7	1.5	2.3	4.5	36.9%	(RM1.67b)
Muhibbah Engineering	June	NEUTRAL	0.555	0.47	11.1	14.4	5.3	5.3	9.2%	(RM159.9m)
WCT Holdings	Dec	BUY	0.405	0.57	3.6	5.3	-	-	70.2%	(RM2.7b)
Gabungan AQRS	Dec	BUY	0.255	0.49	4.9	5.4	2.0	2.0	26.8%	(RM133.5m)
Pintaras Jaya	Dec	BUY	2.09	2.40	29.1	23.1	2.3	2.5	-	RM102.6m
KKB Engineering	June	BUY	1.35	1.50	6.0	9.7	3.3	3.3	-	RM127.4m
Malayan Cement	June	BUY	2.09	2.56	6.0	6.5	-	-	54.5%	(RM3.1b)
Cahya Mata Sarawak	Dec	BUY	1.19	1.47	22.8	18.8	2.0	2.0	-	RM148.7m

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