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Constructors yet to show full brunt of MCO effect

KUALA LUMPUR: Construction companies have yet to reflect the full effects of the movement control order (MCO) in their earnings, says Affin Hwang Investment Bank Bhd (AffinHwang Capital), despite a majority of them seeing depressed results for the first quarter of 2020 (1Q20).

"A majority of the companies under our coverage reported 1Q20 earnings that were below market and our expectations. Aggregate net profit for the sector contracted 41 per cent year on year (y-o-y), mainly due to slow progress billings and exceptional losses," the research house said in a sector review yesterday.

"Out of the 10 construction companies that we cover, 60 per cent were below our expectations, 10 per cent within our expectations and 30 per cent above our expectations.

"Aggregate construction sector earnings contracted 41 per cent y-o-y, but grew by four per cent quarter on quarter (q-o-q) in 1Q20.

"Also, the sector's core earnings contracted by seven per cent y-o-y and 25 per cent q-o-q in 1Q20.

"The domestic operations for most of the construction companies were weaker due to the MCO and slow public-sector project awards in 2019."

AffinHwang Capital saw that the progress billings for construction and property projects had been adversely affected by the closure of construction sites since the MCO started on March 18. Traffic volumes on toll highways fell 80 to 90 per cent during the MCO period, which reduced the toll revenue and profits of concession companies.

The requirement for all foreign workers to be tested for Covid-19 infection before being allowed to work at construction sites delayed the restarting of construction operations. — Bernama photo

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> **AffinHwang Capital**

According to figures from the Construction Industry Development Board (CIDB), work has yet to start at 23 per cent of construction sites in the country due to several factors, such financial problems, not being able to meet requirements for compliance with prescribed standard operating procedures (SOPs) and labour shortage.

The figure showed a positive decline compared to 84 per cent during the early phase when the economic sector was allowed to reopen on May 4.

Based on a survey conducted by CIDB last month, 35 per cent of the construction sites where work had yet to start was due to financial problems, 21 per cent for failing to meet the SOP requirements, especially on the need to send workers for Covid-19 screening test, which involved cost.

"The full impact of the MCO will likely be felt in 2Q20 as construction sites were only allowed to restart work in early May," AffinHwang Capital continued.

"But the requirement for all foreign workers to be tested for Covid-19 infection before being allowed to work at construction sites delayed the restarting of construction operations.

"The disruption to supply chains from building materials to equipment supplies also contributed to the delay. Hence, we expect most construction companies to report weaker results in 2Q20.

"We expect a slow earnings recovery for the sector and most of our earnings forecasts were reduced following the 1Q20 results.

"At the start of the year, we had projected sector core EPS growth of 13 per cent y-o-yy in 2020, recovering from earnings contraction over the previous two years.

"Following the earnings cuts, we now expect sector core earnings per share to contract by 24 per cent y-o-y in 2020, for the third year in a row, before recovering to a growth of three per cent y-o-y in 2021."