

# RHB Research bullish on construction sector in 2024

Analyst identifies Gamuda, SunCon, and Kerjaya Prospek as top contenders aligning with its recommended criteria

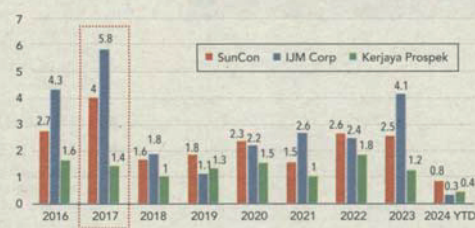
by RUPINDER SINGH

RHB Investment Bank Research has maintained a positive outlook on the construction sector, reiterating an 'Overweight' rating.

"We advocate investors to be selective on counters that have credentials in local public infrastructure projects while still having decent exposure — either in overseas markets or private industrial jobs — in addition to having lean balance sheets (net cash or manageable net gearing positions)," RHB research analyst Adam Mohamed Rahim said in a note last week.

"Such attributes are crucial to weather any downside risks that may arise from unexpected labour shortages, a slow rollout of public

Annual new job wins of large-cap contractors (excluding Gamuda)



Note: IJM's annual job wins has been calendarised due to its March FYE  
Source: Company data

infrastructure projects in Malaysia, and prolonged rise in building materials costs," he added.

Adam identified Gamuda Bhd, Sunway Construction Group Bhd (SunCon), and Kerjaya Prospek Group Bhd as top contenders aligning with its recommended criteria.

Notably, he said Gamuda's ongoing regional expansion, securing approximately 50% of profits from overseas markets, sets it apart.

The report noted that Gamuda's

relevance in domestic projects such as the Upper Padas Hydroelectric Dam in Sabah and its contender position for the Mass Rapid Transit Line 3 tunnelling package.

Furthermore, Kerjaya Prospek and SunCon are positioned strategically to capitalise on the flourishing growth of industrial buildings in Malaysia.

Adam's analysis delved into the recent performance of the construction sector, noting that the financial

year 2023 (FY23) results were largely in line with expectations.

Among the 10 companies under scrutiny, four met expectations, two exceeded, and four fell short.

Key underperformers included Malaysian Resources Corp Bhd (MRCB), KKB Engineering Bhd, Econpile Holdings Bhd, and Advancecon Holdings Bhd.

Conversely, positive results were observed from Gabungan AQRS Bhd, Pintaras Jaya Bhd, Kerjaya Prospek, and MGB Bhd. Meanwhile, IJM Corp Bhd and SunCon outperformed projections.

Highlighting the sector's economic output growth of 6.1% year-on-year (YoY) in 2023, Adam noted the rising value of construction work, reaching RM34.1 billion in the fourth quarter of 2024 (4Q24), the highest in 15 quarters.

The civil engineering sub-sector contributed significantly to this growth, experiencing a notable YoY rise of 16%.

The non-residential buildings sub-sector, showing a 3.1% YoY growth, is expected to gain momentum, especially with ongoing indus-

trial building projects.

The report underscores robust demand for industrial properties, driven by semiconductor facilities and data centres.

The surge in new planned supply under the industrial property sub-sector signifies a shift towards industrial development.

Adam believes semiconductor facilities and data centres will play a pivotal role in driving growth within the industrial properties segment.

In terms of valuations, the Bursa Malaysia Construction Index (BMCI) is trading slightly above its 10-year mean at 14.2x P/E.

Drawing comparisons with the construction upcycle period in 2017, Adam suggests that with anticipation of new job wins reaching 2017 levels, coupled with upcoming infrastructure projects, current valuations have room for upturns.

The presence of substantial industrial projects, such as data centres, not present in 2017, may potentially drive the BMCI even higher.