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# Construction sector seen as catalyst for growth

Possible rollout of mega jobs augurs well for industry

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CONSTRUCTION

**PETALING JAYA:** Concerns over the country's high indebtedness could take a backseat for the time being, as the focus shifts to moving the economy back on the growth path following the Covid-19 pandemic.

For this reason, there are expectations that the construction sector could be a low-hanging opportunity for the government to pump-prime the economy.

"I believe there will be news flows surrounding the construction sector towards the announcement of the budget and the 12th Malaysia Plan. Construction is a sector which the government can control and which can be navigated around to achieve growth," Kenanga Research's construction sector analyst Lum Joe Shen told *StarBiz*.

"This sector is different and is not like, say, the agriculture sector where you need buyers from overseas (for sales). Due to this pandemic, every country has to have a higher deficit and I think it is okay. I feel the most important thing is get back on a growth path," Lum added.

Lum said some of the anticipation for the second half could go into the Large-Scale Solar 4 tender, which is a RM4bil tender process for one gigawatt of power plants.

"While the most immediate area would be the Rapid Transit System (RTS) project that will link Johor Baru and Singapore, where their project awards could come as soon as next year once both governments sign the agreement officially," he said.

He said that another area of consideration would be the Mass Rapid Transit 3 Circle Line (MRT3) which had been postponed by the Pakatan Harapan government due to the country's financial situation.

"I think the MRT3 is commercially very viable since the MRT1 and MRT2 are already there. I think the government can raise money in other ways such as monetising assets in Khazanah Nasional Bhd. Khazanah has matured companies that can be monetised and pay dividends for the MRT3 project," Lum said.

Lum, in his report last week, had an overweight rating on the construction industry noting that the KL Construction Index which is trading at a financial year 2021 forecast



**Key industry:** A construction site in Kuala Lumpur. There are expectations that the sector could be a low-hanging opportunity for the government to pump-prime the economy.

price to earnings ratio of 12.6 times could re-rate to a high of 17 times in anticipation of the rollout of mega-infrastructure jobs.

He expects disappointment for major construction companies in the upcoming second-quarter results season, as it was the peak period of the lockdown.

"With contract flows still in their infancy stage, we find it fitting to build positions into the sector now. Our top picks for big caps are Gamuda Bhd and Sunway Construction Bhd, whereas our small/mid-cap picks are Kimlun Corp Bhd and Kerjaya Prospek Group Bhd," he said.

Meanwhile, Hong Leong Investment Bank (HLIB) Research said that construction works done are set to bottom in the second quarter.

"There has been gradual work resumption since May 4 of only around 30% in all construction sites operational as at mid-June. Under Budget 2020, the allocated development expenditure was RM50bil of which the disbursement was hampered by political changes and the Covid-19 outbreak," HLIB Research said.

It added that the Prihatin stimulus had an additional RM23bil of fiscal injections that have been classified as development expenditure.

"In our view, broad sector normalisation

will be gradual, as there are around 450,000 legal construction foreign workers while Malaysia's test capacity was 36,000 (as at end-June), although the pace of testing should rapidly improve should Covid-19 cases continue to dissipate," it said.

"Some industry players have also highlighted that a complete work pace normalisation (to pre-MCO levels) is not possible as long as standard operating procedures are in-place with 90%-95% of pre-MCO operating capacity as the new normal," HLIB added.

It has maintained its neutral call on the industry despite the recent positive mega-project news flow.

"We believe this is largely offset by the weaker private job outlook (due to the weak property market) since the 14th general election.

"The key downside risks include political leadership changes/a hung Parliament, the resurgence of Covid-19 cases and margin downside risks such as SOP measures, labour constraints and/or delays," HLIB added.

Its top pick for the sector is Sunway Construction with a target price of RM2.10 due to its strong balance sheet, extensive track record of infrastructure projects to leverage on pump priming and strong support from its parent company.

