

Construction firms to be affected by rising costs

KUALA LUMPUR: Rising building material costs are expected to eat into the margins of construction companies' earnings going forward.

Although contractors will be able to incorporate the rising cost for new projects in the form of increased contract values, AmInvestment Bank said the higher cost would still lead to higher working capital requirements.

"We expect building material prices to remain elevated because of the Russia-Ukraine war (that continues to rage on)," it added.

According to the International Trade and Industry Ministry, steel bar prices rose 11% to RM3,450 per tonne in May 2022 from RM3,100 per tonne in May 2021.

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However, AmInvestment Bank said the potential award of the Mass Rapid Transit 3 (MRT3) project would revitalise the industry.

It is worthy to note that the tender process for the three civil works packages for the MRT3 has begun and that the tenders are expected to be awarded in the fourth quarter of this year.

The research house said the main beneficiaries are expected to be IJM Corp Bhd and Sunway Construction Group Bhd, given their strong balance sheets and proven track records.

"We expect WCT Holdings Bhd's role to be limited to subcontracting due to the group's stretched balance sheet.

"We also believe that Kimlun Corp Bhd and Econpile Holdings Bhd would benefit from the rollout of these packages as they have won sizable jobs from previous MRT projects," it added.

That said, AmInvestment Bank is "neutral" on the construction sector, saying that it is cautious due to elevated building material costs and potential delays and shelving of mega projects.

"We would upgrade our call on the sector to 'overweight' if the pressure on building material costs eases and the government decides to forge ahead with the implementation of key public infrastructure projects," it said.

<https://www.thestar.com.my/business/business-news/2022/06/14/construction-firms-to-be-affected-by-rising-costs>