

# Raw material price poser

## Will implementation of mega projects result in tight supply?

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**PETALING JAYA:** Contractors and developers may start to stockpile raw building materials to ensure sufficient supplies, while hedging against an expected rise in prices amid tight supply of materials needed once the country's planned mega projects start with its construction.

Players in the industry said that with the uncertainties surrounding the dynamics of the market now, nobody could rightly gauge how the construction of these mega projects would put pressure on the supply and demand of raw building materials.

"Projects like the My Rapid Transit (MRT) would be a key determinant as it is one of the single largest infrastructure projects the Government has embarked on. The Government seems to be pushing through for its construction, and that definitely will put pressure on the prices and supply of cement," said an industry player.

Cement is the main component for concrete and generally makes up between 50% and 60% of the cost for concrete products.

He said if the various sections of the MRT were to start construction concurrently, cement supply would be squeezed and other contractors would be clamouring for what was left.

To date, 27 work packages of the MRT have been awarded to listed and unlisted contractors, while tenders and awards for the remaining 63 packages are expected to be mostly completed by the fourth quarter of the year.

"We are not seeing any impact yet, but there are already worries that demand may outstrip supply.



However, cement supply are still supportive of the current market," he said.

He said industry players would cause a ripple effect when they started to stockpile these raw building materials.

Meanwhile, the Cement & Concrete Association of Malaysia (C&CA) told *StarBiz* that cement demand was expected to further pick up from the third quarter onwards due to implementation of major projects under the 10th Malaysia Plan, Economic Transformation Programme (ETP) and ongoing property development.

"The cement industry will be able to meet additional demand for projects under the 10MP and ETP not only due to excess grinding capacity but also due to increase in supply from a new integrated plant coming on stream in 2013 and expansion programmes being undertaken by some C&CA members in Peninsular Malaysia, Sabah and Sarawak. There is a good potential outlook for cement industry," said C&CA executive director Grace

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She added that the cement industry had expanded by 7.1% in 2011 compared with 2010 and was anticipated to increase by 5% to 6% in 2012.

Another industry player echoed the view and said there was still a big surplus of cement, and it was not a concern for players involved in constructing infrastructure.

"The main concern is securing the highly specialised machinery needed to construct the projects like bored piling machine. Infrastructure works like the Light Railway Transit (LRT) extension, and the MRT will keep the construction sector afloat. The slowdown seen in the residential and commercial property sector complements the active infrastructure sector," he said.

The Real Estate and Housing Developers Association (Rehda) president Datuk Seri Michael Yam said there were many factors affecting the dynamics of the supply and demand market, and it was a sophisticated market to secure the best fees from contractors to develop

projects.

"Of course, we are concerned about the prices of raw building materials as we deal with contractors that are exposed directly to the fluctuations in market prices, and whoever manages these huge infrastructure projects needs to take note of the whole construction sector ecosystem," he said.

ECM Libra equity research analyst Benjamin Lee sees Lafarge Malayan Cement Bhd as a prime beneficiary of the demand spillover from the expected increase in domestic construction output into the cement subsector.

"For the financial year ended December 2012 (FY2012), we expect Lafarge to register an earnings per share growth of 18.5% versus 7.6% registered in FY2011 on the back of Lafarge's ability to tip its current 70:30 domestic and export cement sales mix towards the domestic side, which carries higher net profit margins, to meet increasing cement demand," he said.

He said contractors might start to stockpile raw materials, however there was still a slight downward pressure on cement prices as Hume Cement Sdn Bhd, a unit of Hong Leong Industries, would be adding one million tonnes of cement capacity soon.

"While prices of other raw materials like steel would be stable as it is subject to global prices - with China the largest producer and consumer of steel dictating the commodity's market price. Sand and bitumen might see some rise in prices with several highway projects coming up, and some smaller construction players might be negatively impacted by the inflationary pressure on the aforementioned building material costs," he said.