

CONSTRUCTION

Maintain POSITIVE

Easing steel bar prices; cement prices continue rising

KEY INVESTMENT HIGHLIGHTS

- Average steel bar prices in the country declined -0.53%mom to RM3,706.95 per tonne in Jun-23
- Average steel bar prices in the Peninsular dropped -1.0%mom to RM3,289.81 per tonne while East Malaysia saw a -0.3%mom decline to RM3,915.52 per tonne
- Average cement prices grew +0.2%mom to RM22.87/50kg. Peninsular recorded a +0.6%mom increase in to RM22.36/50kg while prices in East Malaysia remained unchanged at RM23.12/50kg
- **Maintain POSITIVE** on construction sector as cost headwinds remain manageable
- Preferred names are Gamuda (BUY, TP: RM5.04), IJM Corp (BUY, TP: RM1.93), Sunway Construction (BUY, TP: RM2.09) and Malayan Cement (BUY, TP: RM3.74)

Softening steel bar prices. The average prices of steel bars in Malaysia softened for the second consecutive month, in line with the decline in the international prices of steel and iron ore, as expected when China authorities stepped in to curb the surge in iron ore prices back in Mar-23. Based on the prices of five types of mild steel bars and four types of high tensile deformed bars tracked by the Department of Statistics Malaysia (DOSM), the average price declined -0.53%mom in Jun-23 (May-23: -0.34%mom) to RM3,706.95 per tonne.

China stimulus. Prices of iron ore, being the main ingredient for steel, has been on an uptrend since the end of May-23, on the back of expectations of stimulus measures by Beijing to boost aid the property sector. On Monday, the People’s Bank of China extended some of its financial support policies from a Nov-22 package to support the real estate sector until the end of 2024. This led to a +1.5% increase in China’s Dalian Commodity Exchange (DCE) Iron Ore Futures to CNY816 per 100 tonnes as of yesterday. While this may be positive for iron ore prices, we posit that the upside is limited as the Chinese authorities are firm on reducing the country’s steel output to reduce carbon emissions.

Higher in most regions. The decline came mainly from the Peninsular, led by the northern region with a -1.7%mom decrease to RM3,364.30 per tonne. The central and eastern region posted declines of -0.7%mom and -0.5%mom respectively to RM3,326.94 and RM3,178.18. In Sabah, the Kota Kinabalu and Sandakan regions saw declines of -1.3%mom and -0.9%mom respectively to RM3,656.43 and RM4,481.69 per tonne. Only the Tawau region saw an increase of +0.1%mom to RM4,065.96. In Sarawak, prices remained unchanged in Kuching and Sibu while Miri recorded a +0.2%mom increase to RM3,653.79 per tonne.

COMPANIES IN FOCUS

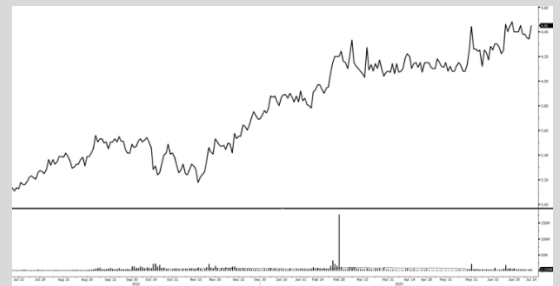
Gamuda Bhd

Maintain BUY | Unchanged target price: **RM5.04**

Price @ 12th July 2023: RM4.45

- Record high construction order book at RM21.5b
- Strong overseas operations, now contributing 44% of core net profit
- MRT3 main contender

Share price chart



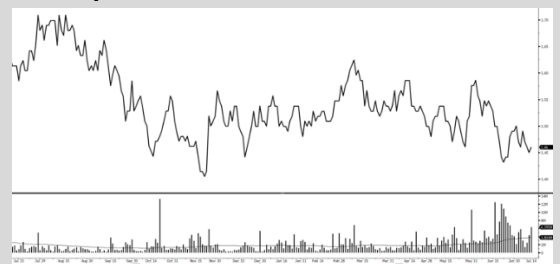
IJM Corp Bhd

Maintain BUY | Unchanged target price: **RM1.93**

Price @ 12th July 2023: RM1.46

- Solid outstanding order book of RM4.5b
- Plans to pursue opportunities in Sarawak and Nusantara
- Also one of the MRT3 contenders, with tenders submitted for all three main packages

Share price chart



Analyst

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Cement prices continue rising. The average price for the binding substance continued to rise for the eighth consecutive month by +0.22%mom (May-23: +1.29%mom), its slowest pace of monthly increase since Dec-22 to RM22.87 per 50kg bag. This was on the back of higher selling prices and lower rebates offered due to higher raw materials cost. The northern region of the Peninsula recorded the highest increase by +1.4%mom to RM22.57 for every 50kg bag while the central and eastern region rose +0.1%mom and +0.4%mom respectively to RM22.03 and RM22.49 respectively. Prices remained unchanged in Sabah and Sarawak.

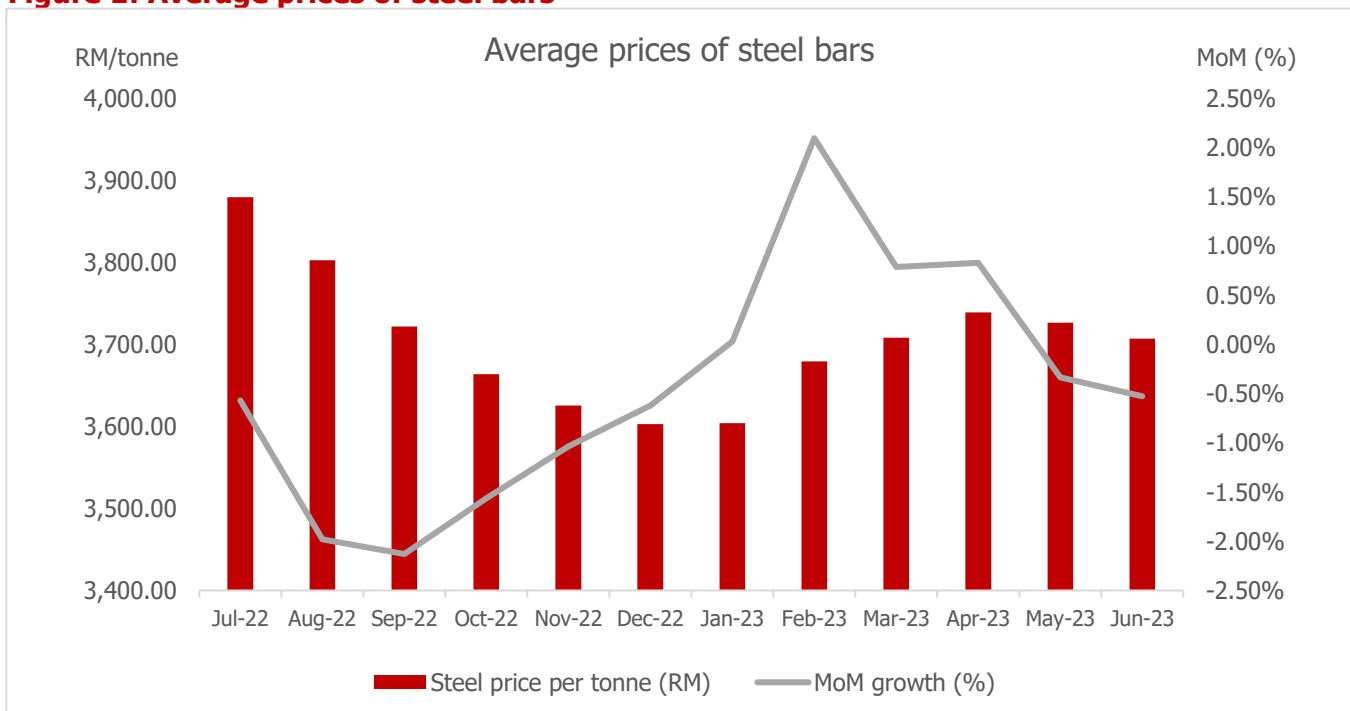
Maintain POSITIVE. We maintain our **POSITIVE** view on the construction sector as the current cost headwinds remain manageable with the softening steel bar prices and the slower increase in cement prices. We expect the sector to benefit from improving job flows driven by Budget 2023 and also development plans in Sarawak to improve connectivity in the state, which is vital to serve as a gateway to Nusantara when Indonesia moves its capital to Kalimantan. Our top picks for the sector this year remains the larger players and those with stellar balance sheets and order books, namely **Gamuda (BUY, TP: RM5.04)**, **IJM Corp (BUY, TP: RM1.93)** and **Sunway Construction (BUY, TP: RM2.09)**. For the cement play, being the direct beneficiary of the improving construction sector, we recommend **Malayan Cement (BUY, TP: RM3.74)**.

Average prices for steel bars and cement (June 2023)

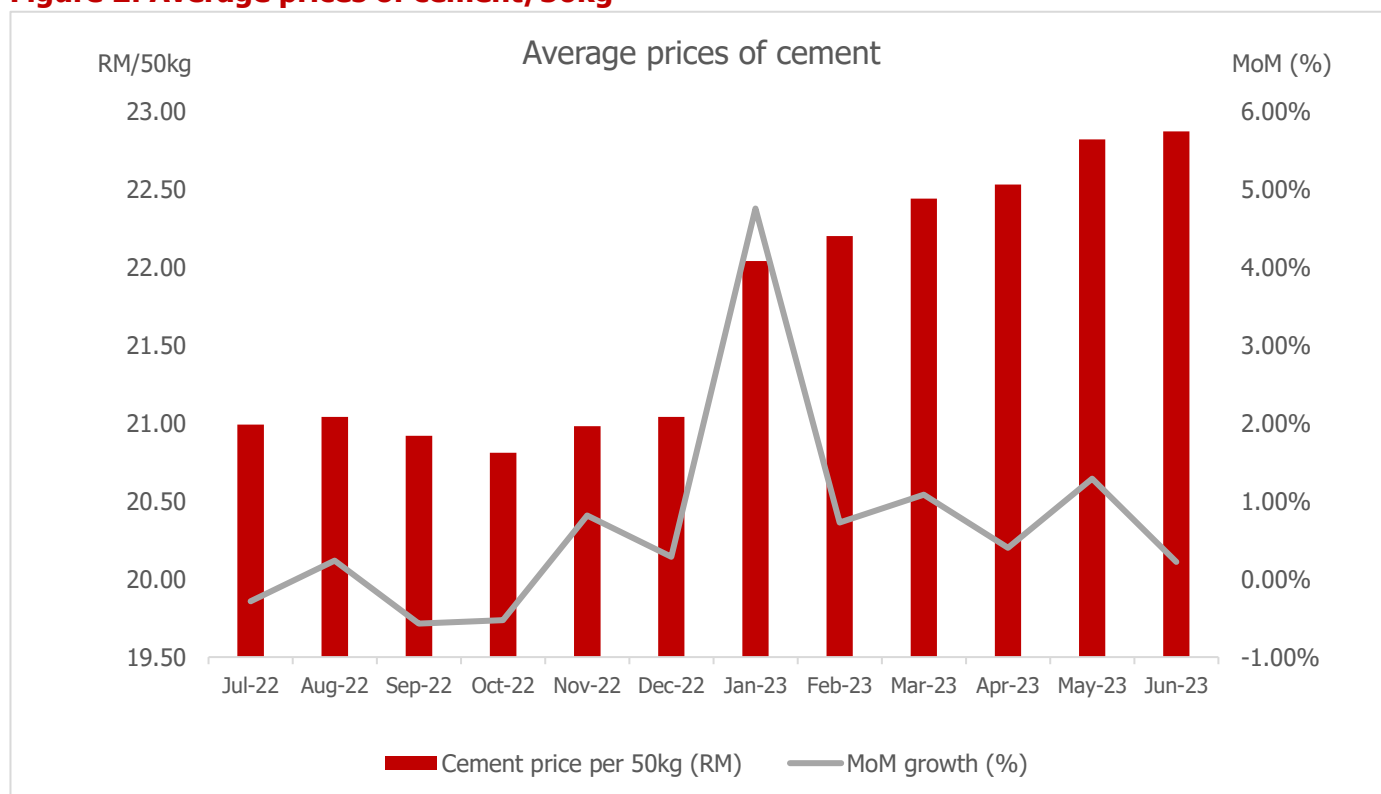
All prices are RM/tonne unless stated otherwise		Peninsula			Sabah			Sarawak		
		North	Central	East	Kota Kinabalu	Sandakan	Tawau	Kuching	Sibu	Miri
Mild Steel Bars	10mm (3/8")	3,419.33	3,468.80	3,219.45	3,893.69	4,482.98	4,187.78	4,026.85	3,998.55	3,716.31
	12mm (1/2")	3,419.33	3,519.16	3,270.01	3,893.69	4,589.12	4,189.83	3,987.44	3,944.80	3,726.85
	16mm (5/8")	3,407.95	3,433.38	3,305.51	3,530.00	4,715.51	4,520.00	4,206.48	3,936.65	3,622.40
	20mm–25mm (3/4"–1")	3,413.51	3,525.34	2,946.00	3,530.00	4,715.51	4,540.00	3,909.95	3,904.12	3,723.33
	32mm (1 1/4")	3,704.90	3,164.71	2,987.25	n.a	n.a	n.a	n.a	n.a	n.a
High Tensile Deformed Bars	10mm (3/8")	3,352.58	3,177.79	3,372.59	3,630.94	4,520.62	3,740.48	3,735.31	3,802.95	3,548.30
	12mm (1/2")	3,330.35	3,175.04	3,406.58	3,620.80	4,520.63	3,792.54	3,743.50	3,810.50	3,555.35
	16mm–25mm (5/8"–1")	3,212.03	3,384.60	3,090.72	3,537.08	4,429.18	3,784.51	3,597.04	3,691.87	3,637.80
	32mm (1 1/4")	3,127.41	3,189.00	2,973.00	3,615.25	3,880.00	n.a	3,405.87	3,380.00	3,700.00
Cement (RM/50kg) Ordinary Portland BS 12		22.57	22.03	22.49	22.41	24.10	23.07	22.29	22.86	24.00

Source: DOSM, MIDF Research

Figure 1: Average prices of steel bars



Source: DOSM, MIDF Research

Figure 2: Average prices of cement/50kg


Source: DOSM, MIDF Research

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 12 Jul 2023 (RM)	Target Price (RM)	Core EPS (sen)		Dividend Yield (%)		Net gearing (%)	Net cash/(debt) (RM'm)
					FY23E	FY24F	FY23E	FY24F		
Gamuda	July	BUY	4.45	5.04	31.8	30.2	9.9	2.4	5.4	(588.3)
IJM Corp	Mar	BUY	1.46	1.93	8.4	9.2	3.1	3.1	18.2	(1,997.7)
Sunway Construction	Dec	BUY	1.70	2.09	10.9	12.5	2.9	2.9	1.5	(12.4)
MRCB	Dec	BUY	0.325	0.42	1.5	1.6	2.4	2.4	37.2	(1,690.9)
Muhibbah Engineering	June	NEUTRAL	0.675	0.61	3.8	5.6	0.0	0.0	3.9	(68.8)
WCT Holdings	Dec	BUY	0.43	0.52	4.4	5.3	1.0	1.0	67.3	(2,623.4)
Gabungan AQRS	Dec	BUY	0.295	0.37	3.6	4.2	2.7	2.7	33.2	(167.5)
Pintaras Jaya	Dec	BUY	1.68	1.88	3.1	20.4	3.2	3.2	-	106.8
KKB Engineering	June	BUY	1.35	1.58	8.7	9.3	3.8	3.8	-	214.1
Malayan Cement	June	BUY	3.30	3.74	7.4	7.1	0.0	0.0	51.9	(3,045.5)
Cahaya Mata Sarawak	Dec	BUY	1.09	1.50	16.0	21.5	2.0	2.0	-	548.8

Source: Company, MIDF Research

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology