

AmResearch upbeat on construction sector

2009/02/24

AMRESEARCH has turned slightly more positive on the construction sector as it expects stalled projects under the Ninth Malaysia Plan to resume after the leadership transition in March. It now has a "neutral" call from an "underweight" recommendation before. The projects that could resume include the RM9 billion Pahang-Selangor raw water transfer, the RM35 billion public transport upgrade, The RM14 billion Bakun Hydroelectric project and the RM3 billion West Coast Expressway. "We have seen a re-acceleration of works for the Second Penang Bridge, Ipoh-Padang Besar double tracking project, smaller parcels of new contracts to link the various Klang Valley highways as well as select infrastructure projects in Sabah and Sarawak," the research note said. The research house expects the existing order levels of construction companies under its coverage to remain healthy, helping them to sustain earnings over the next two to three years. Within the sector, it has upgraded WCT Bhd to a "buy" from "sell", with a higher fair value of RM1.89 per share. It has also raised its recommendations on Gamuda and IJM Corp Bhd one-notch above to "hold" with higher fair values of RM2.06 per share and RM3.88 per share respectively. However, it maintains a "hold" rating on Zelan Bhd with an unchanged fair value of 95 sen per share as well as Hock Seng Lee Bhd with an unchanged fair value of 61 sen per share. AmResearch said that the level of foreign shareholdings among construction stocks has dropped quite substantially over the last three months. Also, it noted lingering uncertainties on how the Federal Government would efficiently fund Ninth Malaysia Plan projects while there are still unresolved issues on land acquisitions along the Penang stretch of the Ipoh-Padang Besar double tracking project. Due to intense political lobbying, there have been rising concerns that select big-ticket projects in the pipeline may be broken up into multiple smaller portions. An example was the Ipoh-Padang Besar rail project where 30 per cent or RM3.7 billion worth of contracts were awarded to Bumiputera contractors under 338 work packages. This would mean a lower share for the larger construction companies. The construction sector has been one of the main underperformers in the Malaysian equity market in 2008 but sentiments have now changed, with expectations of pump-priming initiatives. Under the RM7 billion first stimulus package, RM4 billion relates to smaller-sized construction jobs. It does not expect much from the second stimulus plan on March 10, saying it would be more SME-centric and does not expect fresh high-impact contracts to be announced.