

Construction sector underperformance a temporary blip



By Azanis Shahila Aman - June 12, 2023 @ 4:39pm



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KUALA LUMPUR: The construction's sector first quarter (Q1) 2023 underperformance is expected to be a temporary blip, as most projects in hand are still at their initial stages and therefore limited progress billings.

"We believe the adequate supply of labour should result in higher revenue recognitions for projects while building materials cost pressures dissipate as projects without cost escalation clauses – secured before the Russia-Ukraine conflict – approach their tail-end," RHB Research said.

According to the firm, the construction sector delivered Q1 2023 results that were below expectations. The bank said out of the 10 companies that reported results, one came in line, one exceeded expectations, and eight fell below estimates.

RHB Research said the companies that underperformed expectations are Sunway Construction Group Bhd (SunCon), Malaysian Resources Corp Bhd (MRCB), Kerjaya Prospek Group Bhd (KPG), Gabungan AQRs Bhd, v) Pintaras Jaya Bhd, Econpile Holdings Bhd, KKB Engineering Bhd, and Advancecon Bhd.

Meanwhile, it said the quarterly performance of IJM Corp Bhd met RHB Research's expectations while MGB Bhd's results exceeded projections.

"We introduce Gamuda as a new top pick in addition to KPG and SunCon. Overall, we believe it can weather any downside risks pertaining to local big ticket infrastructure jobs," it said.

In addition, RHB Research said near- to medium-term pocket of opportunities may also arise for the construction sector from the rollout of other infrastructure projects. It said this is particularly so for the remaining phases of the Pan Borneo Highway (PBH) Sabah and Sarawak, and the Bayan Lepas Light Rail Transit (BLLRT).

"These projects have received positive updates by the Government. Prime Minister Datuk Seri Anwar Ibrahim has urged for the adoption of a fast-track approach for PBH and allocated funds for the BLLRT, which was previously supposed to be state government funded."

RHB Research has upgraded the sector from Neutral to Overweight mainly due to its upgrade of Gamuda to Buy from Neutral – viewing it as a strategic hedge for any downside risks stemming from the domestic construction sector.

Gamuda holds a 36.5 per cent weightage of the KL Construction Index.

Additionally, the firm also expects a more manageable building material cost environment and reasonable supply of labour to support construction progress. Ends