

Optimistic outlook for construction industry

PETALING JAYA: RHB Research expects construction players to continue booking better progress billings, as evident from the RM41bil in total value of work done, the highest on record so far this year.

The contract rollouts by both the private sector and the government have been active so far with RM183.7bil worth of construction projects awarded in the 11 months of 2024, higher than the RM152.9bil recorded in the whole of 2023.

Overall, the construction sector's latest third-quarter results for the financial year 2024 (3Q24) were mostly in-line, the brokerage said in a report yesterday.

"Revenue recognition progress of most contractors did pick up as expected and we anticipate a further ramp-up as jobs secured, especially last year, will transition into the work-intensive phase in light of better labour conditions and manageable building material price trends," it noted.

RHB Research further explained that revenue expansion from progress billings seen in most contractors during 3Q24 coincided with the higher value of construction work done in the same period, growing 23% year-on-year (y-o-y) and 5.6% quarter-on-quarter (q-o-q) to RM41bil, marking another record high after the previous quarter.

Among the important construction sub-sectors, the value of work done for civil engineering recorded 12% y-o-y growth in 2Q24 to reach RM15.2bil, the highest since 1Q20.

"We think this is attributable to the ongoing infrastructure projects expected to be fully completed within the next one-to-three years, namely, the light rail transit three or LRT3, the Johor Baru-Singapore Rapid Transit Link and the East Coast Rail Link."

Meanwhile, residential and non-residential buildings were the sub-sectors that recorded a 28% y-o-y growth each in terms of construction work done for 3Q24.

"The reason for this could be that demand to construct residential buildings remains strong in light of ongoing launches by property developers and better progress for many industrial buildings jobs such as warehouses, data centres (DCs) and semiconductor facilities," RHB Research noted.

Meanwhile, with the mass rapid transit three (MRT3) expected to begin construction in 2027, the brokerage firm envisages there are many other opportunities in upcoming projects.

These include the West Ipoh Span Expressway, Penang Airport expansion and the Sarawak deep sea port project,

along with around 766.9 megawatts of information technology supply of DCs committed in Malaysia, which may translate to RM29bil to RM34bil worth of construction jobs.

RHB Research's top picks within the sector include Gamuda Bhd, Kerjaya Prospek Group Bhd and Sunway Construction Group Bhd, amid steady contract flows combined with commendable earnings visibility over the next two years.

However, while the Bursa Malaysia Construction Index is up 50% year-to-date, RHB Research said the sector is not yet ripe for profit-taking as it envisages steadier news flow to come in for the first-half of 2025.

This includes the evaluation of feedback on the MRT3 alignment post-public inspection and the government's decision on the viability of the Kuala Lumpur-Singapore High Speed Rail project.

A potential de-rating may occur if Malaysia is flagged as a launch pad for China's access to high-end chips banned by the United States (a key component for DCs), which could impact the job flows from the DC space.

This is especially if the DC providers have linkages with China.

The brokerage firm said it remains "overweight" on the construction sector.