Business

Mixed reactions from constructors following SST announcement

August 14, 2018, Tuesday By Sharon Kong, sharonkong@theborneopost.com

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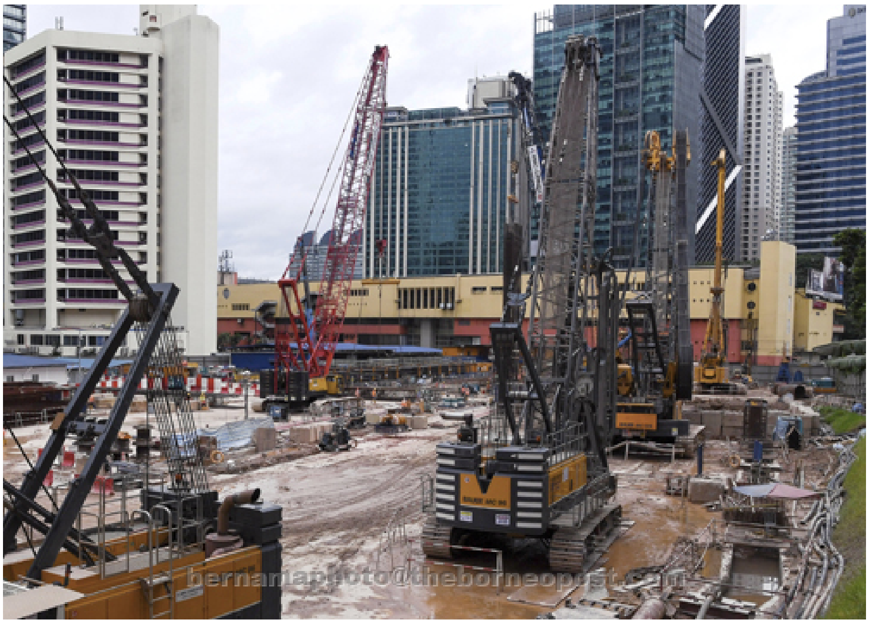

Examples of building materials which will not be subject to SST are cement, sand and iron. — Bernama photo

KUCHING: The prices of construction-related stocks saw mixed performance yesterday following the Finance Ministry's announcement on the tax exemption of some construction materials.

At closing, construction giants Mah Sing Group Bhd, Eco World International Bhd and Sunway Construction Group Bhd remained flat.

Meanwhile, IOI Properties Group Bhd fell four sen to RM1.81 per share, Gamuda Bhd's shares dropped four sen to RM3.65, SP Setia Bhd shares dipped five sen to RM2.95 sen, and UEM Sunrise Bhd fell five sen to 95.5 sen.

In a media release, Finance Minister Lim Guan Eng said that the pressure on house prices, industrial and commercial buildings is expected to ease with the abolition of the Goods and Services Tax (GST) and exemption from SST.

He also said the federal government hoped that construction costs will be lowered with the SST exemption on main building materials and construction services.

Examples of building materials which will not be subject to SST are cement, sand and iron.

The SST has been projected by analysts to give a breather to the construction and steel sector.

"If it takes place, the construction sector is expected to take a breather from the grim outlook that impacts the industry from project cuts," the research arm of MIDF Amanah Investment Bank Bhd (MIDF Research) noted in a special update on the steel sector.

"The steel and construction sector are interconnected as the former relies heavily from the building material demand from the latter's project activities.

"SST will enable steel sector to maintain its product supply to construction sector without any additional cost."

Meanwhile, MIDF Research also highlighted that the Malaysian steel sector is expected to experience more headwinds from the trade wars.

The research arm noted that currently, Street has priced-in the risk from trade wars such as tariff imposition and duty order from local steel exporter for products bound for the US and Europe.

"On the other hand, China is demand for steel is shaky coupled with the slump in their construction industry.

"The demand from China manufacturing sector takes up to 360 million metric tons annually – close to 60 percent of its annual consumption.

"But, the demand is expected to shudder due further due to China's environmental health and occupational safety policies."

Closer to home, MIDF Research observed that Ann Joo Resources Bhd, Lysaght Galvanized Steel Bhd, Southern Steel Bhd, CSC Steel Bhd, Mycron Steel Bhd and Choo Bee Metal Industries Bhd has shown negative reaction to the announcements and influx of news regarding trade wars and tariff imposition by the US and European Union.

The research arm reckoned that this trend will persist as globally steel demand is expected to grow to 1,616.1 million metric ton in financial year ended 2018 (FYE18) and tepid growth will be plagued low demand for FYE19 – growing to 1,626.7 million metric ton.

"This means less demand for export for the local steel mill. Most of the local companies are affected by unwavering overhead costs and operation

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expenditure making the sector unattractive."

All in, MIDF Research believe that the steel mill are still operating at more than 70 per cent of capacity.

"Changes in global trade policies, tepid global demand as well as the local steel mill cost structure will continue to impede any positive demand for the companies under our observation.

"We view that the steel sector will be affected negatively in for FYE18 and FYE19."

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