

Higher project rollout to lift performance



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PETALING JAYA: Analysts remain positive on the construction sector, with expectations that there will be higher job rollouts and improving billings in the months ahead, backed by an ample labour force.

Construction companies' second-quarter (2Q23) financial performance came in below expectations, despite the value of construction work rising by some 8.1% year-on-year (y-o-y) to RM32.4bil.

RHB Research foresees the ample supply of labour, combined with lower material cost pressures, will allow contractors to ramp up the progress of their projects, as well as be ready to accept new jobs that could boost earnings visibility.

"We remain upbeat on the sector, premised on the lifting of the political overhang post-state elections. Moving forward, the government may now be able to focus its efforts to rollout big-ticket infrastructure projects, in addition to implementing institutional reforms.

"We do not discount the possibility of any of the infrastructure projects making a debut in 4Q23 at the earliest," the research house stated in a report.

It added that the 2Q23 under performance of sector companies under its coverage was mainly due to earlier billings progress assumptions being too optimistic, despite revenue growth being prevalent among most contractors.

"We believe the adequate supply of labour should result in higher revenue recognition of projects, as they move along the S curve in the coming quarters," RHB Research added.

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"The sector's earnings should improve in the second half of 2023 (2H23) as work progress gathers momentum."

The research house said job flow should pick up in 2H23, underpinned by the rollout of Mass Rapid Transit 3 (MRT3), Penang Light Rail Transit (LRT), various flood mitigation projects (worth RM13bil) and other public infrastructure projects that were earmarked for implementation under Budget 2023.

Other catalysts include private-sector building jobs, particularly for new semiconductor foundries and data centres, it said.


Investors' interest in the near term in the sector could be driven by the tabling of the 12th Malaysia Plan mid-term review (12MP MTR) on Sept 11 that had initially outlined RM400bil worth of development expenditure for 2021-2025.

RHB Research is hopeful of key infrastructure projects being mentioned in the 12MP MTR, such as the RM9.5bil Penang LRT project, the RM45bil MRT3, Johor Baru-Singapore Rapid Transit System Link and the Pan Borneo Highway project.

The reinstatement of previously omitted stations for LRT3 worth some RM1bil would be a bonus, it added.

From an investment angle, it remains "overweight" on the sector but advocates investors to be selective on counters that have credentials in local public infrastructure projects and exposure either to overseas markets or private industrial jobs.

The research house also said investors should look for companies that have healthy balance sheets (having net cash or manageable net gearing positions).

Names that meet such criteria include [Gamuda Bhd](#) , [Sunway Construction Group Bhd](#)  (SunCon) and [Kerjaya Prospek Group Bhd](#) .

RHB Research noted that Gamuda (target price (TP) RM5.27) has a sizeable presence overseas, particularly Australia, which accounts for over 60% of its outstanding order book.

The company also may clinch the MRT3 systems package, as well as the project's tunnelling civil works package.

Kerjaya Prospek (TP RM1.50) and SunCon (TP RM2.22) meanwhile continue to strengthen their presence in industrial building jobs while SunCon has a RM20bil tender book, in addition to the steady flow of internal jobs to depend on from its parent which contribute 30% to 40% of the group's construction order book.

Kenanga Research's top picks for the sector also are Gamuda (TP RM5.15) and SunCon (TP RM2.12), on expectations of a stronger 2H23 performance as work progress gathers momentum and contract wins from mega projects on the table.