

CONSTRUCTION

Maintain POSITIVE

Rising steel bar prices

KEY INVESTMENT HIGHLIGHTS

- Average steel bar prices in the country rose +1.9%mom to RM3,672.62 per tonne in Feb-23 while average cement prices remained unchanged
- Average steel bar prices in the Peninsular rose +2.9%mom to RM3,266.07 per tonne while East Malaysia saw a +0.04%mom increase to RM3,836.88 per tonne
- Peninsular recorded a +2.8%mom increase in cement prices to RM20.28/50kg while East Malaysia rose marginally by +0.9% to RM22.92/50kg
- Maintain POSITIVE on construction sector as cost headwinds remain manageable
- Preferred names are Gamuda (BUY, TP: RM5.04), Sunway Construction (BUY, TP: RM2.00) and IJM Corp (BUY, TP: RM1.90)

Uptick in steel bar prices. The prices of steel bars rose for the second consecutive month on the back of higher iron ore prices, driven by expectations of higher demand from China following the reopening of its borders in January. Based on the prices of five types of mild steel bars and four types of high tensile deformed bars tracked by the Department of Statistics Malaysia (DOSM), the average price rose +1.9%mom in Feb-23 (Jan-23: +0.03%) to RM3,672.62 per tonne, its largest monthly increase since Apr-22 at +2.3%. The price however, is still -5.9% lower than its peak of RM3,901.81 in Jun-22.

Higher in most regions. The strongest surge in prices came from the Peninsula, where the northern region recorded an increase of +4.6%mom to RM3,166.12 per tonne. The central and eastern region saw a +2.1% and +2.2% rise respectively to RM3,395.87 and RM3,236.22. In Sabah and Sarawak, the rate of increases was lower, between +0.1%mom to +1.4%mom but prices were higher, between RM3,456.02 and RM4,378.75 per tonne.

Cement prices. The binding substance remained unchanged at an average of RM22.04 per 50kg bag in Feb-23 (Jan-23: +4.8%). There was a notable +4.7% increase in the northern region to RM20.19 and a +3.6% increase in the eastern region of the Peninsula. In Sabah, there was a +2.2%mom and +3.3%mom increase in Sandakan and Tawau respectively to RM24.10 and RM23.57 while prices in Sarawak remained unchanged.

China to act on price surge. We expect steel bar prices to remain elevated in the coming months, in line with the strong iron ore prices, which is the main raw material for steel. China's Dalian Commodity Exchange (DCE) Iron Ore Futures have risen +53.9% since Oct 31, 2022 to 905 yuan (RM590.77) per 100 tonne as of yesterday. Similarly, the SGX Iron Ore Futures surged +70.7% during the same period to SGD128.55 (RM429.67). It would be reasonable to expect such prices to come off again as Chinese authorities step in to curb the surge in prices, such as by preventing the hoarding of iron ore and urging traders to dispose part of their inventories. In a related development, China is also slashing its crude steel production this year, which is expected to weigh on iron ore.

COMPANIES IN FOCUS

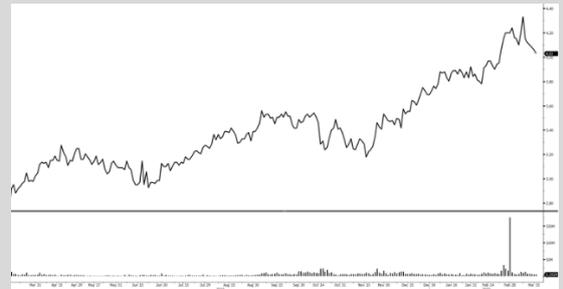
Gamuda Bhd

Maintain BUY | Unchanged target price: **RM5.04**

Price @ 16th March 2023: RM4.03

- Record high construction order book at RM21b
- Strong overseas diversification strategy, especially in Australia
- MRT3 main contender

Share price chart



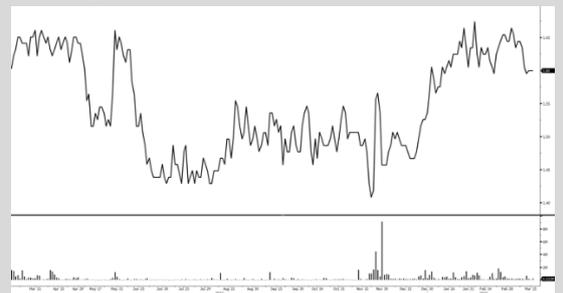
Sunway Construction Group Bhd

Maintain BUY | Unchanged target price: **RM2.00**

Price @ 16th March 2023: RM1.60

- Solid outstanding order book of RM5.3b 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 RM95.6m

Share price chart



Short-term pain. We expect the increase in steel bar prices to be a short-term pain for Malaysian contractors due to the elevated level of iron ore prices, which should see downward pressure in the coming months on the back of China's intervention. Most companies under our coverage would still be able to maintain their margins despite the slight increases, barring any unforeseen circumstances.

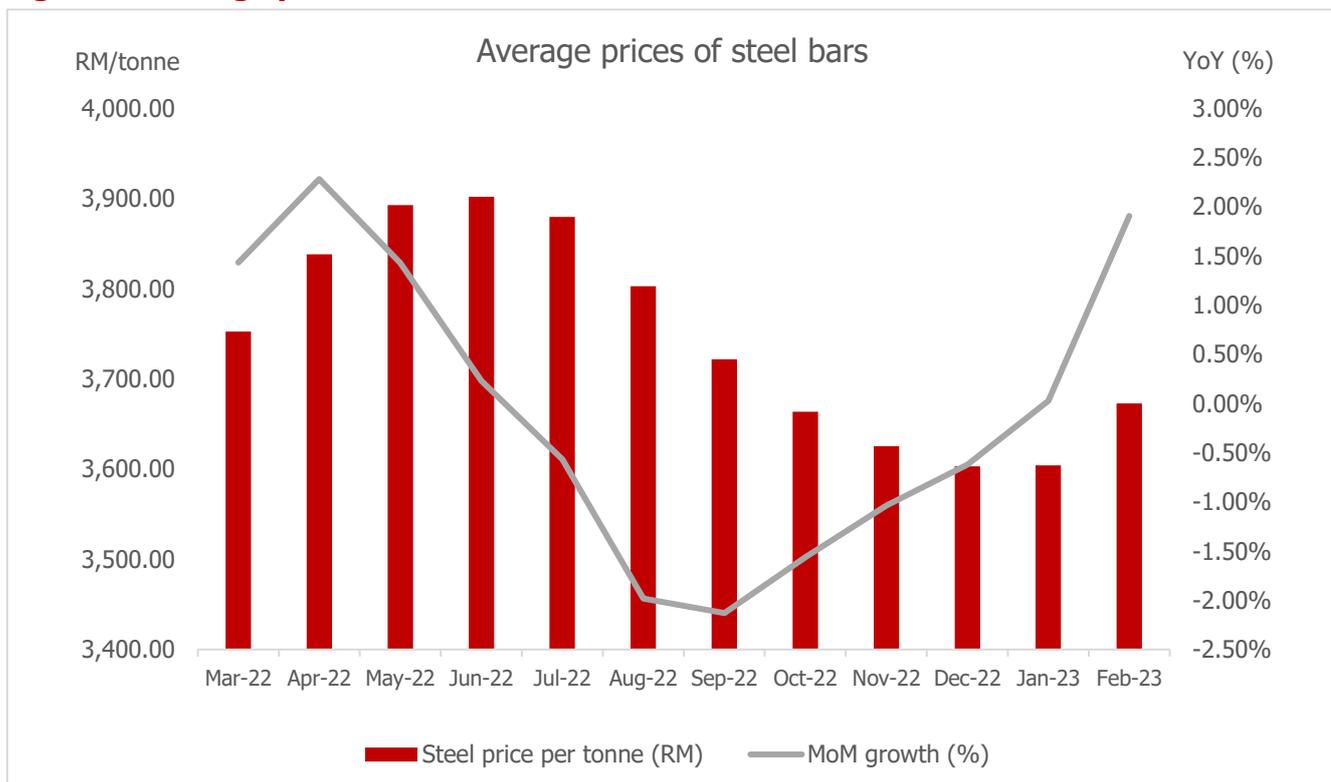
Maintain POSITIVE. We maintain our **POSITIVE** view on the construction sector as the current cost headwinds remain manageable. We expect FY23 to be a better year for contractors, especially given the boost by the recently tabled Budget 2023, with a slew of infrastructure works and public utilities that would translate to stronger job flows this year. We opine that the highlight for FY23 will still be the rollout of MRT3, which has been delayed since Dec-22 due to a review by the Government to bring the cost down from RM50b to RM45b. Our preferred names for the sector remain, namely **Gamuda (BUY, TP: RM5.04)**, **Sunway Construction (BUY, TP: RM2.00)** and **IJM Corp (BUY, TP: RM1.90)**. 

Average prices for steel bars and cement (February 2023)

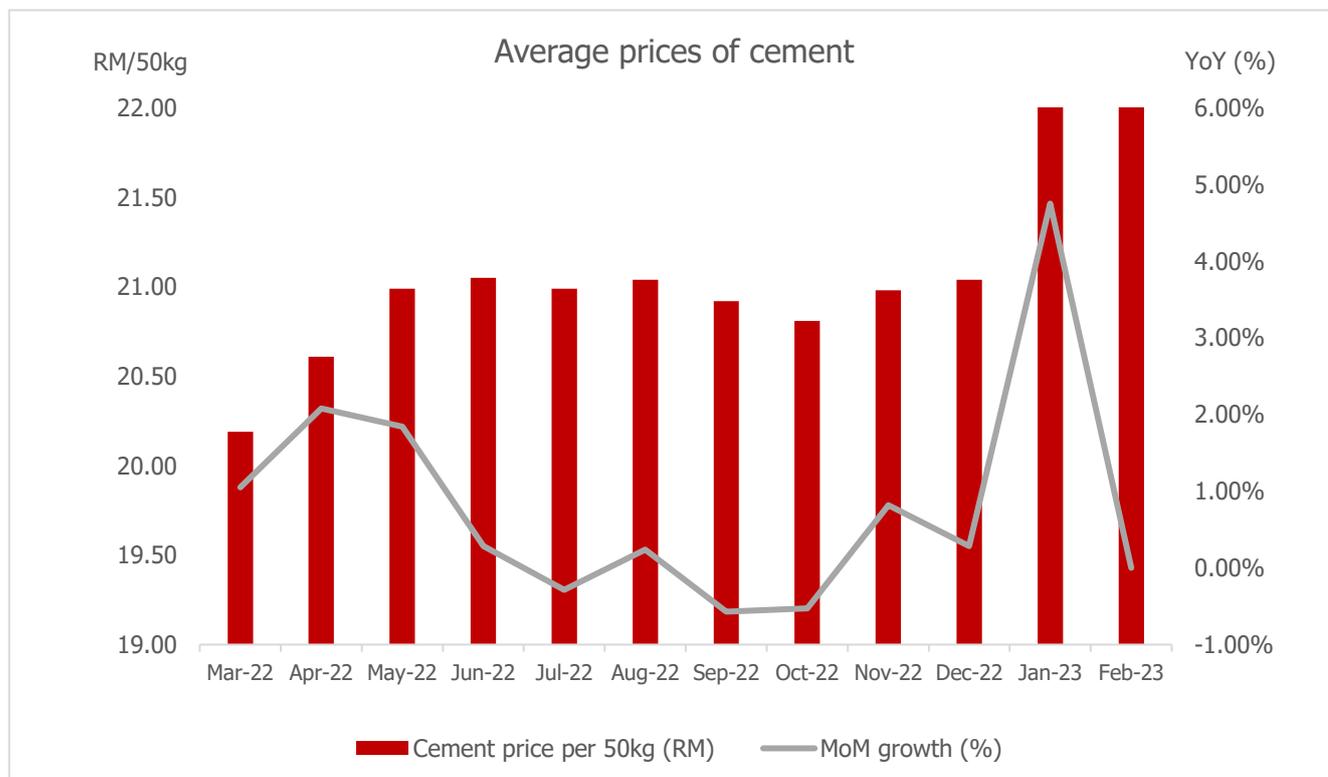
All prices are RM/tonne unless stated otherwise		Peninsula			Sabah			Sarawak		
		North	Central	East	Kota Kinabalu	Sandakan	Tawau	Kuching	Sibu	Miri
Mild Steel Bars	10mm (3/8")	3,275.33	3,507.84	3,242.65	3,822.94	4,756.14	4,142.46	3,983.51	3,819.75	3,665.00
	12mm (1/2")	3,286.88	3,508.74	3,301.08	3,811.79	4,535.72	4,142.46	3,947.32	3,899.42	3,726.85
	16mm (5/8")	3,273.80	3,433.48	3,275.09	3,220.00	4,367.66	4,520.00	4,136.49	3,838.90	3,622.40
	20mm–25mm (3/4"–1")	3,051.90	3,528.90	3,045.67	3,220.00	4,404.68	4,540.00	3,777.58	3,808.90	3,723.33
	32mm (1 1/4")	3,337.35	3,238.69	2,818.66	n.a	n.a	n.a	n.a	n.a	n.a
High Tensile Deformed Bars	10mm (3/8")	3,152.19	3,593.65	3,435.73	3,510.65	4,432.83	3,774.25	3,833.55	3,864.85	3,541.19
	12mm (1/2")	3,156.23	3,249.80	3,434.00	3,510.65	4,432.83	3,724.92	3,905.98	3,918.75	3,726.84
	16mm–25mm (5/8"–1")	3,039.25	3,413.77	3,245.49	3,338.18	4,341.16	3,754.63	3,851.61	3,892.60	3,648.75
	32mm (1 1/4")	3,001.08	3,135.61	3,228.00	3,213.96	3,831.00	n.a	3,660.10	3,445.75	3,703.20
Cement (RM/50kg)	Ordinary Portland BS 12	20.19	19.23	21.41	21.97	24.10	23.57	23.03	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 @ 16 Mar 2023 (RM)	Target Price (RM)	Core EPS (sen)		Dividend Yield (%)		Net gearing (%)	Net cash/(debt) (RM'm)
					FY22E	FY23F	FY22E	FY23F		
Gamuda	July	BUY	4.03	5.04	31.1	31.1	3.1	10.7	-	271.9
IJM Corp	Mar	BUY	1.60	1.90	6.7	8.1	13.1	3.2	-	538.5
Sunway Construction	Dec	BUY	1.60	2.00	10.4	11.4	2.9	3.0	-	95.6
MRCB	Dec	BUY	0.305	0.40	1.5	1.5	2.3	2.5	32.2	(1,462.8)
Muhibbah Engineering	June	SELL	0.65	0.47	-2.80	14.4	-	3.2	5.0	(90.7)
WCT Holdings	Dec	BUY	0.41	0.58	3.8	5.4	0.9	0.9	65.6	(2,562.9)
Gabungan AQRS	Dec	BUY	0.285	0.44	3.1	4.0	0.0	2.3	22.3	(112.7)
Pintaras Jaya	Dec	BUY	1.83	2.43	29.1	19.5	2.3	2.5	-	108.5
KKB Engineering	June	BUY	1.46	1.50	4.8	4.0	4.0	4.0	-	221.3
Malayan Cement	June	NEUTRAL	2.23	2.61	8.4	7.3	0.0	0.0	54.7	(3,172.9)
Cahaya Mata Sarawak	Dec	BUY	1.08	1.55	11.1	19.4	1.3	1.9	-	677.9

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 <i>rise</i> 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 <i>fall</i> 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