



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **A CHALKY OUTLOOK AHEAD FOR INFRASTRUCTURE – CONSTRUCTION SECTOR**

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**ECONOMIC RESEARCH**

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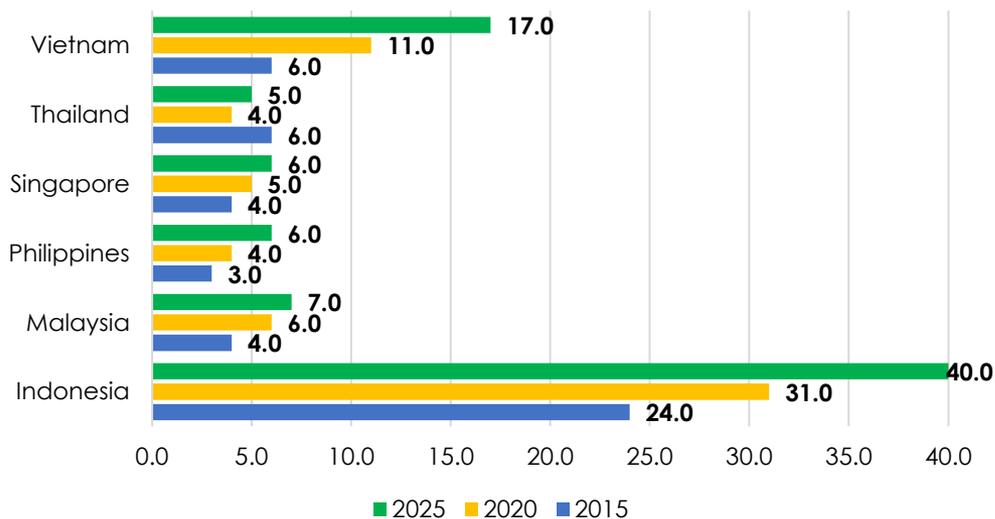
**SHAFIZ BIN JAMALUDDIN**

**NOR JANNAH ABDULLAH**

**RAJA ADIBAH RAJA HASNAN**

# DRIVER OF INFRASTRUCTURE SPENDING IN ASEAN COUNTRIES – INCREASED DEMAND FOR TRANSPORTATION SERVICES

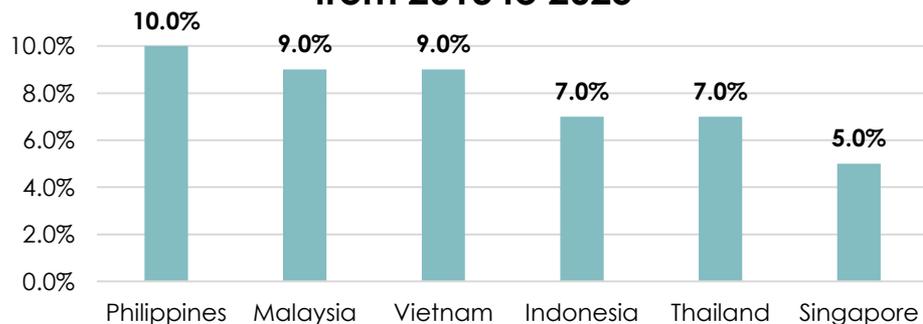
Spending on transport infrastructure\*, USD Billion



\*Transport infrastructure includes road, rail, sea and air ports.

Source: Oxford Economics via Understanding infrastructure opportunities in ASEAN report

Expected infrastructure spending growth from 2013 to 2025



Source: A Summary of South East Asian Infrastructure Spending: Outlook to 2025

- ✓ From 2015 to 2025, the spending on transport infrastructure is anticipated to increase particularly in emerging ASEAN countries.
- ✓ Aside from spending on road infrastructure, investment on other forms of transport infrastructure such as heavy rail, high speed rail, as well as urban rail are also needed.
- ✓ This is to ensure that movement of goods, raw materials and people can be done effectively.
- ✓ Otherwise, it could lead to congestion and economic inefficiencies should road networks are not upgraded or improved.

# 12<sup>th</sup> MALAYSIAN PLAN (12MP) - INFRASTRUCTURE INVESTMENT IS EXPECTED TO STIMULATE ECONOMIC RECOVERY

## A prosperous, inclusive and sustainable Malaysia

**Theme 1:**  
Resetting the economy

**Theme 2:**  
Strengthening security, wellbeing and inclusivity

**Theme 3:**  
Advancing sustainability



**Enabler 1:**  
Developing future talent

**Enabler 2:**  
Accelerating technology adoption and innovation

**Enabler 3:**  
Enhancing connectivity and transport infrastructure

**Enabler 4:**  
Strengthening the public service



- ✓ The Malaysian government tabled the country's 5-year (2021-2025) development plan via **12<sup>th</sup> Malaysia Plan (12MP)** last year with an allocation of RM400.0 billion for development expenditures.
- ✓ The 12MP is anchored around **3 key themes and 4 policy enablers** to achieve economic growth and transform Malaysia into a prosperous, inclusive and sustainable country.

**Game changer:**  
Transforming the logistics ecosystem for greater efficiency.

- Ensuring seamless movement of goods.
- Centralising the planning and development of logistic hubs.
- Accelerating digital adoption.
- Encouraging merger and acquisitions among industry players.

Source: 12th Malaysian Plan, 2021-2025

# MALAYSIA'S TRANSPORT INFRASTRUCTURE IS NEEDED TO ENSURE CONNECTIVITY AND BOOST DOMESTIC ECONOMY

## NTP 2019-2030



**Create a conducive transport ecosystem**



**Facilitate seamless movement**



**Provide mobility that meet people's needs**



**Increase modal share for public transport**



**Deliver an intelligent, safe and secure system**



**Ensure sustainable use of resources**

## INVESTMENTS IN MALAYSIA

Sector	Domestic Investment in 2021 (RM Million)	Foreign Investment in 2021 (RM Million)
Primary	13,252.9	4,075.4
Manufacturing	15,489.3	179,598.6
Services	69,214.3	24,909.5
<b>Total</b>	<b>97,965.5</b>	<b>208,583.5</b>

- ✓ The transport services sub-sector consists of maritime transport, aviation and highway construction and maintenance.
- ✓ Thus far, government has approved 40 aviation-related projects with a total investment of RM3.8 billion from 2017 to June 2021 which led to job 4,563 job opportunities.
- ✓ Besides, the aerospace industry is anticipated to generate revenue of RM30.0 billion and more than 30,000 job opportunities under the 12MP by the end of 2025.
- ✓ The **National Transport Policy 2019-2030 (NTP)** reflects this commitment with various strategic directions outlined to enhance our economic competitiveness.
- ✓ Additionally, it will provide a strong social impact particularly with respect to inclusivity and accessibility.
- ✓ The NTP is set to further strengthen national transport infrastructure and ensure sustainable development of the national transport system.
- ✓ Apart from that, the increase in foreign direct investment (FDI) (2021: RM208,583.5 million vs. 2020: RM64,197.0 million) and the rise in e-commerce will have trickle down effects on the transport infrastructure and logistic services.

## Pan Borneo Highway (PBH) project

- ✓ Improving Malaysia's highway system is vital to the economy because it serves as a link to major centers like seaports and airports. As such, it will translate into an efficient transportation of goods.
- ✓ The PBH project is expected to play a major role in opening up economic corridors and opportunities.
- ✓ According to Senior Work Minister, Datuk Seri Fadillah Yusof, the PBH is anticipated to be ready in the next 5 years including construction of Trans Borneo Highway which will connect Sabah and Sarawak.
- ✓ Thus far, the PBH has reached 82.0% completion with four packages already fully completed namely the Telok Melano-Sematan, Nyabau, Serian-Balai Ringin and Julau.

## Kuala Lumpur-Singapore High Speed Rail (HSR) project

- ✓ As stated by the Transport Minister Dr Wee Ka Siong, the talks to revive the KL-Singapore HSR is slated for 2Q2022.
- ✓ Previously, both countries decided to cancel the project on 1 January 2021 via a joint statement after failing to reach an agreement on several changes proposed by Malaysia.
- ✓ Should the HSR project is resumed, it will slash the travelling time from Kuala Lumpur to Singapore from a four-hour drive to 90 minutes, improving the economic dynamism of the two countries.

Source: Various news

## Mass Rapid Transit (MRT)

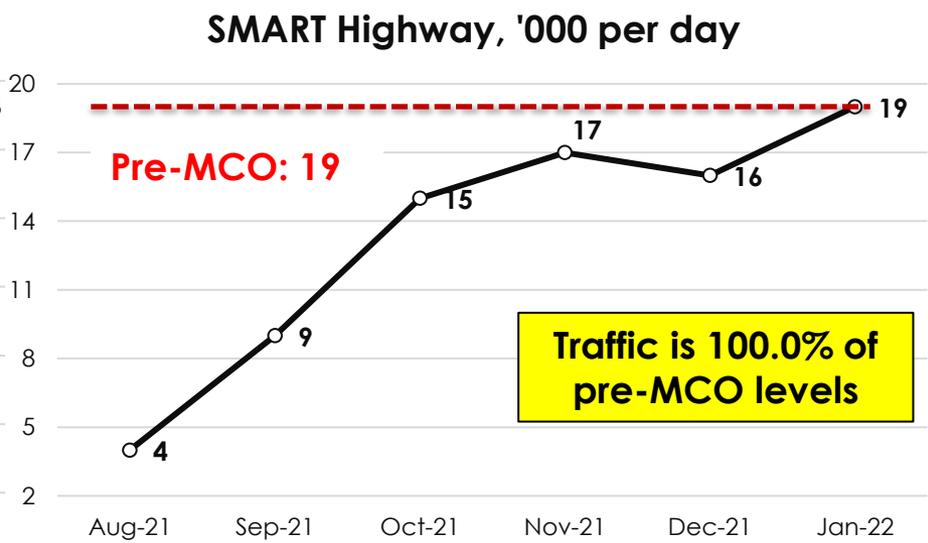
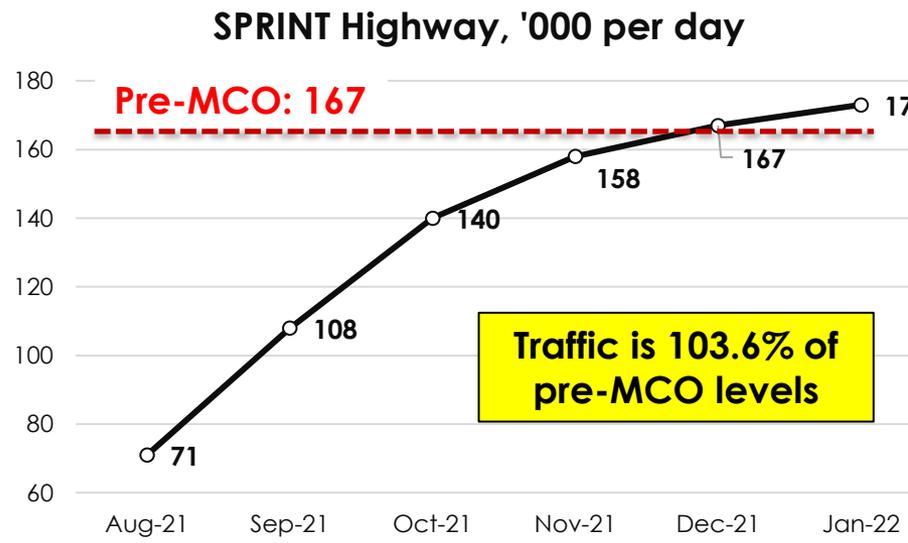
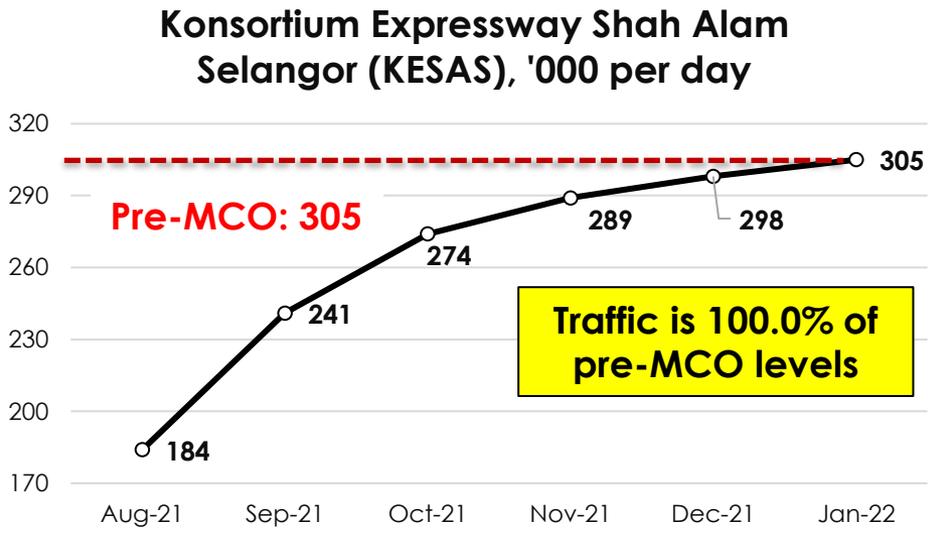
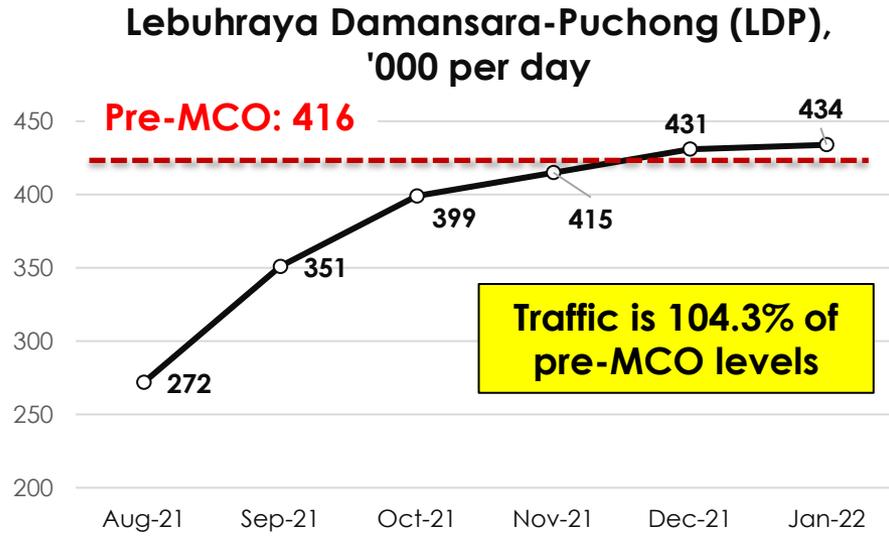
- ✓ The MRT, with its own feeder bus services and facilities such as parking lots, will further improve the country's public transportation system.
- ✓ The MRT Putrajaya Line Phase 1 will be opened on 16 June this year after it was delayed since last year.
- ✓ Also known as MRT2, the entire Putrajaya line will be covering a total of 36 stations from Kwasa Damansara to Putrajaya.
- ✓ Meanwhile, the Phase 2 of MRT Putrajaya line which connects Kampung Baru to Putrajaya is scheduled to open in January 2023.
- ✓ Additionally, MRT3 Phase 1 to begin its operation in 2028 and the circle line is expected to fully completed by 2030 as announced by the transport minister.
- ✓ As its name would suggest, the MRT 3 line goes in a loop, allowing commuters to travel throughout Klang Valley without going through the city centre.

Source: Various news

## Central Spine Road (CSR)

- ✓ The highway will be connected from Kuala Krai, Kelantan to the East Coast Expressway Phase 1 (LPT1) junction.
- ✓ Schedule to be fully completed in 2026, involving six packages.
- ✓ The completion of CSR will boost accessibility and generating the economy in the involved area including the tourism and the small and medium industry sector.
- ✓ It will be included in the 2030 Highway Network Development Plan and can probably be accepted in the subsequent Malaysia Plans.
- ✓ Apart from that, CSR is expected to reduce road congestion especially in the town of Bentong during festive seasons and school holidays due to an increase of vehicles heading to Kelantan.
- ✓ The construction of the project also facilitates local residents as the Bentong Bypass also shortens the travel from Kampung Mempaga to the town of Bentong to 12km or only 20 minutes compared to 30km prior to this which can take 45 minutes.

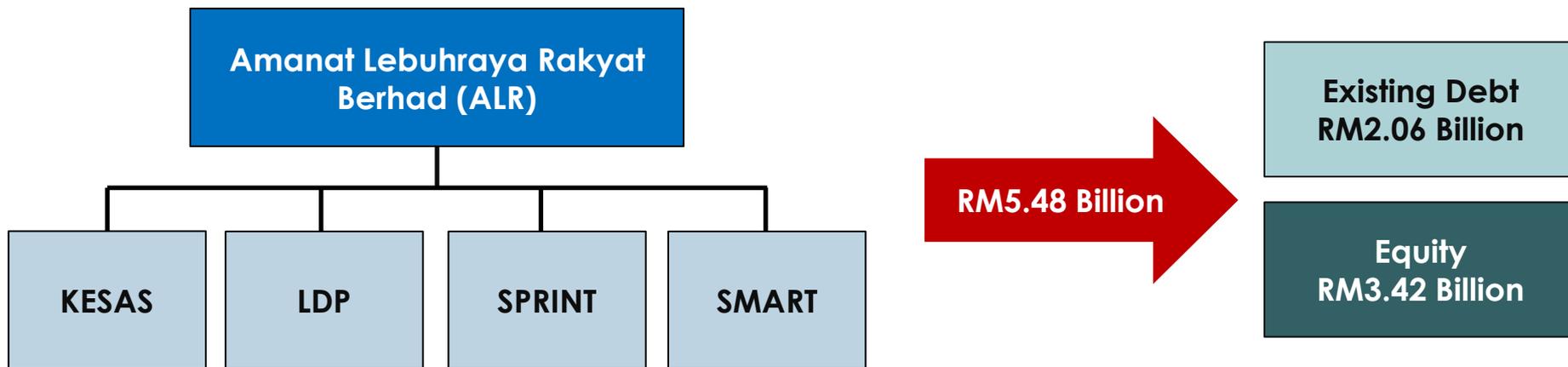
# TRAFFIC PERFORMANCE: EXPRESSWAY VOLUMES HAVE FULLY RECOVERED TO PRE-PANDEMIC LEVELS



Source: GAMUDA

**SPRINT: Western Traffic Dispersal Link**  
**SMART: Stormwater Management and Road Tunnel**

## ALR STRUCTURE: TAKEOVER ENTERPRISE VALUE VALUATION



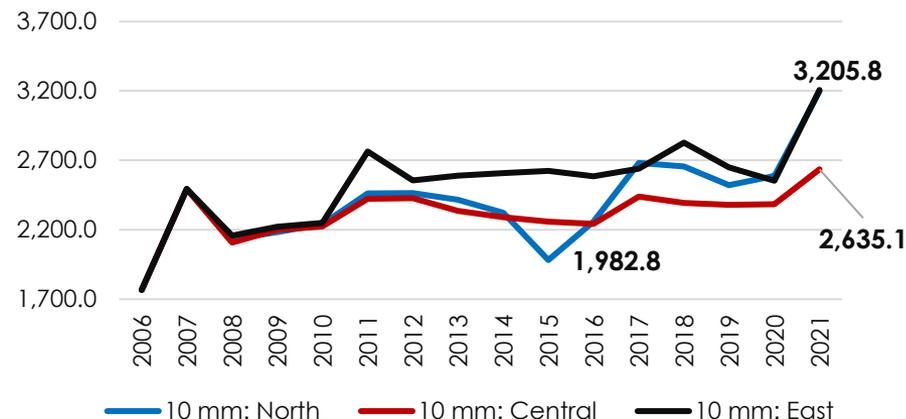
- ✓ ALR has a mandate of the government to assist in a proposed restructuring of certain toll highway concessions.
- ✓ The ALR will acquire 4 highway concessions namely KESAS, LDP, SPRINT and SMART for a combined Enterprise Value (EV) of RM5.48 billion, comprising RM2.06 billion debt and RM3.42 billion equity. It will be entirely debt-funded by raising RM5.5 billion sukuk.
- ✓ Following the restructuring, we believe motorists will tend to benefit as they will enjoy a significant 29.0% savings on future toll expenses and an anticipation of shorter concessions if traffic growth is higher.
- ✓ Apart from that, the government is expected to save net over RM4.0 billion, without the need to acquire the concessions. As such, these savings can be used to assist “Keluarga Malaysia” in a way deemed fit.

- ✓ Construction materials prices have continued to soar, causing a rise in development costs.
- ✓ Costs for mild steel round bars which are being used for construction works went up with 15-year CAGR between 2.7% and 4.5% based on different diameters – millimetres (mm) and region respectively.

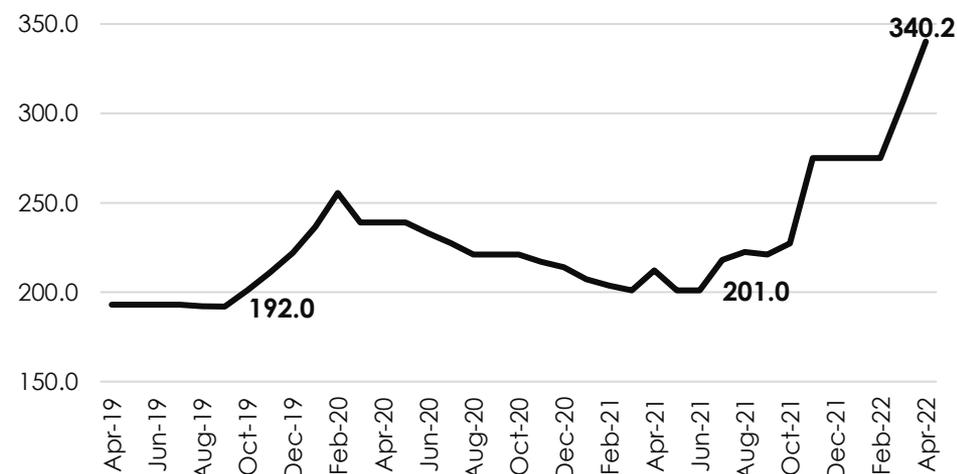
Region	North	Central	East
10 mm	4.0%	2.7%	4.0%
12 mm	4.2%	2.9%	3.9%
16 mm	4.5%	3.2%	4.0%
20-25 mm	3.9%	2.9%	3.7%
32 mm	4.3%	3.7%	3.3%

- ✓ Similarly, average prices for bulk cement surged by 60.3% y-o-y in April to RM340.20 per Metric Tonne (MT) from RM212.25/MT in the same period last year.
- ✓ Consequently, the escalating costs of materials would bring significant impact to construction industry particularly on developers, distributors and contractors.
- ✓ Moving forward, with the rising commodities prices in light of heightened geopolitical tensions in the Europe alongside prolonged supply chain disruptions, we anticipate costs pressure to remain slanted to the upside.

### Mild Steel Round Bar Prices: 10mm, RM/Metric Ton



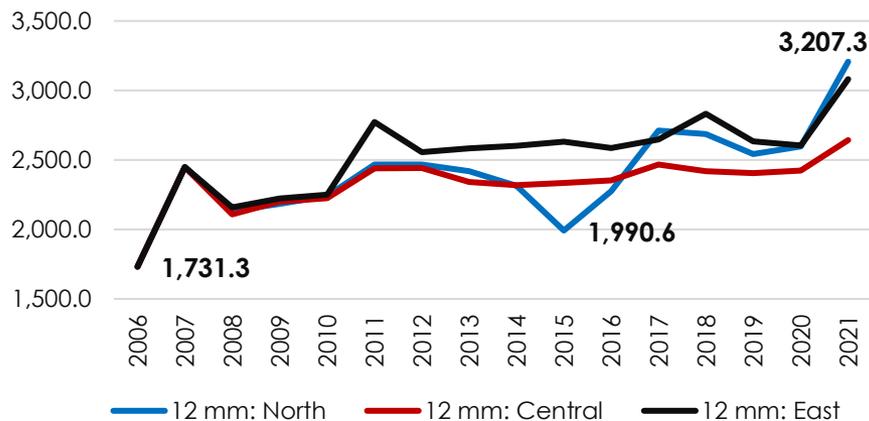
### Average Bulk Cement Price, RM/MT



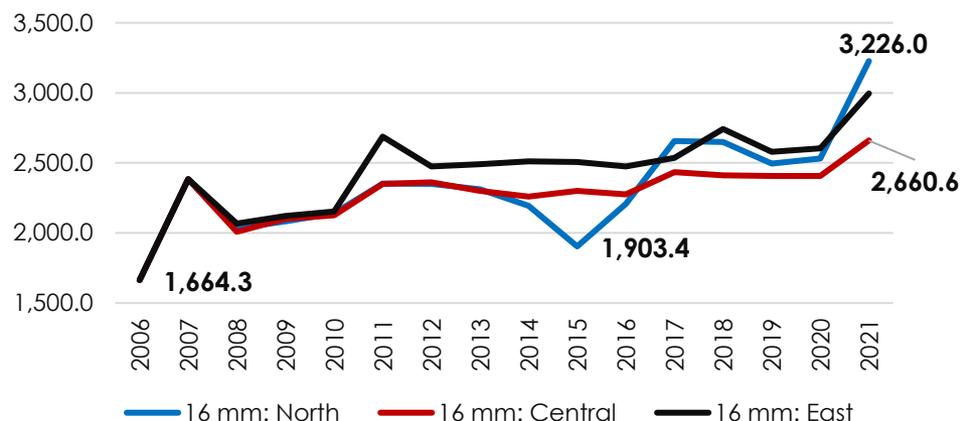
Sources: CEIC, Sunway Construction

# CHALLENGES: RISING COSTS FOR STEEL

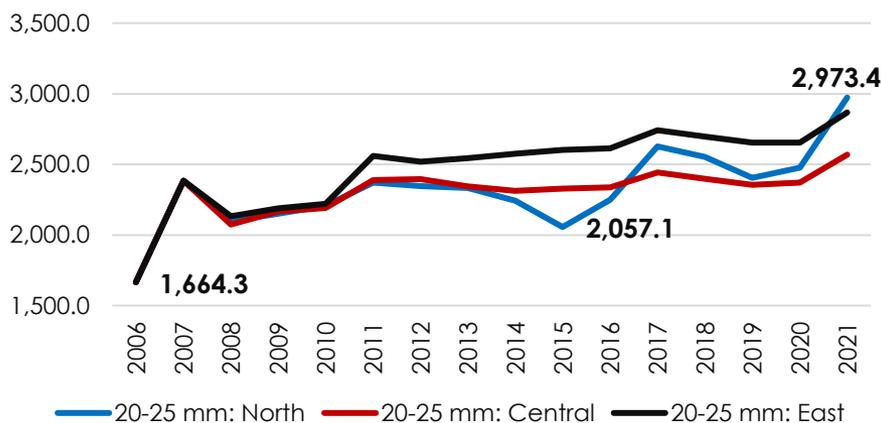
### Mild Steel Round Bar Prices: 12mm, RM/Metric Ton



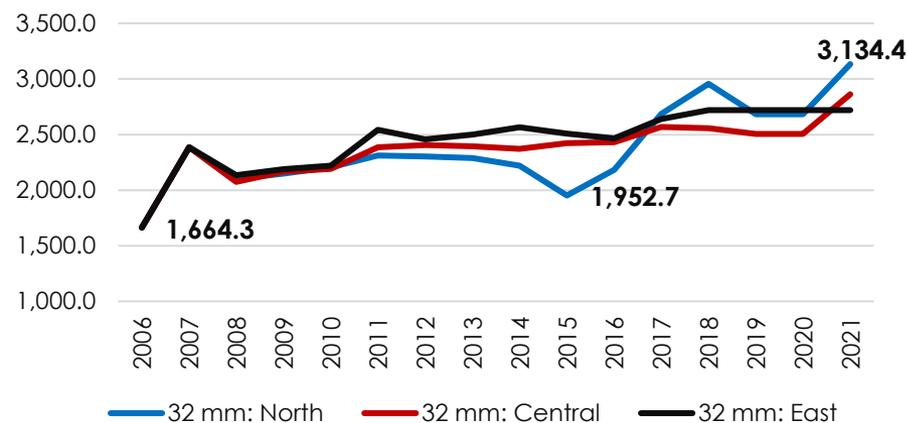
### Mild Steel Round Bar Prices: 16mm, RM/Metric Ton



### Mild Steel Round Bar Prices: 20-25mm, RM/Metric Ton



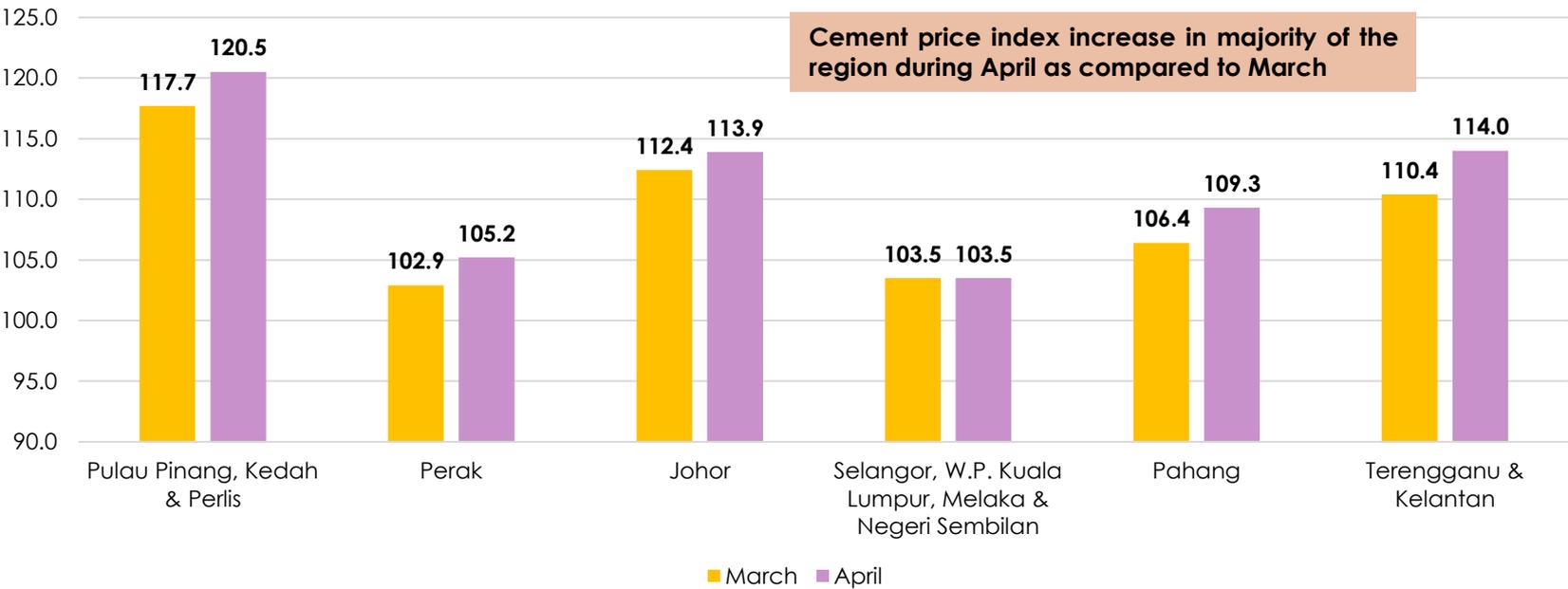
### Mild Steel Round Bar Prices: 32mm, RM/Metric Ton



Source: CEIC

# CHALLENGES: CEMENT PRICE ALSO HAS GONE UP DUE TO SURGE IN COST OF COAL

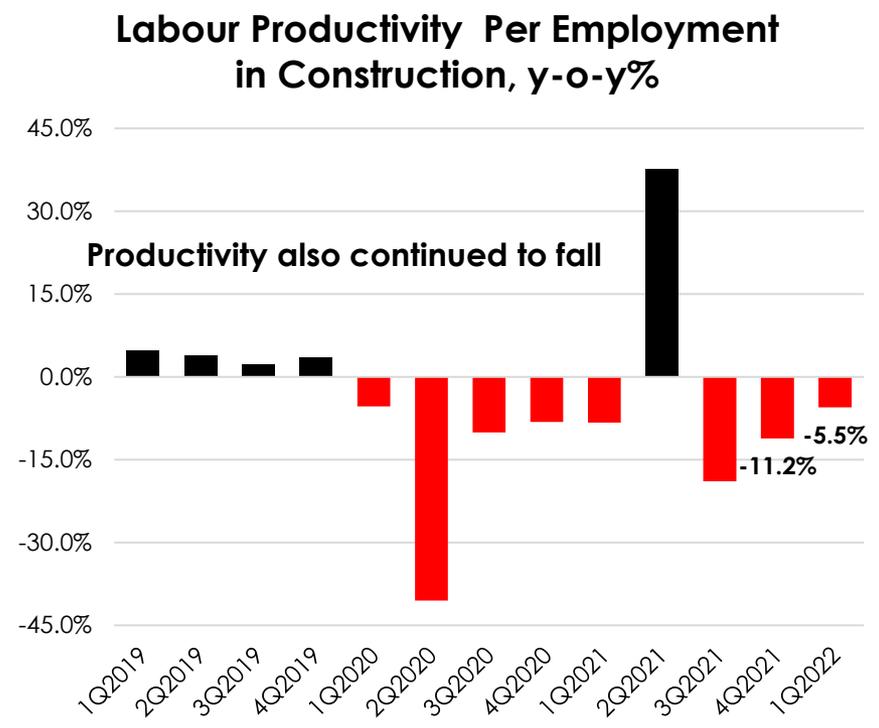
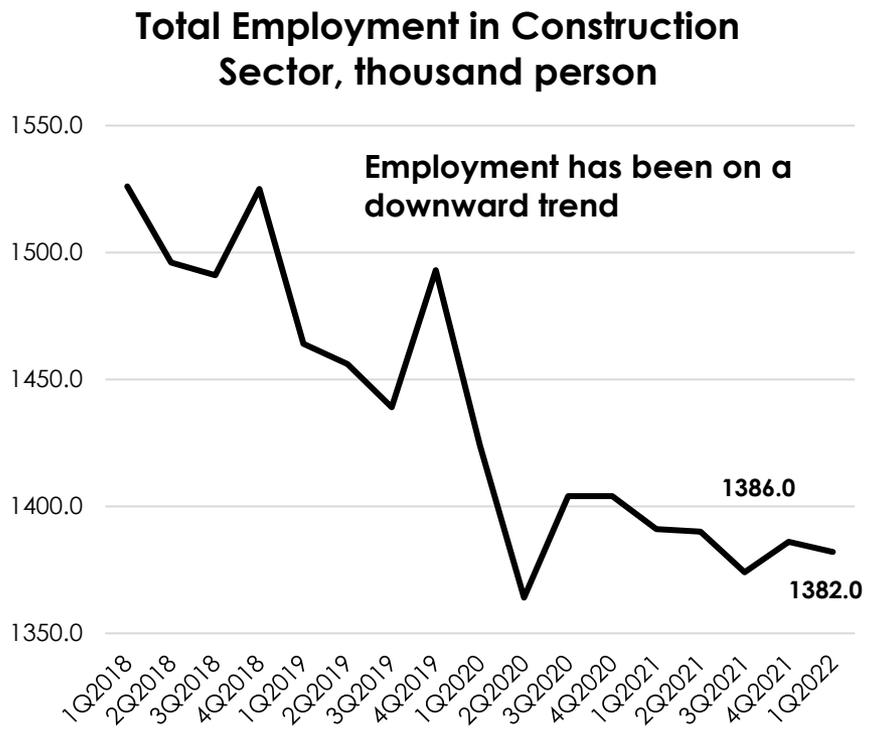
Unit price index for cement by region:



Source: DOSM

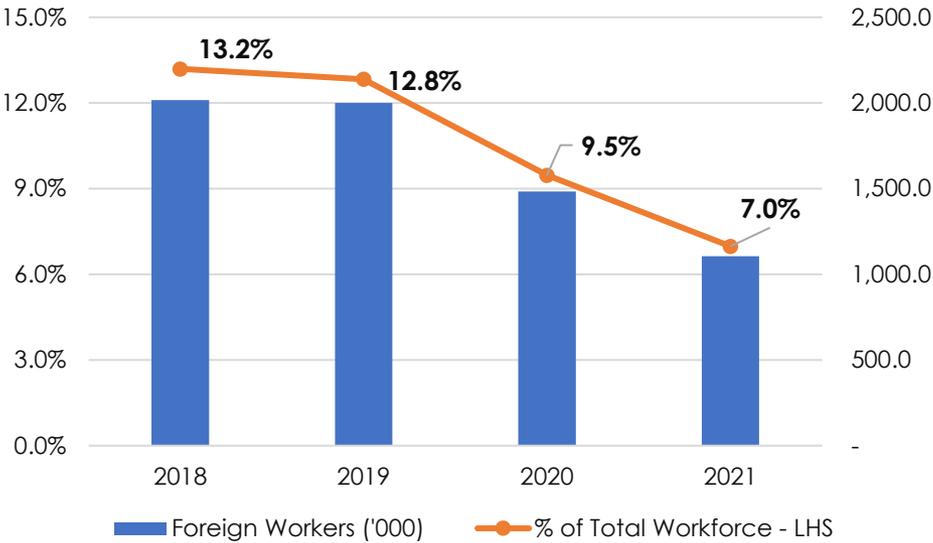
- ✓ According to Director of Cement Industries of Malaysia Sharuddin Omar Hashim, the rising input materials particularly coal has caused the price of cement to increase.
- ✓ Previously, the coal price was in the range of USD60.0 to USD70.0 per ton but it has now skyrocketed to around USD300.0 per ton.
- ✓ Additionally, the CMS Cement Industries Sdn Bhd (CCI) adjusted the cement price effectively on 17 February 2022 amid the rising cost of raw and packaging materials, as well as freight changes.
- ✓ As such, aside from congestion problem in logistic and distributions due to the pandemic, prolonged geopolitical war in Ukraine has also caused difficulty to obtain coal supplies, resulting the price of raw materials to rise further.

# CHALLENGES: LABOUR SHORTAGES COULD DERAIL THE CONSTRUCTION SECTOR RECOVERY



- ✓ The total employment in construction sector declined to 1,382.0 thousand person in 1Q2022 (4Q2021: 1,386.0 thousand person) while the labour productivity growth remained in the negative level for 3 straight quarters.
- ✓ Besides, the issue on labour shortages could weigh the construction sector's recovery. Although the government has lifted the ban to bring in foreign labour, the slow process of approval and higher cost of recruitment have threatened the business activities.
- ✓ A total of 475,678 applications to recruit foreign workers have been submitted as of 1 April 2022 with 43,519 employers were from construction industry. Therefore, the companies are facing a serious shortage of workers that has resulted in major construction projects to fall behind schedule.

### Foreign Workers in Malaysia



- ✓ Malaysia has relied heavily on the use of foreign labour particularly in the manufacturing, construction, plantation and agricultural sectors.
- ✓ Be that as it may, from our observation, there is a notable decline in the number of legal foreign workers during the pandemic.
- ✓ Last year, percentage of foreign workers out of total workforce dropped to 7.0% (2020: 9.5%) from 13.2% in 2018, during the pre-pandemic.

Source: Malaysian Employer s Federation (MEF)

- ✓ However, as the government has opened the application for hiring foreign workers since February this year, this is foreseen as good news for the industries that have been hard pressed for foreign labours due to the earlier hiring freeze by the government.
- ✓ Hence, by allowing the hiring of foreign workers, it is expected to quicken the rate of recovery for affected sectors.
- ✓ Notwithstanding that, the influx of foreign workers could dampen wage growth of Malaysians and economic prospects moving forward. As such, companies have to cut their dependency on cheap foreign labours and find the best practices, as well as measures to cater the workers' shortage issues in Malaysia.

- ✓ Over the last decade, Malaysia's construction sector has reached its peak with the influx of huge infrastructure jobs across the country. However, the sector has suffered a change of fortune in 2018 owing to fiscal constraints faced by the federal government, followed by Covid-19 pandemic which halted some plans despite many proposals to roll out more megaprojects.
- ✓ Additionally, the construction sector quarterly results also were not encouraging. For instance, the GDB Holdings Berhad has reported lower net profit to RM7.8 million during 1QFY22 compared to RM8.5 million in 4QFY21 due to lower profit margins from on-going projects arising from higher construction material prices and labour costs. Similarly, Malaysian Resources Corporation Berhad (MRCB) registered net profit of RM14.0 million (4QFY21: RM75.2 million) during the said quarter, significantly affected by supply chain disruptions which led to a shortage of workers and essential building materials.
- ✓ Hence, the outlook for the financial year ending 2022 remains challenging on the back of rising construction costs as a result of soaring construction materials and diesel prices.
- ✓ On further scrutiny, higher labour costs due to worker shortages could potentially impede profitability of ongoing projects. Following this, the industry players will see reduction in the profit margins. **All in all, we maintained Neutral call for this sector.**

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A cityscape at sunset with a pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city buildings are silhouetted against the bright horizon. A prominent road with traffic is visible in the foreground.

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