IBS adoption still low — survey

High initial cost among hurdles faced by stakeholders

BY AHMAD NAQIB IDRIS

KUALA LUMPUR: While much has been said about the advantages of using the Industrialised Building System (IBS) method for construction, adoption is still slow due to the various hurdles faced by stakeholders in applying the technology.

According to a survey by the Construction Industry Development Board (CIDB), private sector adoption is still low at around 15%, while government projects are seeing higher adoption at 70%.

"For government projects, there is a requirement for projects that exceed RM10 million to have a minimum IBS score of 70 which is already in place. Currently about 70% of government projects meet that requirement.

"For the private sector, our survey showed that IBS usage was only at 15% but that was three years ago. We are doing another study now to determine the current rate of IBS adoption in private sector developments," said CIDB chief executive officer Datuk Ahmad Asri Abdul Hamid.

The slow adoption is definitely not a supply issue, as CIDB said there are over 230 suppliers of IBS components in Malaysia, which are currently operating at only 50% to 60% capacity due to a lack of demand.

Several construction players and property developers have also set up their own facilities and have plans to further ramp up their production capacity despite the subdued demand.

Gamuda Bhd has the capacity to produce about 3,000 units per year with its current IBS facility in Sepang and plans to set up a second one in Banting by end-2018, which will boost its capacity to 8,000 units per year.

ML Global Bhd has partnered China's Sany Construction for a RM40 million IBS plant in Nilai with a capacity of 2,000 units per year.

Meanwhile, China's Country Garden Pacific View Sdn Bhd, the developer of the Forest City project, has an IBS facility in Johor with the capacity to produce up to one million square metres of built-up area.

High initial costs

One of the main headwinds for the wide adoption of IBS is the cost factor. Currently, the usage of IBS in development projects costs more than the conventional method due to a lack of economies of scale.

Hua Yang Bhd chief executive officer Ho Wen Yan said the costs are higher in the initial phases of IBS usage but hopes that it will become lower with greater adoption.

The developer is actively using IBS, with up to 70% adoption rate for its projects in Ipoh and 20% to 30% adoption rate for its high-rise projects in the Klang Valley.

Ho: In the initial phases of adoption, the costs are a bit higher. But as we become more familiar and adopt it in more of our projects, then the costs will average down. Photo by Shahrin Yahya

"In the initial phases of adoption, the costs are a bit higher. But as we become more familiar and adopt it in more of our projects, then the costs will average down.

"We are working towards that. I think it will become more manageable in the short term, but currently the cost is about 15% to 20% higher than the conventional construction method," said Ho.

The higher cost associated with the usage of IBS is partly due to logistics cost, as it can be expensive to transport huge components from the factory to the construction site.

IBS manufacturers also have a limited range due to the challenge in transporting huge components, making it expensive and unviable to transport components beyond a 200km radius.

Besides that, Master Builders Association Malaysia (MBAM) president Foo Chek Lee said contractors would also need to invest in the proper equipment that can lift these heavy components for assembly at the building site, which are quite costly.

"IBS needs heavy lifting equipment and what we use now is not sufficient to cater for that. The price of the equipment is also high at present and the government should seriously look into how they can lower the tax on these heavy equipment to encourage the local industry to take up IBS," said Foo.

No fully integrated suppliers

Besides the cost factor, another hurdle for the mass adoption of IBS is the fragmented supply of components in Malaysia.

For example, Hua Yang currently works with several different suppliers to source for components, as currently no single supplier can cater to the developer's needs.

"We can't find a full system to adopt yet and we get our components on a piecemeal basis, like certain systems for the structure and certain systems for mechanical and electrical components and so on," said Ho.

However, this issue may be addressed in a few years' time when Country Garden fully completes its IBS plant, which will see a total of six factories at the 417-acre (168.75ha) site in Johor to support the equivalent of six million square metres, potentially making it the largest IBS manufacturer in the world.

Gamuda's RM350 million IBS facility in Banting will manufacture a wider range of high quality IBS components, with the capacity to produce up to 5,000 units per year.

Amendments to regulations needed

Amendments to current building laws are also needed in order to achieve economies of scale, as different localities enforce different standards of measurements for the IBS components under the Uniform Building By-Laws (UBBL).

MBAM honorary adviser and past president Datuk Ng Kee Leen said this makes it a hassle as suppliers will have to manufacture different components based on the differing requirements.

"Every local council has its own UBBL, with different measurement standards. Since IBS has standard sized panels and components, the authorities will need to change the law to follow one standard.

"If everything follows the same standards of measurement, it will be easier and more economical to build. On the other hand, it will not be economical to manufacture IBS components if different localities enforce different standards," said Ng.

This is also part of the reason behind Singapore's successful adoption of IBS, as the island state's uniform standards make it easier for manufacturers to meet the requirements.

Despite the headwinds faced in mass adoption, stakeholders are hopeful that the government's move to make it mandatory by 2020 will push demand for IBS construction.

"When IBS is made mandatory, the demand will increase and the factories will supply more. I am sure we will see more factories opening up when the demand picks up.

"If we manage to make it mandatory by 2020, I'm sure the construction costs will be lower than the conventional method," said Ahmad Asri.

MBAM also hopes that the government pushes through with the mandatory requirement, but said more government projects are needed to encourage adoption, for greater economies of scale.

"If there are only one or two projects, it's not economical. If there is demand, there will be an increase in supply. I believe some other companies are also planning for IBS following the government's announcement of its decision on this," said Ng.

Hup Seng Industries looks to new markets for growth

BY BILLY TOH

KUALA LUMPUR: Hup Seng Industries Bhd is targeting new markets and new products in search of growth following a moderation in earnings since hitting a peak in 2015, when revenue totalled RM286.86 million and net profit stood at RM54.73 million.

Executive director Kerk Chian Tung said the group has tapped into the Chinese market with its biscuits and crackers (excluding oat cookies) which are being sold to retailers, distributors and hypermarkets in that country.

She shared with *The Edge Financial Daily* via an email exchange that Hup Seng Industries has many plans to push for new products that can reach more diverse market segments.

The group mentioned in its latest financial result statement that the development of new markets such as China has started to bear fruits.

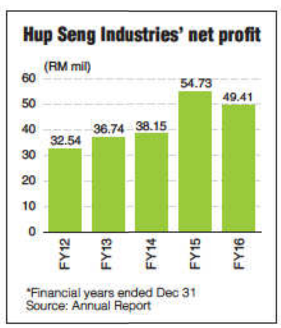
Kerk said Hup Seng intends to grow the export contribution by about RM10 million in the next four years.

As at the end of 2016, exports made up about 28% of the group's revenue or RM79.98 million.

Hup Seng's revenue for the first six months ended June 30, 2017 (1HFY17) grew 3.5% to RM143.1 million, from RM138.26 million a year earlier as a result of the strong exports to its existing markets and China.

This was despite a slight decline in domestic sales of about RM2 million or 2% due to some problems in the Sabah and Sarawak market. Kerk explained that one of the shoplots belonging to the group's agents was burnt down while biscuit demand has dropped in the Sabah and Sarawak market following a reduction in the number of foreign workers there.

She said that while the disruption from the fire-ravaged shoplot is a one-off problem, it will take some time for the agent to set up the physical shop.



Despite a return to growth trajectory for the group's revenue in 1HFY17 after a slight decline in the previous year, Hup Seng's net profit for the period fell by 14.3% to RM20.60 million from RM24.03 million in 1HFY16 as profit performance was hurt by the overall rise in raw material prices.

This indicated that the net profit margin has fallen to 14.4%, which is lower than the group's five-year average net profit margin of 15.7%. The last time Hup Seng's net profit margin was below 14.5% was back in 2012.

Half of the raw materials for the group are made up of palm oil, wheat flour, milk-based products, chocolate chips and sugar.

Hup Seng has not raised its selling price since 2011, which has led to a squeeze in its margin as seen in its latest financial results. Asked whether the group will increase the prices of its products or repackage to improve the margin of its products, Kerk said there are no plans to increase, reprice or repackage its products.

"Cost-efficiency, waste management and maintaining good quality," she said when asked about the strategies to improve margin.

TA Securities, which has a "buy" call for Hup Seng with a target price of RM1.50 (indicating an upside potential of about 25%), said that despite the absence of price increases, export sales and improved consumer sentiment have supported the group's top-line growth.

"We believe that bottom-line growth will be supported by declining commodity prices like palm oil and sugar in 2HFY17. Note that raw materials account for around 80% of the costs of sales," said TA Securities analyst Damia Othman in a note.

Another analyst said the strong balance sheet of Hup Seng gives the group an edge amid a tougher period for snack foods and confectionery makers. Hup Seng had a cash balance of RM91.5 million and zero borrowings as at June 30, 2017, giving the company sufficient buffer through challenging times.

At its latest share price of RM1.19, Hup Seng is trading at a trailing price-earnings ratio of 20.7 times with a dividend yield of about 3.4%. Year to date, the counter has remained relatively flat with a total return of about 3.4%.