

## Steady progress billings to continue for contractors

**PETALING JAYA:** Construction companies will continue booking-in better progress billings with the anticipated rollout of certain infrastructure projects.

RHB Research said while it is overweight on the construction sector, it advocates investors to be selective on counters that have credentials in local public infrastructure projects and still having decent exposure in overseas markets or private industrial jobs.

Another factor to take into consideration is lean balance sheets.

“Such attributes are crucial to weather any downside risks that may arise from unexpected labour shortages, a slow rollout of public infrastructure projects and prolonged rise in building materials costs,” the research firm said in a report.

Overall, it said the construction sector delivered results that were within expectations in the fourth quarter of 2023 (4Q23).

“Out of the 10 companies under our coverage that reported results, four were in line, two exceeded expectations and four fell below estimates. The latter group were

mostly earthworks and piling players that are still impacted by cost overruns.”

The research house said the economic output of the construction sector grew 6.1% year-on-year in 2023. Likewise, the total value of construction works done in 4Q23 grew by 6.7% to reach RM34.1bil – the highest in 15 quarters.

With that, the total value of construction works done in 2023 stood at RM132bil, which is the highest in four years.

The infrastructure projects expected to make a debut in the coming months include the Penang Light Rail Transit (LRT) where the finalisation of details is likely to be known during the first parliamentary meeting ending March.

Others are the RM11.8bil nationwide flood mitigation projects under Budget 2024 and the reinstatement of the five LRT3 stations.

The Mass Rapid Transit 3 (MRT3) is envisaged to be rolled out after 4Q24 as MRT Corp is only likely to finalise the land acquisitions in 3Q24.

On sector valuation, it said the Bursa Malaysia Construction Index (BMCI) is

trading at 14.2 times price-earnings (PE), which is slightly above its 10-year mean of 12.7 times.

For context, the index traded near 16 times PE in 2017 during the construction upcycle. During that period most contractors saw upticks in job wins.

“With commendable catalysts in store for the sector, we believe the current valuations of the index still have some room to exhibit an uptrend.

“The presence of sizeable industrial jobs such as data centres (which were absent back in 2017) may possibly push the BMCI even higher than before,” RHB Research added.

Its top picks are Gamuda Bhd, Kerjaya Prospek Group Bhd and Sunway Construction Group Bhd (SunCon).

It said Gamuda has a sizeable presence overseas while still retaining domestic relevance.

As for Kerjaya Prospek and SunCon, the companies not only have steady pipelines from related-party transactions with their parent firms but also have ongoing involvement in industrial jobs.