

Strong second half forecast for builders

More public-sector infrastructure jobs set to roll out

CONSTRUCTION

PETALING JAYA: The construction sector will continue its upcycle into the second half of this year, supported by both public infrastructure and private sector developments, analysts say.

After a lacklustre start to the year, sentiment in the construction sector rebounded strongly in the second quarter, said Kenanga Research.

Although the timeline for the mass rapid transit three or MRT3 project in the Klang Valley remains uncertain, several key projects are progressing, including packages two and three for the Penang light rail transit (LRT) project's Mutiara Line and the Penang Airport expansion.

Others include the second phase of the Pan Borneo Highway, Sabah-Sarawak Link Road, the Subang Airport redevelopment plan and the Johor transit project.

It said the high-profile KL-Singapore high-speed rail project remains a medium-term catalyst.

Beyond data centres, industrial developments such as semiconductor foundries could support further private-sector growth.

The research house maintains its assumption of average annual contract awards at RM180bil for 2024 to 2026.

As of end-May 2025, RM75.5bil in main contractor construction contracts had already been awarded, compared with RM226.5bil in total awards for last year, the research house said, citing the Construction Industry Development Board.

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Kenanga Research

The research house retained its “overweight” call on the sector.

It said all stocks under its coverage were rated “outperform”, except Sunway Construction Group Bhd, for which it has a “market perform” call and a target price of RM5.94 a share.

Its top picks are Gamuda Bhd and IJM Corp Bhd, as large caps tend to outperform during sector upcycles.

It said it also likes Gamuda for its leadership in the Penang LRT Mutiara Line, its success in securing overseas projects, strong earnings visibility backed by a record RM37bil order book, and its expansion into the renewable energy space.

It also favours IJM for its potential participation in the Penang LRT work due to past project involvement, strong earnings visibility with a RM6.6bil domestic order book and RM1.5bil in new property sales, and Kuantan Port's strategic role in east coast trade flows.

The potential divestment of IJM's toll road assets may improve its balance sheet

and act as a re-rating catalyst.

Among mid-caps, the research house said Kerjaya Prospek Group Bhd, with an “outperform” rating and a target price of RM2.30, offers attractive dividend yields of over 5%.

It said small-cap Kimlun Corp Bhd, with an “outperform” rating and a target price RM1.39, is expected to benefit from upcoming public infrastructure roll-outs.

The listing of Paradigm Real Estate Investment Trust marks a potential re-rating for WCT Holdings Bhd, which has an “outperform” rating and target price of RM1.25.

The research house also expects a neutral impact on builders from the recent change in electricity tariffs, as it involves tariff rebasing while users have already been paying market prices.

The newly introduced Employees Provident Fund contribution for foreign workers was also expected to have an immaterial earnings impact on contractors, estimated at less than 1%, it added.