

## Strong spillover effects in 2Q from mega infra projects

**KUALA LUMPUR:** The positive outlook and overweight ratings on the construction sector following the rollout of infrastructure projects nationwide continued to lift market sentiment.

As we enter the second quarter of 2024 (2Q24), Budget 2024's RM90 billion development expenditure allocation to fund projects should drive contract flows this year.

The projects include the Penang LRT, Pan Borneo Sabah Phase 1, MRT3, large-scale flood mitigation projects, Sabah-Sarawak Link Road, Kuching Urban Transportation System-Green Line and water-related projects. Contract awards are expected to be forthcoming in the first half of this year.

Research houses RHB Investment Bank Bhd, Kenanga Research, Hong Leong Investment Bank (HLIB) and Rakuten Trade Sdn Bhd are broadly optimistic about the industry.

There are also plans to reinstate five more LRT3 stations in the Klang Valley. As for MRT3, the government is acquiring land with notifications of the identified land expected to kick in 2Q24, finalised in the third quarter, and awards handed out



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starting 4Q24.

Still along the public transportation vein, the Johor government will submit its proposal in late November 2024 to the Federal Government for Johor Bahru LRT to have three lines.

While there is much focus on the rail lines, some contractors are also hoping to strike gold in renewable energy-related

initiatives such as the Corporate Green Power Programme.

Johor is also being touted as the fastest-growing data centre market in Southeast Asia. With all these goodies being coming out, HLIB said they should drive contract flows this year.

**RM70 billion budget allocation**  
Meanwhile, Master Builders

Association Malaysia (MBAM) president Oliver HC Wee told Bernama that the budget allocation for the construction industry in 2024 is over RM70 billion.

Based on trends from previous years, MBAM expects this to add up to about RM100 billion inclusive of the private sector with private contracts comprising mainly warehouses, data centres and factories manufacturing semi-conductors.

"On the outlook, we have to remain neutral. Costs are rising and there are many uncertainties even as the government improves policies at the macro level to bring down costs.

"At the same time, it is important to leverage innovations and technologies with industry stakeholders willing to move together towards digitalisation," he added.

Although the industry is heading in the right direction, companies need to undertake changes, Wee said.

"Fairer form of contracts should be in place as we seek better ways to conduct business.

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## 'Variation of price provisions in a contract will allow for fairer risk and rewards'

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"We believe a variation of price (escalation) provisions in a contract will allow for fairer risk and rewards between contracting parties against fluctuating building material price backdrop. This will subsequently reduce the number of projects being abandoned," he noted.

### Industry players overview

Industry players are bullish. Kerjaya Prospek Group Bhd is optimistic about the construction industry's growth post-Covid-19 despite various challenges including rising raw materials prices. Its FY23 core profit leapt 20 per cent on higher construction and property billings.

Chairman Datuk Tee Eng Ho said projects could progress faster as the situation improves with labour shortage no longer a concern.

Tee also announced the company's plans to pursue new opportunities with Samsung C&T Corporation via a consortium, Samsung-KP JV, focusing on factory construction in Malaysia and opportunities in Penang's Andaman Island project,

estimated to be worth about RM2 billion.

As for Varia Bhd, formerly Stella Holdings Bhd, its managing director Datuk Benson Lau is optimistic about sectoral growth.

The biggest winners are the Klang Valley LRT's five new stations worth RM4.7 billion, the RM11.8 billion nationwide flood mitigation programme, and Penang's RM10 billion LRT initiative, he told Bernama.

"The demand for commercial and residential buildings is rising as infrastructure projects and private investment increase. This positive momentum aligns with Varia's growth prospects, positioning the company favourably for upcoming opportunities," Lau said.

Varia, which previously signed a memorandum of understanding with Sungai Klang Link Sdn Bhd to embark on the Sg Klang Link elevated highway project, said it is currently in the early stages of planning and development.

"We are open to exploring opportunities to contribute to our growth trajectory. Our tender book currently stands at RM1.5 billion," Lau added.

Varia also received a contract

from Kator Construction Sdn Bhd to undertake the Klang River flood mitigation project in Seksyen 25, Shah Alam which kicked off on Feb 1, 2024 and timeline extended to Jan 31, 2029.

### 1Q24 performance

The first three months saw solid performance with the construction index on Bursa Malaysia at 193.83 on Jan 2, 2024. It expanded above the 200 level between January and March and stood at 223.17 on March 29, 2024.

Malaysia aims to transform its economic landscape via infrastructure projects and digitalisation, which have lifted infrastructure-related counters on Bursa Malaysia Bhd since the second half of 2023.

Rakuten Trade Sdn Bhd equity research vice-president Thong Pak Leng told Bernama that construction stocks saw a 13.5 per cent year-to-date gain.

"In the past 12 months, the construction index surged 37 per cent. We expect the sector to be one of the best performers in 2024," he said.

**New contract wins to improve companies' earnings**

Kenanga Research said companies' earnings should improve as work progress gathers momentum amid higher contract wins.

There should be a significant improvement in the sector's earnings delivery versus 4Q23 expectations, it said.

Here are some numbers to chew on. Gamuda Bhd's 1QFY24 core profit jumped 35 per cent on higher construction billings from Sydney Metro West and maiden earnings from DT Infrastructure Pty Ltd. As for new job wins, Gamuda is leading with RM25 billion in 24 months.

As for new job wins, Gamuda is leading with RM25 billion over 24 months and IJM Corp's RM3.62 billion year-to-date FY24 have already exceeded its RM3 billion projection.

Sunway Construction raised its guidance on new job wins in FY24 to RM3 billion, the same level as WCT Holdings Bhd.

Kerjaya Prospek Group Bhd has secured RM377.9 million year-to-date job wins and Kimlun Corp Bhd has bagged year-to-date RM133.6 million. — Bernama