

Govt boost for construction

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THE construction sector will continue to be boosted by the government's pump-priming package, an effort to mitigate the adverse impact of the slowdown in the global economy.

Prime Minister Datuk Seri Dr Mahathir Mohamad has indicated that the main thrust of Budget 2002, to be tabled in October, would be to strengthen the resilience of the country's economy through domestic demand.

Given the harsh condition in the export market, especially the electronics sector, Dr Mahathir's remark is interpreted by many that the government will build more to spur economic growth.

Many public construction projects have been dished out lately after the delay in implementation in the second half of last year.

This reinforces the government's intention to kickstart construction work to stimulate the economy, which is expected to be dragged down in view of the shrinkage in exports.

Among projects that have been awarded since early this year are Universiti Industri Selangor (RM740mil), the Putrajaya Convention Centre (RM603mil), the Royal Malaysian Naval Base in Kota Kinabalu (RM534mil) and Universiti

PROJECTS AWARDED SINCE EARLY 2001			
	Est. project value (RM mil)	Contractor	Targeted completion
Universiti Industri Selangor	740	Maxisegar	2004.
Putrajaya Convention Centre	603	IJM	Apr 2003
Royal Malaysian Naval Base, Kota Kinabalu	534	Ekran, Muhibbah	Mid 2004
Sarikei, Kuala Penyu, Kunak and Pitas Hospitals	490	UEM	End 2003
Putrajaya Primary Distributor Road System	470	IJM	End 2003
Building works in Putrajaya	408	WCT Engineering	Sep 2003
Building works in Putrajaya	335	Ireka	Aug 2003
Building works in Putrajaya	319	Sunway Construction	End 2003
Commercial-cum-retail block in Putrajaya	298	Road Builder	Mid 2003
Building works in Putrajaya	230	IJM	End 2003
Universiti Teknologi Petronas	205	Ahmad Zaki Resources	End 2003
Muar Bypass	205	Ranhill	Feb 2004
Jus Dam, Malacca	118	Road Builder	Aug 2003
Building works in Putrajaya	117	Road Builder	Jul 2003
Istana Melawati, Putrajaya	94	Road Builder	Apr 2003
Total	5,166		

Source: Affin-UOB

ous years when privatisation paved the way for project creation.

In fact, there are not many lucrative privatisation projects available. The New Pantai Expressway, which is now owned by Road Builder (M) Holdings Bhd, is considered one of the few left.

compared with RM49.4bil in the seventh plan.

Affin-UOB expects the construction sector to grow by 2% year-on-year in the second half-year against an estimated 1% year-on-year in the first half-year.

A construction analyst at KAF

Loh and Loh Bhd are names that are involved in water projects.

Nevertheless, construction firms are also eyeing building works for the large scale Bakun Dam project in Sarawak.

The construction of the dam has started. But analysts said the lucrative part of the project should be the second phase which is the building of the main dam.

With an increasing number of construction projects being awarded on closed tender basis rather than negotiation, profit margins for construction firms could be affected, analysts said.

At the same time, this is also good for the industry because it will become essential for construction firms to enhance their efficiency to bid for more projects.

KAF Research said under the tender basis, projects would be awarded to efficient contractors which had strong balance sheets and good track record for delivery on time.

"Inefficient firms, which incur high costs, will be less competitive when tendering for new projects," said an analyst.

According to Arab-Malaysian Securities, the profit margin for public projects is rather thin; however, it is still better to be involved in local public projects than overseas ones.

Teknologi Petronas (RM205mil).

It is estimated that about RM5.2bil worth of construction projects had been awarded to publicly-listed construction companies by the government in the last six months.

Apparently, the value of public projects that have been given out is larger than that. "Most construction companies are now busy tendering for new government projects and many have successfully replenished or increased their order books," said Affin-UOB Securities Research.

Affin-UOB expects that government projects will be the main driving force behind the increase in construction activities.

This will be different from previ-

"If external demand remains weak in the near term, Malaysia will have little alternative but to boost its domestic economy via infrastructure spending.

"We are encouraged by the fact that order books are increasing in size and companies have been kept busy tendering for new jobs," said Affin-UOB.

Based on the expectation of increasing government expenditure in the construction sector, most analysts are upbeat on construction companies' earnings.

Consequently, the construction sector is rated "overweight" by many analysts.

Under the 8th Malaysian Plan, a total of RM56.2bil has been allocated for development expenditure

Research said the annual growth in the sector could be as high as 5% if the pace of giving out projects picks up.

Analysts said the emphasis on public projects may be different compared with previously.

The focus is unlikely to be on road or highway building as the road system in the country is rather extensive and good.

Water-related, utility or railway projects are expected to be areas in which the government would step up its development efforts.

"Obviously, companies that are involved in water treatment or similar types of projects will benefit," said Arab-Malaysian Securities Research.

Gamuda Bhd, Road Builder, and

Gamuda, Road Builder, IJM Corp and MTD Capital Bhd are popular construction counters that are on analysts' buying lists due mainly to their ability to win public projects.

But some construction analysts have started to look out for second-tier construction firms which also have sizeable order books and impressive earnings figures.

Other than Gamuda, Road Builder and MTD Capital, Affin-UOB Securities favours Ahmad Zaki Resources Bhd, ACPI Bhd, and Loh and Loh.

Dialog Group Bhd, which has managed to secure petrochemical plant projects from Petronas, is one of the picks by Arab-Malaysian Securities.