

Construction sector earnings to recover by 11percent

The Malaysian Reserve, Malaysia



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by S BIRRUNTHA

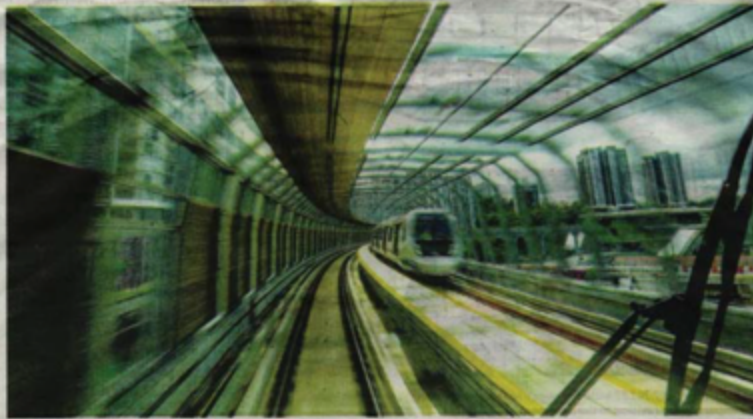
THE construction sector is expected to post strong earnings in 2021 despite political uncertainties being a key concern, said Affin Hwang Investment Bank Bhd (Affin Hwang Capital) senior associate director of research Loong Chee Wei.

Loong noted that the revival of mega infrastructure projects would stimulate investors' interest in the construction sector.

"We are optimistic on the prospects of the construction sector in 2021, but concerns on political uncertainties and the impact of Covid-19 pandemic have led us to reiterate our 'Neutral' call on the sector.

"We believe the potential revival of mega projects such as the Klang Valley Mass Rapid Transit Line 3 (MRT3) will improve prospects for contractors to expand their orderbooks," he said in a virtual media briefing of 2021 Malaysia Economic Outlook and Construction Sector by Affin Hwang Capital yesterday.

He added that the government



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has allocated the highest ever development expenditure budget of RM69 billion, an increase of 38% year-on-year (YoY) in Budget 2021.

The brokerage expects the acceleration in public-sector contracts for ongoing infrastructure projects such as East Coast Rail Link and Pan Borneo Highway to happen in the second half of this year.

"Potential news flow on the implementation of infrastructure projects such as the Johor Baru-Singapore Rapid Transit System,

Rasau Water Supply Scheme and Petaling Jaya Dispersal Link highway will provide positive rerating catalysts," he said.

Loong expects the 2021 construction sector core earnings to rebound by 11% YoY in 2021 after contracting by 30% YoY in 2020.

He noted that the total core earnings were lower in 2020 due to slower progress billings as a result of the Covid-19 movement control measures causing disruptions in the sector.

He expects the government's plans to pump-prime the economy to give momentum to the construction sector in 2021.

Loong's top buys for the sector include Sunway Construction Group Bhd (SunCon) and AME Elite Consortium Bhd.

He said SunCon stands to benefit from the revival of mega projects, while AME Elite stands to benefit from the strong industrial property demand.

His top 'Sell' in the sector is

Malaysian Resources Corp Bhd given its weak earnings and property sales.

Loong said the government's plan of implementing a domestic high-speed rail (HSR) line would have a similar impact on earnings to the country's construction sector as the now-cancelled Kuala Lumpur-Singapore HSR line.

He added that about 90% of the infrastructure work for the original HSR alignment is in Malaysia.

"If they continue with just the Malaysia portion, I think the infrastructure spending would be quite large and would benefit major contractors in Malaysia.

"My estimation is close to RM30 billion-RM40 billion on just the construction cost alone," he noted.

Previously, Minister in the Prime Minister's Department (Economy) Datuk Seri Mustapa Mohamed said Malaysia would conduct a detailed study on HSR to explore all opportunities including the viability of a domestic HSR project.

The termination of the HSR line was announced on Jan 1, 2021, after both Singapore and Malaysia failed to agree on the changes proposed by Malaysia to the project.

The estimated construction cost of the HSR project was last estimated at around RM60 billion, compared to its initial price tag of RM110 billion.