

Construction sector faces rocky road

by XAVIER KONG

HONG Leong Investment Bank Bhd (HLIBB) has downgraded the construction sector from 'Overweight' to 'Neutral,' citing possible delays in the implementation of government-related projects and potential tightening in the property sector, among others.

Citing the Fiscal Policy Committee (FPC) meeting HLIBB said: "The only good news from FPC's meeting is that mass rapid transit (MRT) Line 2 will proceed as planned, despite some slight delays. However, timing for the remaining mooted projects is now shrouded with uncertainties."

According to HLIBB in the FPC meeting, several points were highlighted that will have an adverse impact on the construction sector, namely public sector projects will be considered carefully, low-import content and high-multiplier effect

projects will be given priority; high import components will be sequenced accordingly; MRT Lines 1, 2 and 3 will proceed as planned and the high-speed rail project is still under negotiation.

HLIBB added that the government's intention to scale back on development expenditure could be summed up to address three issues, namely, fiscal deficit, shrinking account surplus and International Public Sector Accounting Standards (IPSAS) implementation.

The bank backed research house added that despite the notion that government projects are the key drivers for the construction sector, the private sector's approximately RM16 billion in value of construction work is more than double the approximately RM7 billion value of construction work for the government in the second-quarter of 2013.

Nevertheless HLIBB added that the deferment of govern-

ment projects would dampen the spirits of investors.

The research house added that with most of the private sector projects being in property development, most construction companies have moved up the value chain into that area, and it has been a key area for earnings growth.

As such, HLIBB is of the view that a slowdown in the property segment will have a very pronounced effect on the construction sector, hampering both job opportunities and property profits.

HLIBB sees two key projects which have higher import content being impacted, namely the Refinery and Petroleum Integrated Development project valued at RM60 billion and Project 3B the 2000MW Coal Power Plant, costing RM10 billion.

The research house added that government support loans and guarantees will have to be relooked, due to the shift towards accrual accounting or

IPSAS (as opposed to cash accounting) by 2015.

Under IPSAS, projects that involve government support loan and government guarantees will mostly be affected due to the risks and higher financing costs involved.

"In the case of highway privatisation, it may also be re-considered," HLIBB said.

With the only reassurance from the FPC being the continuation of the MRT project, not to mention the imminent delays from the government-related projects, the potential tightening in the property sector, and greater scrutiny from the opposition party, HLIBB downgraded the construction sector from 'Overweight' to 'Neutral'.

HLIBB's top picks for the construction sector include IJM Corp Bhd, with a target price of RM6.32, which is about 15% higher than its close of RM5.50 and Sunway Bhd, with a target price of RM3.18 which is about 9% higher than Sunway's close of RM2.92.