5 March 2025

Construction & Engineering | Construction

Construction

More Bricks To Lay; Stay OVERWEIGHT

Overweight (Maintained)

Stocks Covered	11
Rating (Buy/Neutral/Sell):	11 / 0 / 0
Last 12m Earnings Revision Trend:	Negative

Top Picks	Target Price
Gamuda (GAM MK) – BUY	MYR5.83
Sunway Construction (SCGB MK) – BUY	MYR5.63
Binastra (BNASTRA MK) – BUY	MYR2.21

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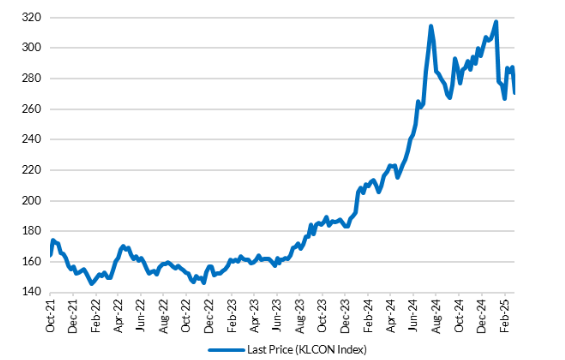
- **Maintain OVERWEIGHT; Top Picks: Gamuda, Sunway Construction and Binastra.** Out of the nine companies under our coverage that reported results, three were in line, three exceeded, and three fell below estimates. All in, we believe that contractors will continue to be occupied with their respective jobs on hand as well as the upcoming ones. In CY24, the total value of work done stood at MYR159bn (+20% YoY) – the highest on record.
- **Data centre (DC) prospects likely to remain intact.** Cushman and Wakefield reported that there is c.822MW of planned DC capacity in Johor. Furthermore, Negeri Sembilan could be an upcoming DC hot spot – with Gamuda acquiring 389 acres of land in Port Dickson (which could potentially accommodate between 500MW and 1GW of DC capacity). Moreover, HSS Engineers (HSS MK, NR) is eyeing for a separate DC project in Negeri Sembilan with a potential size of 100MW. Overall, we view the prominence of DC developers from Tier 1 countries in Malaysia (Figure 5) that are eligible for validated end user status to mitigate risks from the US AI Diffusion Rules.
- **Plenty of projects ahead.** The urgent need to complement the Johor Bahru–Singapore Rapid Transit System (RTS) Link will entail the requirement of other transportation systems, namely the Elevated Autonomous Rapid Transit (EART) in Johor under which a request for proposal for the project will be called soon with an estimated cost of around MYR6-7bn. Likewise, the proposed *Kita Selangor* Rail Line (211km) from Sabak Bernam through Sepang and extend into Negeri Sembilan adds up decently on well flagged projects such as the Penang Light Rail Transit (LRT) (which has c.MYR5bn worth of remaining packages) and reinstatement of the five LRT3 stations.
- **Water related infrastructure** could be an avenue of opportunities with the Selangor Government proposing a MYR6bn underground flood tunnel system. Also, 35 flood mitigation projects are in the pre-implementation sage while 73 are currently underway – under the MYR22.9bn approved Fifth Rolling Plan of the 12th Malaysia Plan.
- **Valuation.** The Bursa Malaysia Construction Index (BMCI) is trading at a forward P/E of 15.2x (vs 19x in late CY24) following jitters from the US AI Diffusion Rule and DeepSeek early this year. In our view, the valuation is unjustified as the BMCI was trading at a P/E of around 15-16x during the 2017 construction upcycle (in the absence of DC prospects which we envisage to remain commendable as mentioned above), coupled with the Works Ministry's projected construction spending of MYR200bn in CY25.
- **Top Picks** include Gamuda, Sunway Construction and Binastra amid steady contract flows combined with commendable earnings visibility over the next two years. Key criteria for the said Top Picks also cover the diversification of job portfolio – renewable energy for Gamuda in Australia and DCs plus sewage treatment plant jobs for Binastra.
- **Key downside risks** to our sector call are an unexpected slowdown in job rollouts, labour shortages and scaled down of DC investments into Malaysia.

Bursa Malaysia Construction Index's performance



Source: Company data, RHB

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Binastra	Buy	2.21	27.1	14.6	5.2	41.8	1.9
Econpile Holdings	Buy	0.49	58.4	53.3	1.3	2.4	-
Gabungan AQRS	Buy	0.40	109.1	3.5	0.2	5.4	5.3
Gamuda	Buy	5.83	42.2	18.9	1.9	10.3	2.4
IJM Corp	Buy	3.97	99.4	13.4	0.7	4.9	4.0
Kerjaya Prospek	Buy	2.67	27.7	13.9	2.3	16.7	5.7
KKB Engineering	Buy	1.91	33.3	13.0	1.0	7.5	3.8
Malaysian Resources Corp	Buy	0.76	83.3	24.8	0.4	1.6	2.4
MGB	Buy	1.15	76.2	6.0	0.6	10.1	3.3
Pintaras Jaya	Buy	2.00	37.2	11.0	0.6	5.7	4.5
Sunway Construction	Buy	5.63	37.8	20.8	5.4	27.3	2.9

Source: Company data, RHB

4Q24 Results At a Glance

Overall, the construction sector delivered FY24 results that were in line with estimates. 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. Out of the nine companies under our coverage that reported results, three were in line, three exceeded and three fell below expectations. Companies that underperformed were Gabungan AQRS (AQRS MK, BUY, TP: MYR0.40), Econpile (ECON MK, BUY, TP: MYR0.49) and Malaysian Resources Corp (MRC MK, BUY, TP: MYR0.76). On the other hand, the quarterly performance of Sunway Construction (SCGB MK, BUY, TP: MYR5.63), Pintaras Jaya (PINT MK, BUY, TP: MYR2.00) and KKB Engineering (KKB MK, BUY, TP: MYR1.91) exceeded expectations. Kerjaya Prospek (KPG MK, BUY, TP: MYR2.67), MGB (MLG MK, BUY, TP: MYR1.15), IJM Corp (IJM MK, BUY, TP: MYR3.97) met expectations.

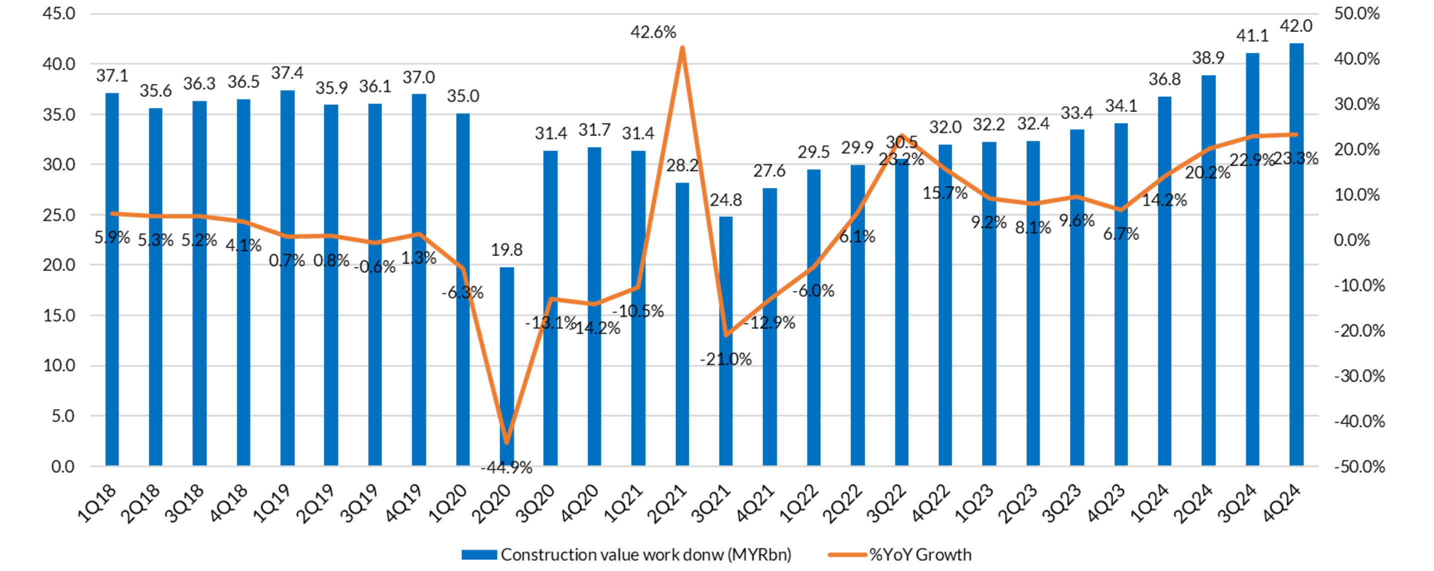
Separately, Gamuda (GAM MK, BUY, TP: MYR5.83) which reported its 1QFY25 (Jul) earnings in Dec 2024, chalked numbers that were in line with expectations. Core profit in 1QFY25 was at MYR200m (+6.5% YoY) and we expect stronger quarters ahead, backed by its robust orderbook of c.MYR37bn.

Figure 1: Quarterly performance vs estimates (RHB universe)

Stocks	Results review (released for Dec 2024 quarter)	Remarks	Results period	FYE
MGB	In Line	FY24 core earnings of MYR57m (+21% YoY) were slightly above our earlier MYR56m estimate but below Street, which projected a MYR59m profit. We expect MGB to continue charting a solid earnings growth of 11% in FY25, backed by higher progress billings of its property sales projects – especially the Rumah Selangorku Idaman projects, which spread over a total GDV of c.MYR1.1bn and c.3.8k units.	4Q24	Dec
IJM Corp	In Line	IJM Corp's 9MFY25 (Mar) core earnings of MYR351m (+17% YoY) met our but missed Street estimates – making up 70% and 67% of full-year projections. We deem the results to be in line as we expect a stronger 4QFY25 backed by solid construction progress from ongoing jobs.	3QFY25	Mar
Kerjaya Prospek	In Line	Kerjaya Prospek's FY24 core profit of MYR160m (+23% YoY) was in line with expectations, at 99% of our full-year projection, but missed Street at 95%. We forecast a 3-year (FY24-27) earnings CAGR of 11%, backed by steady job flows from Penang and the Klang Valley, coupled with stronger property development contribution. KPG declared an interim dividend of 3 sen, bringing the cumulative FY24 payout to 15 sen.	4Q24	Dec
Gamuda	In Line	1QFY25 (Jul) construction PAT of MYR141.5m (+21% YoY) came from higher earnings contribution from overseas projects – especially Australia – and some domestic projects. While the net margin of the construction arm was lower at 4.6% in 1QFY25 (1QFY24: 5.2%), this was higher than 4QFY24's net margin of 4% due to higher mix of domestic earnings at 49% in 1QFY25 vs 38% in 4QFY24. Higher contribution of upcoming higher margin local jobs should improve construction margins in the coming quarters.	1QFY25	Jul
Sunway Construction	Exceeded	FY24 core earnings of MYR171m (+13% YoY) exceeded our estimates, making up 105% of our projections but were considered in line with Street at 101%. The positive deviation was mainly due to faster-than-expected progress for Sunway Construction's DC projects. For FY25, we envisage stronger earnings growth of 48%, given many more DC jobs entering their work intensive phases.	4Q24	Dec
KKB Engineering	Exceeded	KKB Engineering's FY24 core earnings of MYR26.2m (-1% YoY) exceeded our estimates, making up 120% of our full-year projections. The positive deviation is backed by higher-than-expected progress billings for its projects.	4Q24	Dec
Pintaras Jaya	Exceeded	Pintaras Jaya's 1HFY25 (Jun) core earnings of MYR15.3m (>+100% YoY) significantly exceeded Street estimates – making up >100% of full-year projections. The positive deviation came from better-than-expected margins as legacy projects have been completed.	2QFY25	Jun
Gabungan AQRS	Below	Gabungan AQRS' 1HFY25 (Jun) core profit of MYR6.9m (-50% YoY) missed our estimates – accounting for 22% and 36% for our and Street projections. The negative deviation was due to the weaker-than-expected property division and higher-than-expected cost of sales.	2QFY25	Jun
Econpile	Below	1HFY25 (Jun) core net profit of MYR2.2m missed estimates – making up only 38% and 13% of our and Street full-year projections. The negative deviation came from our initial revenue and margin assumptions being too optimistic.	2QFY25	Jun
Malaysian Resources Corp	Below	FY24 core earnings of MY63m (>100% YoY) made up 81% of our and Street full-year estimates. The negative deviation came from the weaker-than-expected property segment.	4Q24	Dec

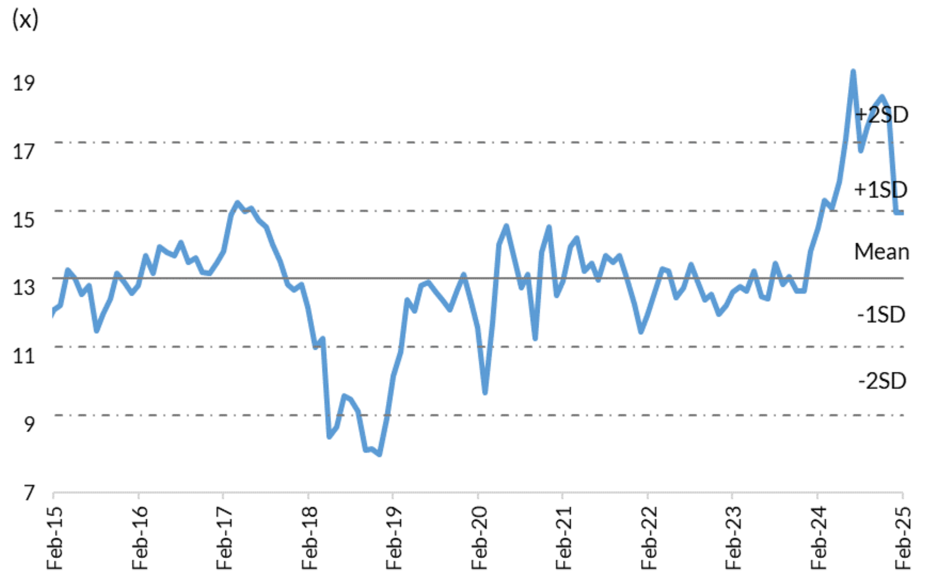
Source: Company data, RHB

Figure 2: Quarterly construction work done (MYRbn)



Source: Department of Statistics Malaysia (DOSM)

Figure 3: Bursa Malaysia Construction Index's 10-year P/E band



Source: Bloomberg

Figure 4: Construction projects already/expected in the pipeline (not comprehensive, updated as of March)

Projects	Estimated job value (MYRbn)	Latest updates	Announced/potential winners
Reinstatement of five LRT3 stations	2.5bn	LRT3 project (initial stations) had achieved 97% completion, with the commencement of 98.6% the LRT Shah Alam line operations is targeted for 3Q25.	MRC
Kita Selangor Rail Line	n.a.	Will be connecting Kuala Lumpur International Airport (KLIA) to Sungai Pelek in Sepang and Tanjung Sepat in Kuala Langat and is expected to take 10 years to complete once it receives the go-ahead from the Government.	Potential winners: IJM and MRC
Sungai Rasau Water Supply Scheme Stage 1	4.0	Expected to be completed in CY27. Current completion progress is around 30% based on our estimates.	GAM and Taliworks (TWK MK, BUY, TP: MYR0.98)
Sabah-Sarawak Link Road (SSLR)	1.1 (for Phase 1)	Phase 1 of SSLR has reached 40% completion as at Nov 2024 with expected completion by 3Q26. The Phase 2 of SSLR estimated at (c.MYR7.2bn) has been awarded to Maltimur Aktif Unggul JV.	Phase 2 secured by Sunmow Holdings (SUNMOW MK, NR) via a JV with Kemena Holding as a subcontractor for Package 4B (Bukit Pagon to Long Luping)
Pan Borneo Highway Sabah	15.7 (Phase 1B)	There are 19 packages being awarded for Phase 1B of Pan Borneo Highway Sabah.	Azam Jaya (AZAMJAYA MK, NR) has received three contracts for Pan Borneo Highway Sabah Phase 1B in 2024 worth c.MYR1bn in total
Northern Coastal Highway Sarawak	6.1	Connects Limbang, Brunei and Miri with Lawas vis four lanes and is expected to take five years to complete. Construction likely to begin in 2025.	Potential winners could be the same contractors who were involved in Pan Borneo Highway Sarawak Phase 1
East Coast Rail Link	50.3^	Linewide progress stood at 78.5% as at February. The line from Kota Bharu, Kelantan to Gombak is set to be completed in late 2026, while the line from Gombak to Port Klang is expected to be completed by late 2027.	Remaining portions to be secured by contractors could be for the southern portion which connects to Port Klang. Potential beneficiaries include IJM
Penang Light Rail Transit Mutiara Line	c.13	Approved by the Federal Government in March and comprises three segments – Silicon Island to Komtar (Segment 1), Komtar to Penang Sentral (Segment 2) and rolling stocks and systems package (Segment 3).	GAM has secured a package for Segment 1 while IJM, MRC and SCGB are likely eyeing Segment 2
Upper Padas Hydroelectric Dam	2.3	187.5 MW hydroelectric plan developed under a 45:40:15 partnership between GAM, Sabah Energy Corporation and Kerjaya Kagum Hitech JV.	GAM to undertake majority of construction works
Johor Bahru Light Rail Transit	16-20	Johor Government has identified three lines for the LRT that stretches 30km Tebrau line, Skudai line and Iskandar Puteri line, which will stretch until the Senai International Airport in Kulai. The project is subject to whether or not the LRT or ART is implemented in Johor.	Potential winners: SCGB, Kimlun (KICB MK, NR), MGB
Johor Bahru Autonomous Rapid Transit	6-7	Johor Government is opting to build an autonomous rapid transit (ART) system. Additionally, the Johor ART would have a shorter construction timeline (of compared to the JB LRT – enabling ART services to coincide with commencement of the Johor Bahru-Singapore Rapid Transit System (RTS) Link in 2027.	Potential winners: SCGB, and KICB
Sungai Klang Link elevated highway	8-10	Award of contracts should take place in 1H25.	Various contractors such as Econpile (ECON MK, BUY, TP: MYR0.69) and MTD Construction have inked MoUs with the Sungai Klang Link for the development of the project
Juru-Sungai Dua elevated highway	1.8	PLUS Malaysia presented the proposal to the Public-Private Partnership Unit (of the Prime Minister's Department) in February. Once confirmed, the next step would involve seeking Cabinet approval.	Pintaras Jaya
Kuala Lumpur-Singapore High Speed Rail (HSR)	60-100	Decision on the feasibility of the HSR mega project is expected to be announced in 1QCY25.	Potential winners: IJM (via consortium with Berjaya Rail and Keretapi Tanah Melayu Berhad)
Mass Rapid Transit 3	34.3^	The public inspection exercise, which started on 2 Sep 2024 and ended on 2 Dec 2024, was for the public to give their feedback. Such feedback will be taken into consideration prior to finalising any contract awards.	Potential winners: SCGB, IJM, GAM, TRC Synergy (TRC MK, NR)

*Note: *Project value reduced post revision*
Note 2: ^Civil works
Source: Various media, Company data, RHB

Figure 5: DC providers in Malaysia aside from Google, Microsoft and Amazon Web Services (list not exhaustive)

DC Provider	Headquartered In	Country Tier (in respect to headquarters)	Live/launched capacity	Upcoming Planned Capacity
Yondr Group	Netherlands	Tier 1	n.a.	300MW
AirTrunk	Australia	Tier 1	50MW	100MW
EdgeConneX	US	Tier 1	n.a	Close to 300MW
NTT Global Data Centres	Japan	Tier 1	22MW	290MW
Equinix	US	Tier 1	n.a.	n.a.
NextDC	Australia	Tier 1	0MW	65MW
Vantage DC	US	Tier 1	31MW	256MW
Stack Infrastructure	US	Tier 1	0MW	220MW
K2 DC	Singapore	Tier 2	n.a	Up to 300MW
Princeton Digital Group (PDG)	Singapore	Tier 2	0MW	150MW
STT GDC JV	Singapore	Tier 2	20MW (in JV with Basis Bay	120MW
Bridge DC (BDC)	China	Tier 3	16MW	135MW + 100MW (via partnership with Mah Sing)
GDS Holdings	China	Tier 3	69.5MW	168MW (co-developed with YTL Power)

Source: RHB, Various sources

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