KERJAYA PROSPEK

The Star

Strong spillover effects in 2Q from big projects

KUALA LUMPUR: The positive outlook and "overweight" rating on the construction sector following the rollout of infrastructure projects nationwide continues to lift market sentiment.

As the second quarter of 2024 (2Q24) approaches, Budget 2024's RM90bil development expenditure allocation to fund projects should drive contract flows this year.

The projects include the Penang light rail transit (LRT), Pan Borneo Sabah Phase One, mass rapid transit three (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) Research 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 starting 4Q24.

Still along the public transportation vein, the Johor government will submit its proposal in late November 2024 to the federal government for the Johor Baru 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 South-East Asia. With all these goodies being coming out, HLIB Research said they should drive contract flows this year.

Meanwhile, Master Builders Association Malaysia (MBAM) president Oliver H. C. Wee told *Bernama* that the budget allocation for the construction industry in 2024 is over RM70bil.

Based on trends from previous years, MBAM expects this to add up to about RM100bil inclusive of the private sector with private contracts comprising mainly warehouses, data centres and factories manufacturing semiconductors.

"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.

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

Kerjaya Prospek Group Bhd is optimistic about the construction industry's growth post-Covid-19 despite various challenges including rising raw materials prices. Its financial year 2023 (FY23) core profit leapt 20% 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 Corp 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 RM2bil.

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 RM4.7bil, the RM11.8bil nationwide flood mitigation programme, and Penang's RM10bil LRT initiative, he said.

"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 RM1.5bil," Lau added.

Meanwhile, 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 since the second half of 2023.

Rakuten Trade Sdn Bhd equity research vice-president Thong Pak Leng said that construction stocks saw a 13.5% year-to-date gain.