

Construction stocks rally still has legs with continued contracts flow - analyst

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KUALA LUMPUR: A rally in the Bursa Malaysia Construction Index (BMCI), which has risen more than 30 per cent year-to-date (YTD), is likely to continue with more contract flows.

The index is made up of 48 construction stocks and had a market capitalisation of RM48.96 billion as at May 31, 2024.

RHB Investment Bank Bhd (RHB Research) said it still think that the sector is not yet ripe for profit-taking.

"This is as we envisage steadier news flow (in addition to the water infrastructure and industrial prospects) to come in between now and 1H25."

"These include the evaluation of feedback on MRT3 alignment post public inspection and the government's decision on the viability of the Kuala Lumpur-Singapore High Speed Rail by the end of 2024," RHB Research added.

The firm noted that YTD contract flows for the government have already exceeded those of last year. Government projects awarded in the first nine months of 2024 were valued at RM41 billion, surpassing 2023's RM36.7 billion.

"That said, we reiterate that other job opportunities, particularly in industrial segments, should remain robust," it said in a note today.

RHB Research has maintained an "Overweight" rating on the construction sector, with its top picks being Gamuda Bhd, Sunway Construction Group Bhd, and Kerjaya Prospek Group Bhd.

The firm also believes that water-related infrastructure could present additional opportunities for contractors.

Projects include the Sungai Damansara flood mitigation initiative and the RM4 billion allocated for water management in Perak, which involves supplying treated water to Penang.

RHB Research also highlighted strong support from the industrial sub-sector, with the number of industrial properties under construction rising to 621 in the first half of 2024 (1H24) compared to 397 in 1H23.

This not only surpasses the totals for 2022 and 2023 but is also more than half of what was built between 2017 and 2021.

It also noted that the value of contracts awarded to the non-residential sub-sector, reached MYR109 billion in the first nine months of 2024 (9M24), surpassing the full-year 2023 total of RM83.5 billion.

Going forward, the firm said key risks for the construction sector includes delay in project rollouts, unexpected spike in building material costs and unforeseen hurdles in hiring foreign workers.