Building **strong** through the storm

DESPITE recent market volatility and headwinds, optimism remains that the country construction sector is poised for steady growth over the medium term, underpinned by a strong pipeline of data centre (DC) and infrastructure projects.

As such, analysts remain largely positive about construction stocks, expecting sustained earnings growth and potential re-rating opportunities as project rollouts gain momentum.

Acknowledging that January has been a month of market volatility, Kenanga Research notes that the Biden administration's proposed artificial intelligence (AI) chip restrictions and the disruptive impact of Chinese firm DeepSeek's large language model have led to a significant sell-off in construction stocks.

For instance, the research house points out that Sunway Construction Group Bhd (SunCon) saw its share price drop by as much as 29% before closing with a 13.6% year-to-date (ytd) decline last Friday (Feb 7), while Gamuda Bhd's share price fell as much as 15% before narrowing losses to 3.8% ytd over the same period.

IJM Corp Bhd's share price, on the other hand, tumbled 19.1% ytd last Friday, close to its peak decline of 22% in the past month.

Sustainable job flows

Despite this, Kenanga Research maintains an "overweight" stance on the construction sector, citing strong DC job prospects.

"Demand for DC is unlikely to slow down.

"Despite AI diffusion, major technology giants including Microsoft, Google, Amazon and Meta, have reaffirmed their commitment to AI investments in 2025 as reflected in their latest earnings reports," it explains.

"Microsoft has earmarked US$80bil for AI investments in its current fiscal year, reinforcing its leadership in AI and cloud services," it says, noting that Google, Amazon and Meta have similarly announced aggressive capital expenditures (capex) towards AI, further supporting the belief that DC investments will continue to expand.

Kenanga Research highlights that Malaysia's status as a Tier-2 country for AI chip deployment could, paradoxically, accelerate DC developments.

"The 7% cap on AI chip deployment in Tier-2 countries like Malaysia may intensify competition among hyperscalers including universally validated end-users, who are widely expected to include companies such as Google, Microsoft and Amazon, to accelerate their expansion in Malaysia more quickly," the research house argues.

On the prospects of major builders, it remains confident that the pipeline for DC projects remains robust.

"Our channel checks with builders indicate that there is no slowdown in ongoing DC projects.

"In fact, Gamuda and SunCon have shared that they are in the final stages of securing new DC contracts," it says.

While SunCon is more heavily exposed to DC projects, Gamuda and IJM maintain a more diversified portfolio, ensuring resilience against potential volatility in DC investments.

Kenanga Research is of the view that large-cap builder valua-

tions remain reasonable.

"Following the recent sell-off, Gamuda's earnings multiplier has contracted by three multipliers to 17 times, SunCon's fell six multipliers to 18 times and IJM's declined five multipliers to 15 times," it notes.

The research house maintains its assumption for new DC contract wins over the next two financial years for Gamuda, SunCon and IJM at RM3bil, RM2bil and RM1bil, respectively.

Actual 2024 contract awards reached RM219.8bil sector-wide, it notes, citing the Construction Industry Development Board.

Kenanga Research maintains its projection of RM180bil in annual contract awards for 2024 to 2026.

Solid investments

Similarly, RHB Research also maintains an "overweight" stance on the sector, with top picks including Gamuda, Kerjaya Prospek Group Bhd and SunCon.

Addressing concerns that DeepSeek's cost-effective AI model could reduce demand for DCs, RHB Research argues that it could, in fact, boost the sector.

"AI training gains are likely to produce a 30% increase in efficiency, but does not translate into a circa 30% reduction of chips or DCs. Instead, it means that the AI model gets 30% more power."

The research house points to Jevons paradox, stating, "When technological progress makes using a resource more efficient, overall consumption of that resource tends to increase."

If AI models become cheaper and more efficient, their adoption

could accelerate, driving higher demand for DCs.

RHB Research highlights that hyperscalers such as Meta and Microsoft have reaffirmed their plans to invest heavily in AI hardware in DCs.

"Both Microsoft and Meta defended their US$80bil and US$65bil AI-related investments for the current fiscal year, saying it is crucial to remain strategically competitive in AI over time."

In terms of Malaysia's attractiveness for DC investments, RHB Research notes that the country remains a magnet due to its cost competitiveness in land, labour and electricity, as well as its proximity to Singapore.

"As AI-enabled services may increase in the long run amid better affordability and efficiency, demand for underlying infrastructure is expected to grow in tandem," it explains.

Nevertheless, RHB Research acknowledges the lingering uncertainty with US President Donald Trump having a 120-day window to comment on AI chip restrictions.

"Any major adverse impact may warrant a change in valuation multiples for key DC contractors later on," it notes.

A re-rating catalyst could be the potential for US chipmakers and policymakers to overturn or soften the restrictions.

Healthy growth

Fresh data from the Statistics Department confirms that the construction sector remains on a strong growth trajectory, with the value of construction work done in Malaysia in 2024 growing

20.2% to RM158.8bil.

In the fourth quarter of 2024, the sector grew 23.1% year-on-year to RM42bil, marking the eleventh consecutive quarter of expansion, led by a surge in residential construction and special trade activities.

MIDF Research also sees continued strength in the sector.

"Overall, Malaysia's construction sector recorded a solid performance for 2024," it remarks, attributing this to post-pandemic recovery and a robust pipeline of projects.

It further highlights that labour demand is improving, with job vacancies declining at a slower rate in early 2025.

"Looking ahead, we are positive about the construction sector outlook, supported by a robust pipeline of DC and infrastructure projects," it adds.

Meanwhile, as investors digest the recent turbulence in the AI and DC landscape, Maybank Investment Bank Research sees some easing of concerns.

"Sharp increase in AI/DC capex by US hyperscalers helps to reduce concerns of less compute demand post DeepSeek breakthroughs," it notes.

The research house suggests that DeepSeek's algorithmic efficiencies could lower costs and, in turn, accelerate AI adoption, ultimately driving inferencing demand and higher memory needs.

Overall, Malaysia's competitive advantages, coupled with sustained capex spending from tech giants, continue to position the country as a key player in the region's construction and DC boom.

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