

Malaysia's construction sector could get caught in US-China chip war crossfire



RHB Investment Bank Bhd (RHB Research) said this could impact the job flows from the DC space, especially if the data centre providers have linkages with China. Credit pic: Pexels

KUALA LUMPUR: The construction sector could get caught in the US-China chip war crossfire if Malaysia is flagged as a launch pad for China's access to high-end chips banned by the US, a key component for data centres.

RHB Investment Bank Bhd (RHB Research) said this could impact the job flows from the DC space, especially if the data centre providers have linkages with China.

"Notwithstanding this, key data centre contractors, namely Gamuda Bhd and Sunway Construction Group Bhd, have international multinational companies (MNCs) as their clients which have invested more than RM30 billion in total to set up DCs and a cloud region in Malaysia."

"The entry of other data centre providers such as EdgeConneX and Vantage into Malaysia with plans to construct up to 200MW of data centre capacity or more may spell a steady flow of job opportunities for contractors."

"Therefore, we foresee minimal job flow risks for such contractors in the data centre space," it said in a note today.

The research firm observed that the increase in construction revenue from progress billings among most contractors in the third quarter of 2024 (3Q24) aligns with the higher value of construction work completed during the period.

This grew by 23 per cent year-on-year (YoY) and 5.6 per cent quarter-on-quarter (QoQ) to RM41 billion, setting a new record high following the previous quarter.

"Among the important construction subsectors, the value of work done for civil engineering recorded 12 per cent YoY growth in the second quarter of 2024 (2Q24) to reach RM15.2 billion, the highest since the first quarter of 2020.

"We think this is attributable to the ongoing infrastructure projects expected to be fully completed within the next 1-3 years, ie the Light Rail Transit (LRT) 3, Johor Bahru-Singapore Rapid Transit Link and East Coast Rail Link," it added.

Residential and non-residential buildings saw a YoY growth of 28 per cent each in construction work completed during the third quarter of 2024.

RHB Research said this growth may be attributed to strong demand for residential construction driven by ongoing property launches, as well as improved progress on industrial projects such as warehouses, data centers, and semiconductor facilities.

The research firm reiterated its 'Overweight' rating on the sector, naming Gamuda, Sunway Construction, and Kerjaya Prospek Group Bhd as its top picks.

"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 a lean balance sheet (net cash or manageable net gearing positions)."

"Such attributes are crucial to weather any downside risks that may arise in the form of unexpected labour shortages, a slow rollout of public infrastructure projects in Malaysia, and increased volatility in building material costs," it added.