

THEMATIC REPORT

Authors:

Awaiting Take-Off for Construction Sector

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KEY HIGHLIGHTS

- Advance estimate showed Malaysia's economy grew faster at +3.9%yoy in 1QCY24 (4QCY23: +3.0%yoy), marking the fastest expansion in 4 quarters. Among others, construction output soared +9.8%yoy (4QCY23: +3.6%yoy).
- We forecast Malaysia's GDP growth to accelerate by +4.7% this year (2023: +3.7%). Apart from external trade recovery and resilient domestic demand, we expect the construction sector to contribute positively.
- The development expenditure (DEVEX) allocation of RM97b for Budget 2023 and RM90b for Budget 2024.
- The construction sector is predicted to expand by +5.2%yoy in 2024 and +5.0% for 2025.
- Ever since 2008, more than 50% of Malaysia's construction works carried by private entity. Moving forward, we foresee the public corporation-led works to increase faster amid PPP initiative on upcoming civil engineering projects namely Penang LRT, MRT and potential HSR KL-Singapore project.
- Even before the pandemic-led crisis, the share of the construction workforce to total employment was on a descending trend. However, labor productivity of the construction sector grew faster than overall before the pandemic. We opine the construction sector was on the right track of socio-economic development prior to the pandemic-led crisis as reflected by the solid pace of wage growth and labor productivity.
- The cost pressures the fluctuations in building material prices have eased in 2023.
- With delayed rollout of mega pump-priming projects, the construction sector is still expected to be supported by private sector jobs and previously awarded infrastructure projects such as the Pan Borneo Highway, East Coast Rail Link (ECRL), LRT3, and the RTS Link.
- We reiterate our POSITIVE stance on the Construction sector, backed by a strong pipeline of development and infrastructure projects, on top of rising demand for industrial buildings such as logistics warehouses, data centers, and semiconductor foundries. We expect the rollout of mega projects to be a boon to the sector and contribute to increased job flows within the coming quarters.
- Our preferred names in the sector are still the larger names with great balance sheet strength and overseas presence.
- Our top picks for the sector are Gamuda (BUY, TP: RM5.98) and IJM Corp (BUY, TP: RM2.57). We also like Malayan Cement (BUY, TP: RM5.33).

ECONOMIC COMMENTARY AND ANALYSIS

The construction sector recorded the fastest expansion rate in 1QCY24. Advance estimate showed Malaysia's economy grew faster at +3.9%yoy in 1QCY24 (4QCY23: +3.0%yoy), marking the fastest expansion in 4 quarters. The growth was relatively better than our expectation (+3.7%yoy) despite coming in below +4.1%yoy projected by market consensus. Among others, construction output soared +9.8%yoy (4QCY23: +3.6%yoy), the steepest rise in 6 quarters, with increased activities in civil engineering, specialized construction, and the residential segment. The manufacturing sector rebounded to expand by +1.9%yoy (4QCY23: -0.3%yoy), ending 2-consecutive quarters of contraction. The improvement in the manufacturing sector was aligned with the better external trade performance during the quarter. Meanwhile, services sector growth also picked up to +4.4%yoy (4QCY23: +4.2%yoy) backed by growth in sub-sectors such as wholesale & retail trade, transportation & storage, and business services. Within the primary sector, agriculture sector growth softened to +1.3%yoy (4QCY23: +1.9%yoy) while growth for mining and quarrying accelerated to +4.9%yoy, the fastest in 5 quarters. Sustained expansion of the agriculture sector continued to be underpinned by production of oil palm and livestock, while the

increased production of natural gas boosted growth for the mining and quarrying industry. We view stronger growth as an encouraging development as it indicates improving growth momentum.

2024 GDP growth forecast at +4.7%. With the improving growth momentum and expected recovery in external demand, we forecast Malaysia’s GDP growth to accelerate by +4.7% this year (2023: +3.7%). Apart from external trade recovery and resilient domestic demand, we expect the construction sector to contribute positively amid expansionary fiscal policy and encouraging private investment. The development expenditure (DEVEX) allocation of RM97b for Budget 2023 and RM90b for Budget 2024. The construction sector is predicted to expand by +5.2%yoy in 2024 and +5.0% for 2025, among others attributable to the public infrastructure projects such as KVDT Phase 2, Pan-Borneo Highway, ECRL, LRT3, Penang LRT, and RTS Link. In addition, an increase in residential, and non-residential buildings and facilities will further boost investment spending as well as the construction sector. Meanwhile, the 5G roll-out will boost growth in the civil engineering sub-sector.

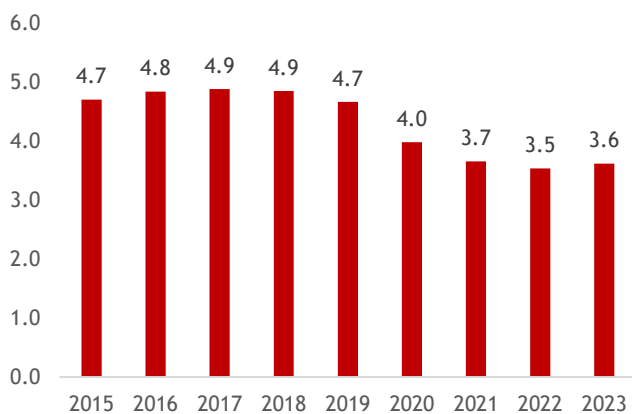
Table 1: Malaysia’s GDP Performance

By Sector	1Q23	2Q23	3Q23	4Q23	1Q24 ^a	1Q23	2Q23	3Q23	4Q23	1Q24 ^a
	QoQ%					YoY%				
GDP	(4.3)	(0.8)	5.2	3.1	(3.4)	5.6	2.9	3.3	3.0	3.9
Agriculture	(9.5)	2.0	19.9	(7.9)	(10.1)	1.0	(1.0)	0.9	1.9	1.3
Mining & Quarrying	(2.5)	(6.3)	(0.1)	13.7	(1.5)	2.4	(2.3)	(0.1)	3.8	4.9
Manufacturing	(5.8)	(0.9)	3.5	3.2	(3.7)	3.2	0.1	(0.1)	(0.3)	1.9
Construction	0.1	(1.1)	6.4	(1.8)	6.2	7.4	6.2	7.2	3.6	9.8
Services	(3.5)	(0.5)	4.9	3.5	(3.3)	7.3	4.7	5.0	4.2	4.4

Source: DOSM, MIDFR
a-Advance Estimates

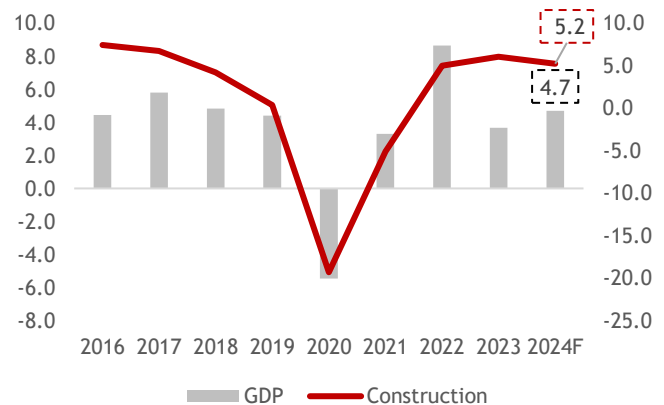
Contribution to GDP less than 4.0% in post-pandemic. Pandemic-led crisis 2020 had caused deterioration of Malaysia’s construction sector. The share of GDP was hovering above 4.5% before 2020. However, we foresee the contribution rate rebound above 4.0% in 2024. In fact, the advanced estimate of 1QCY24 GDP showed the construction contribution rate registered 3.9%, the highest since 2QCY21. By structure, Special Trades is gaining market share in the sector, hitting the record high of 27.4% of total construction works in 2023. Special Trades among others referring to demolition, site preparation services, installation services and building & completion finishing. Other components such as Residential (20.1% of construction works), Non-Residential (23.1%) and Civil Engineering (29.5%) remain significant in the sector.

Chart 1: Construction Sector (% of GDP)



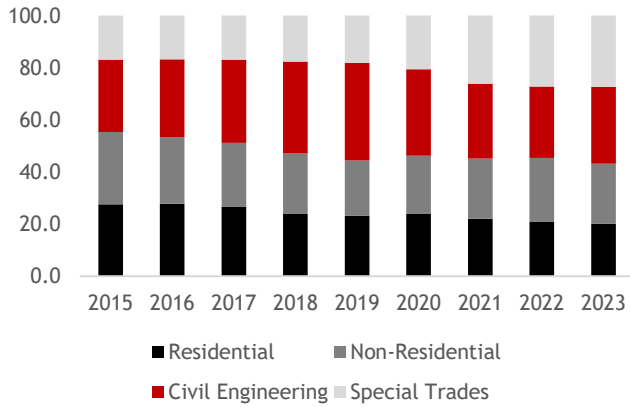
Source: DOSM, MIDFR

Chart 2: Construction Sector vs. Malaysia GDP (YoY%)



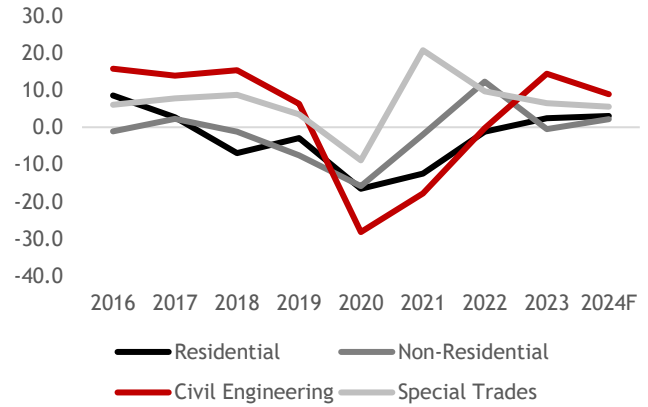
Source: DOSM, MIDFR

Chart 3: Components of Sector (% of Construction)



Source: DOSM, MIDFR

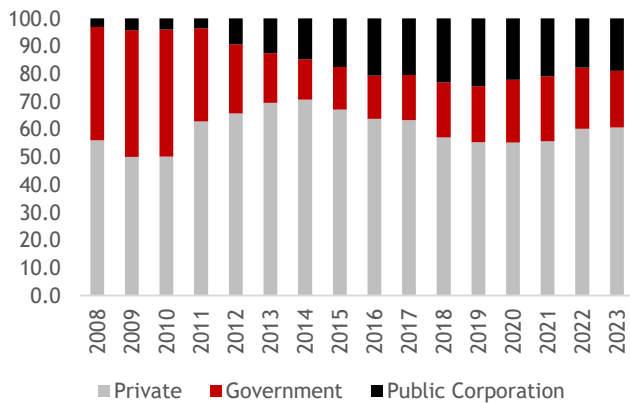
Chart 4: Components of Sector (YoY%)



Source: DOSM, MIDFR

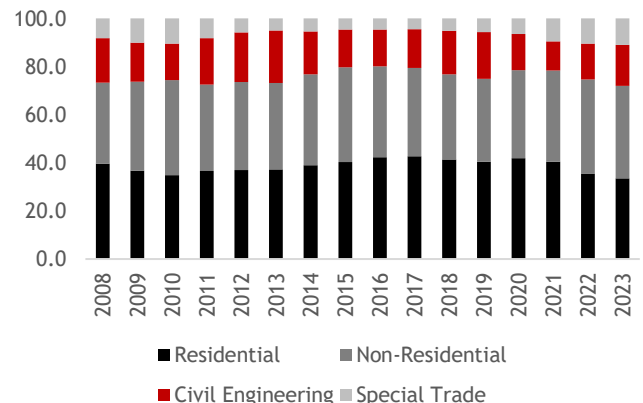
More than 50% of construction is done privately. Ever since 2008, more than 50% of Malaysia’s construction works carried by private entity. Last year, 60.6% by private while government-led and public corporation-led works constituted 20.5% and 18.9% respectively. More than 70% of private-led works cover the residential and non-residential. We noticed the share held by government-led halved from 40.8% in 2008 to 20.5% in 2023. The work mostly shifted to public corporations which rose from 3.1% in 2008 to 18.9% in 2023. We opine this is a result of private-public partnership (PPP) initiative taken by the government especially in dealing with infrastructure projects. The government-led works cover mostly civil engineering (64.5%) and non-residential (23.7%) whereas public corporation-led solely focus on civil engineering (83.8%). Moving forward, we foresee the public corporation-led works to increase faster amid PPP initiative on upcoming civil engineering projects namely Penang LRT, MRT and potential HSR KL-Singapore project.

Chart 5: Construction Work Done by Entity (Share %)



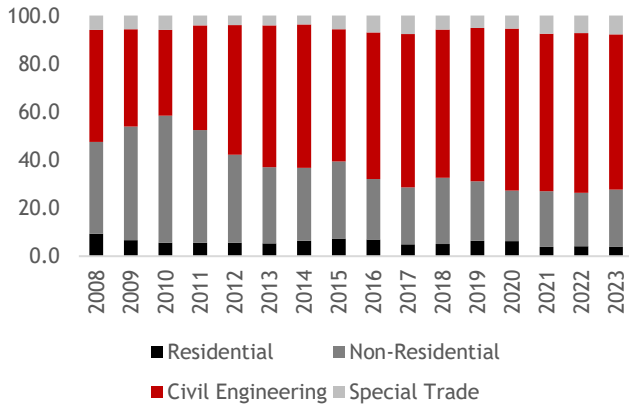
Source: DOSM, MIDFR

Chart 6: Work Done by Private (Share %)



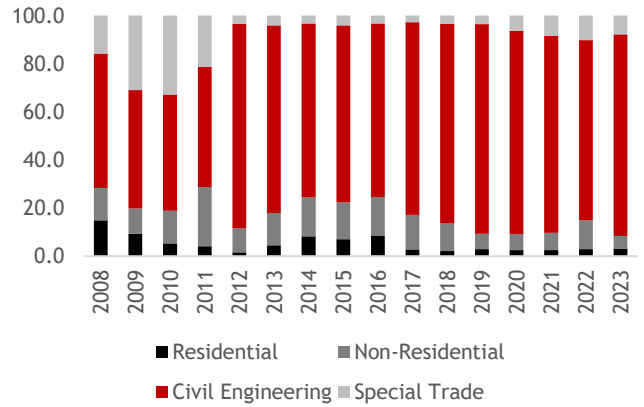
Source: DOSM, MIDFR

Chart 7: Work Done by Government (Share %)



Source: DOSM, MIDFR

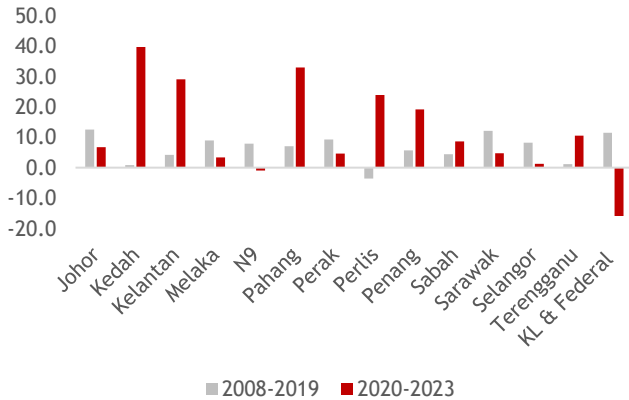
Chart 8: Work Done by Public Corp. (Share %)



Source: DOSM, MIDFR

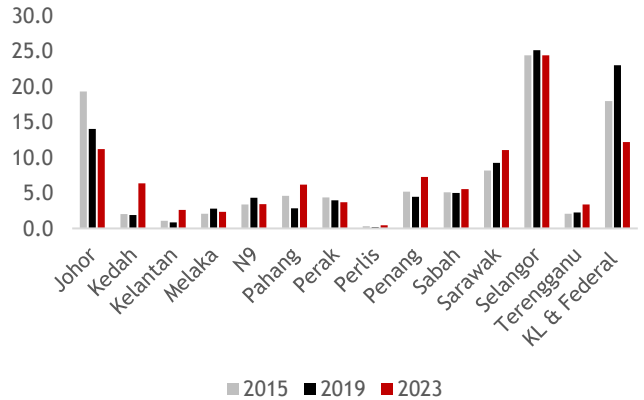
More works in Sarawak and Sabah. After almost a decade, the share of construction work done by Sarawak and Sabah has risen from 13.3% in 2015 to 16.6% in 2023. The main upside driver in Eastern regions is civil engineering works. For instance, Sarawak covers 17.4% of total civil engineering, up from 12.5% in 2015. Pan-Borneo Highway and other roads works are among the contributors. In line with growing population, Selangor is still the champion of residential works as almost one-third (29.9%) of Malaysia’s residential projects took-off in the state. Looking ahead, we foresee civil engineering works to pick up strongly in Penang, Selangor and Johor following railway-related projects. Also, non-residential work, particularly relating to data centers and factories to increase steadily in the years to come.

Chart 9: Work Done by State (CAGR %)



Source: DOSM, MIDFR

Chart 10: Work Done by State (Share %)



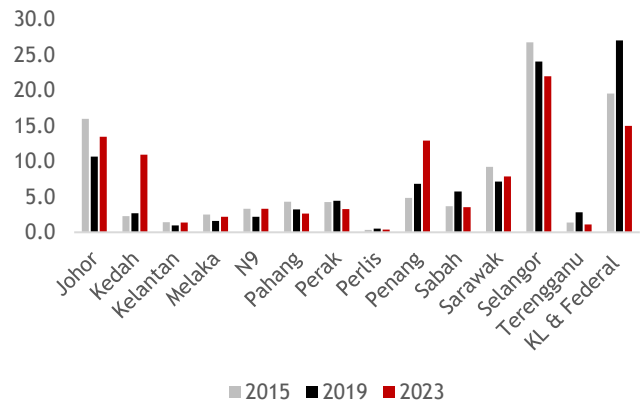
Source: DOSM, MIDFR

Chart 11: Residential Works by State (Share %)



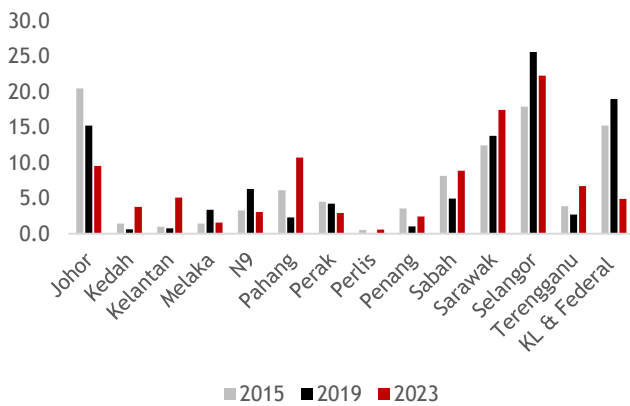
Source: DOSM, MIDFR

Chart 12: Non-Residential Works by State (Share %)



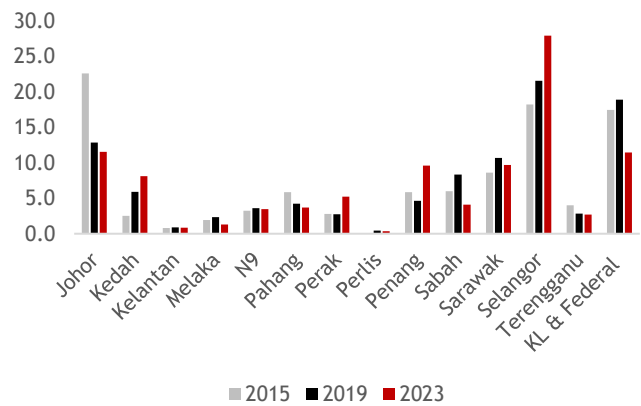
Source: DOSM, MIDFR

Chart 13: Civil Engineering Works by State (Share %)



Source: DOSM, MIDFR

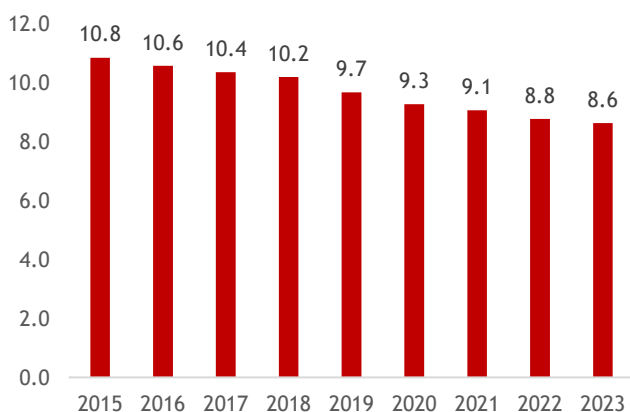
Chart 14: Special Trades Works by State (Share %)



Source: DOSM, MIDFR

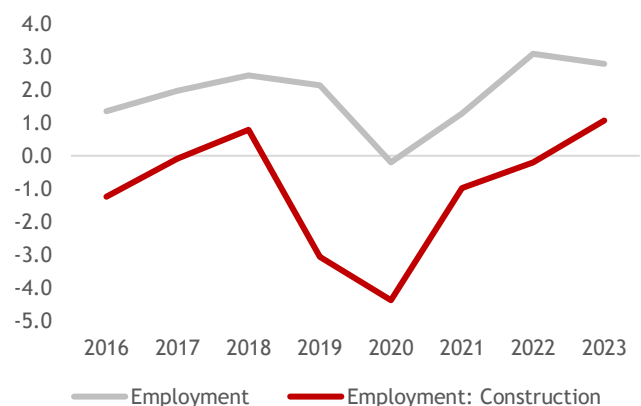
Inadequate spillover effects. Even before the pandemic-led crisis, the share of the construction workforce to total employment was on a descending trend. The crisis deteriorated it further. In terms of employment growth during 2015~2019, the annual growth of construction was way lower than overall, -0.9%pa vs. +2.0%pa. However, labor productivity of the construction sector grew faster than overall before the pandemic, +5.6%pa vs. +2.9%pa. After 2020, the pace reduced to +1.9%pa vs. +2.7%pa. From an income perspective, median salary for the sector remains lower than overall level, RM1,839 per month vs. RM2,424 per month in 2022. The income growth for the construction sector was faster than overall, +6.8%pa vs. +5.6%pa during 2010~2019. We opine the construction sector was on the right track of socio-economic development prior to the pandemic-led crisis as reflected by the solid pace of wage growth and labor productivity.

Chart 15: Construction Employment (% of Total Empl.)



Source: DOSM, MIDFR

Chart 16: Total vs. Construction Employment (YoY%)



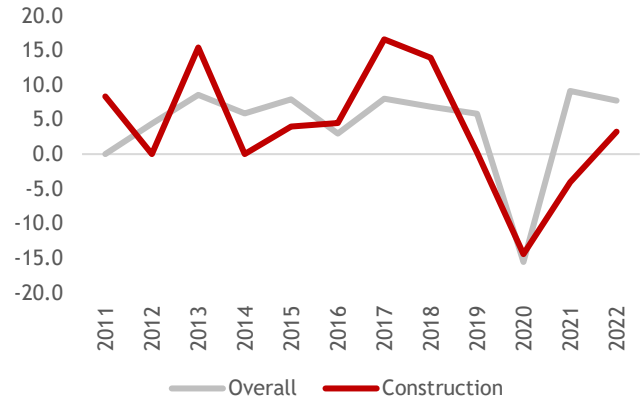
Source: DOSM, MIDFR

Chart 17: Median Salary Level (RM per month)



Source: DOSM, MIDFR

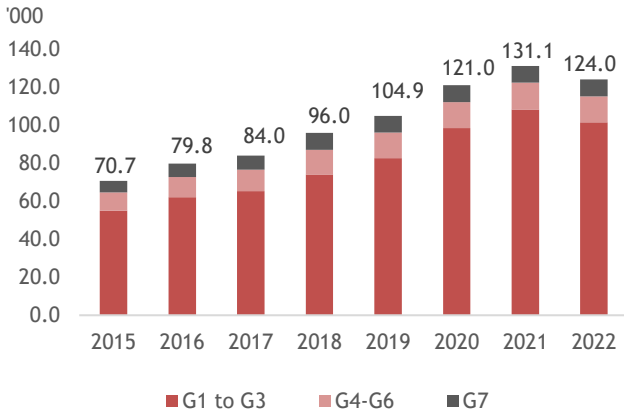
Chart 18: Median Salary Growth (YoY%)



Source: DOSM, MIDFR

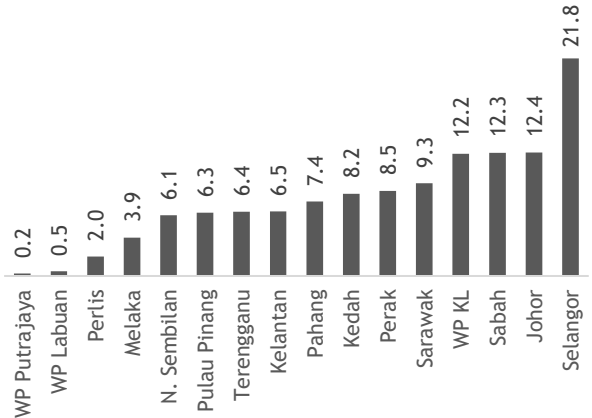
Nearly 82% of Malaysian contractors were G1 to G3. In terms of establishments, large share of contractors in Malaysia are small contractors. Based on CIDB’s data, more than half or 51.2% of 124,015 registered contractors in 2022 were G1 construction companies. More than 41% of the G1 companies were in Selangor, Sabah, Johor and Kedah. If we include G2 and G3, almost 82% of the construction companies were G1 to G3 contractors. This was followed by the G7 companies, which accounted for 7.2% of total registered contractors. Nearly 54% of these G7 contractors were in Kuala Lumpur and Selangor.

Chart 19: Total Registered Contractors (in thousands)



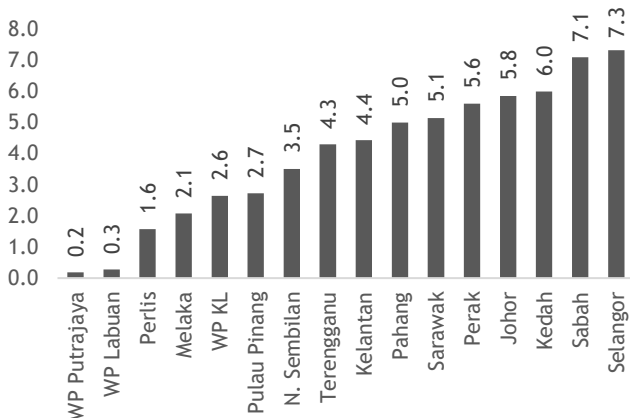
Source: CIDB, MIDFR

Chart 20: Tabulation of Registered Contractors by State in 2022 (in thousands)



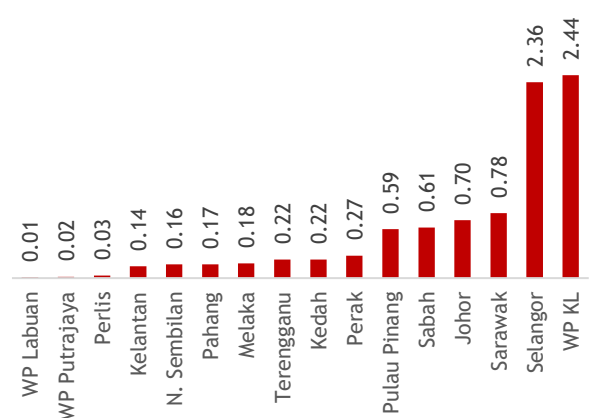
Source: CIDB, MIDFR

Chart 21: Tabulation of G1 Contractors by State in 2022 (in thousands)



Source: CIDB, MIDFR

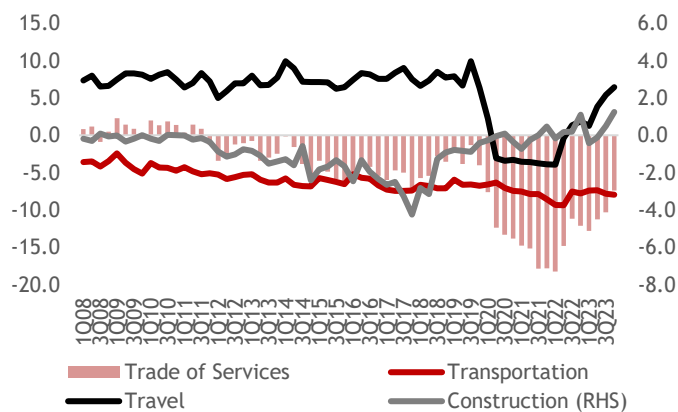
Chart 22: Tabulation of G7 Contractors by State in 2022 (in thousands)



Source: CIDB, MIDFR

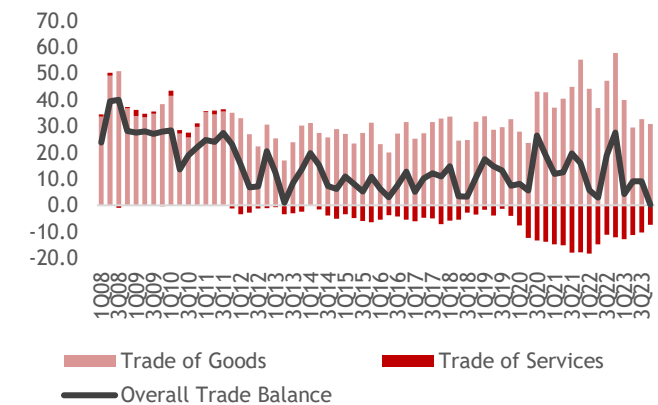
Involvement in overseas projects contributed to better trade of services. The number of companies involved in overseas projects have declined in the post-pandemic years, but the value of overseas projects continued to grow even during the global lockdown in 2020. In line with this, the sector’s contribution to services exports trended higher after recording the worst quarterly deficit of -RM4.25b in 4QCY17. Based on the latest BOP data, the construction sector registered a higher quarterly surplus of +RM12.49b in 4QCY23, the biggest on record since the sector breakdown of the services exports (under the current account) was first released in 1QCY05. Between 2016-2020, a large part of the overseas projects was in the Gulf Region and ASEAN countries. In the post-pandemic years, a significantly large portion (or 95.4%) of the growth in the value of construction projects abroad was in the Latin/South American region. Although the value of overseas projects dropped to RM20.71b in 2022 (2021: RM23.06b), the big part of the projects was in Australia & Oceania. Few years before the Covid-19 pandemic, according to CIDB Malaysian companies were awarded overseas projects in sectors such as among other highways, power plant, residential, railway and water treatment system.

Chart 23: Services Trade Bal. by Selected Sector (RM b)



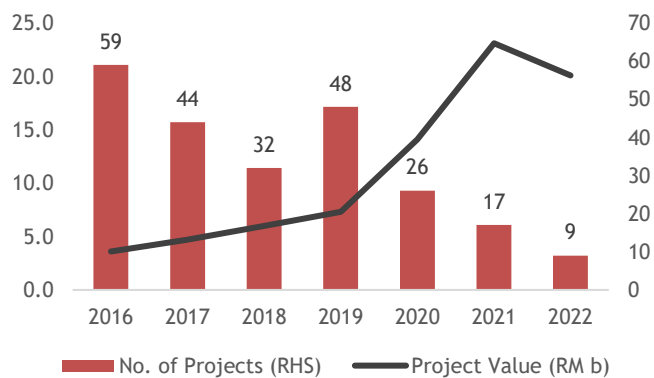
Source: Macrobond, MIDFR

Chart 24: Trade Balance: Goods vs. Services (RM b)



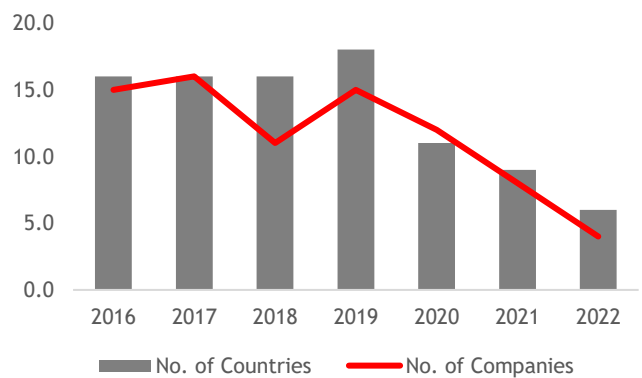
Source: Macrobond, MIDFR

Chart 25: Value of Overseas Projects Undertaken by Malaysian Contractors (RM b)



Source: CIDB, MIDFR

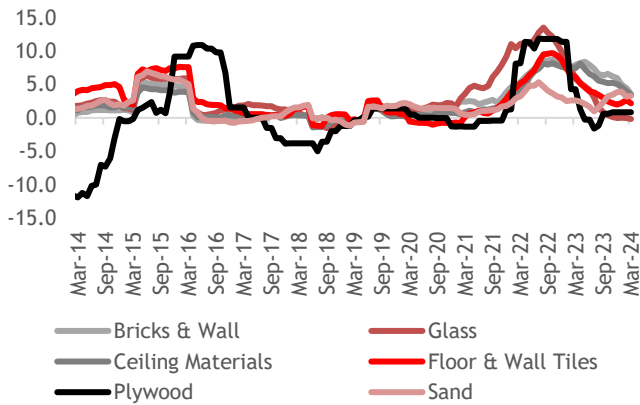
Chart 26: Additional Details on Overseas Projects Undertaken by Malaysian Contractors



Source: CIDB, MIDFR

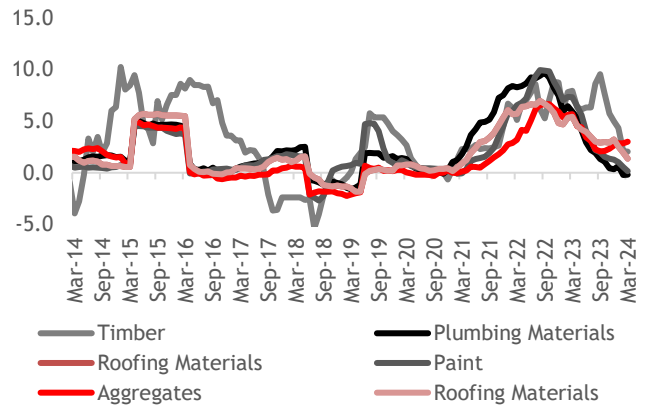
Easing pressures from rising building material prices. The cost pressures the fluctuations in building material prices have eased in 2023. Like other commodities, the post-pandemic recovery which came with supply chain disruption caused prices of building materials to inflate at a higher pace in 2021-2022. Among building materials that experienced double-digit price inflation in 2022 were glass and plywood. Price increased for plumbing materials, paint and floor & wall tiles even recorded peaks of nearly +10%/yoy in Sep-Oct 2022. The fluctuation in building material prices moved in tandem with the trends seen in other commodities. In 2023, the price pressures continued to ease underpinned by improvement in the supply condition and to a certain extent limited by concerns over weaker global demand for commodities.

Chart 27: Change in Average Prices of Selected Building Materials (YoY%)



Source: Macrobond, MIDFR

Chart 28: Change in Average Prices of Selected Building Materials (YoY%)

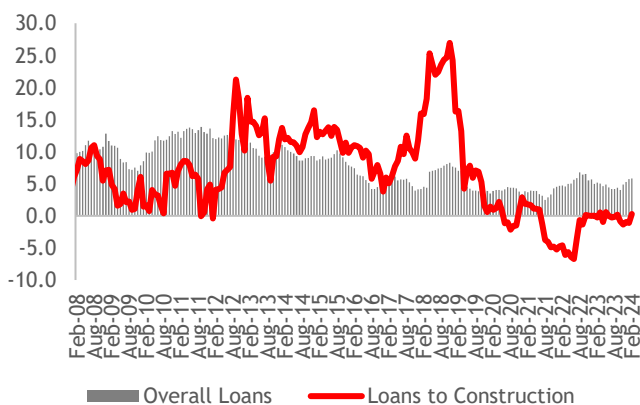


Source: Macrobond, MIDFR

The construction sector is yet to be backed by loan growth as seen before pandemic. It seems that banks have adopted a more cautious stance in lending to the construction sector after the global health pandemic hit Malaysia's economy. Before the pandemic, bank loans extended to the sector rose by double-digit +24.2% in 2018, more than 3 times faster vis-à-vis +7.7% growth in overall bank loans. In 2021, as the sector was negatively impacted by the lockdown and shortage of foreign labor, banks further reduced bank loans to the sector by -5.2%; in contrast, increased credit extension to other sectors supported the +4.5% expansion in overall bank loans during the year. We have yet to see a strong recovery in lending to the construction sector as banks continued to cut credit growth to the sector by -0.9% last year after registering zero growth in 2022. On a positive note, it is an encouraging development when lending to the sector registered a marginal increase of +0.3%yoy in Feb-24 after 4 months of declines, in line with the stronger growth in construction activities in 1QCY24. Lending to the sector also supported the overall loan growth accelerating to +5.8%yoy in Feb-24, the fastest growth in 16 months.

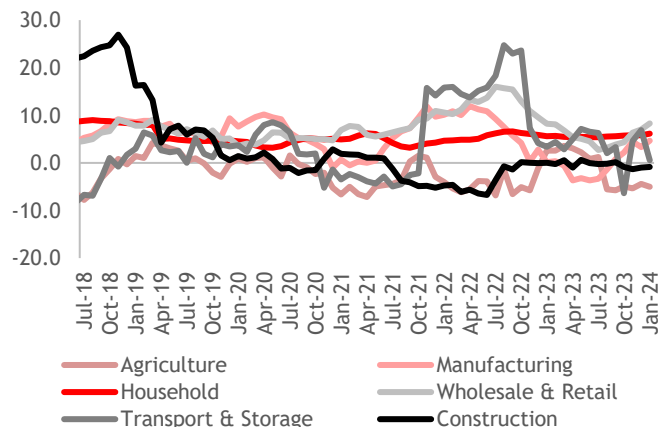
NPL trend for the construction sector starting to fall. It was no surprise that the banking industry's tighter lending to the construction sector was influenced by the rise in the sector's non-performing loans as contractors struggled to get back up coming out from the lockdown with challenges from surging costs. In 2022, more construction loans turned sour, with the amount of non-performing loans from the sector rising as high as +57.2%yoy to RM5.1b in Oct-22. After peaking at 5.1% in Apr-23, the sector's NPL has been on a decline, pushing the NPL ratio for the sector down to 4.7% of outstanding construction loans. The existing level of the sector's NPL ratio is higher than the average 3.2% recorded previously in 2013-2021. During the 9 years before 2022, the NPL ratio of the construction sector typically was 1.7 times higher than the overall NPL ratio. However, the sector's NPL ratio has been hovering above 4.5% since Jul-22 and topped the overall NPL ratio by 2.8 times. With the recent sign of a turnaround, we foresee banks would gradually increase credit growth to the construction industry in anticipation of more encouraging growth prospects going forward.

Chart 29: Loans to the Construction Sector (YoY%)



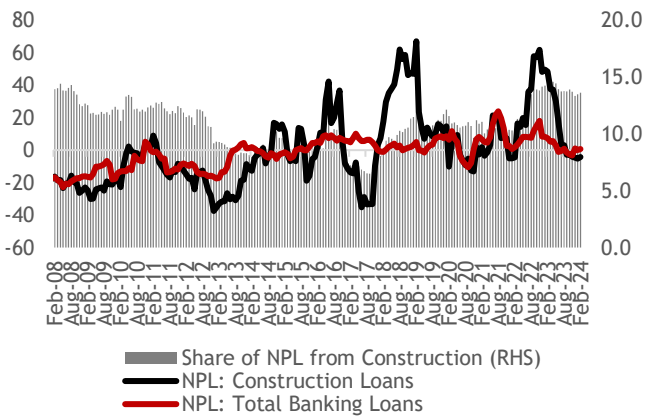
Source: BNM, MIDFR

Chart 30: Loans to Other Sectors (YoY%)



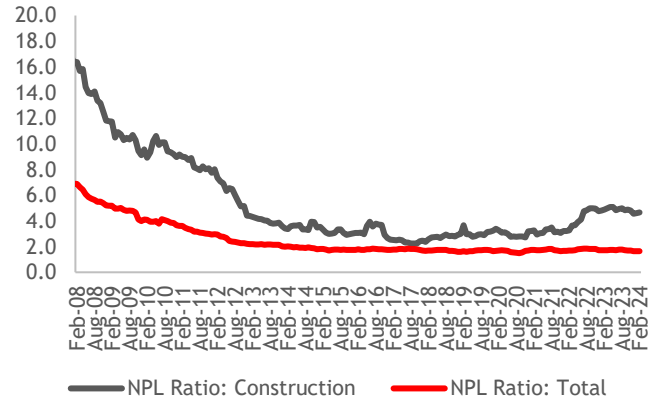
Source: BNM, MIDFR

Chart 31: Non-Performing Construction Loans (YoY%)



Source: BNM, MIDFR

Chart 32: NPL Ratio: Total vs. Construction (%)



Source: BNM, MIDFR

The construction sector among the main highlights of 12th Malaysia's Plan (12MP). The 12MP mid-term review lists several key construction-related projects, highlighting the government's focus on infrastructure and public utilities. In terms of funding, infrastructures with direct impacts on the well-being of the people are directly funded by the government, reflecting urgency and the need for an immediate response, including upgrading the dilapidated schools and clinics and upgrading the Sultanah Aminah Hospital. Approximately 60% of the total DEVEX is allocated for basic DE, however, to offer some fiscal relief to the government, some of the costlier longer-term projects like the Penang LRT which is estimated to cost RM10b will be funded through a Public-Private Partnership. Overall, with an estimated RM400.2b in gross DE for the 5-year period (2021-2025), the 12MP allocated 61% more on DE than the 11MP. On that note, the government has committed to spend at least RM90b annually from 2023 to 2025 with significant bulk of it expected to involve the construction sector including projects like MRT3 and Penang LRT.

Table 2: List of Construction-Related Projects Stated in 12MP Mid-term Review (12MP-MTR)

Project	Remarks
Building 500,000 Units of Affordable Housing	This goal is under initiatives such as <i>Residensi Wilayah</i> , <i>Program Perumahan Rakyat</i> and <i>Perumahan Inklusif Madani</i> . As of 2022, 108,373 units have been built or 21.7% of the overall target.
Upgrading Dilapidated Clinics	Between 2023-2025, the government targeted 1,200 dilapidated clinics to be upgraded.
Upgrading Dilapidated Schools	Schools a scale 7 on the School Building Condition Index in Sabah and Sarawak will be replaced in addition to the establishment of a center for children with special needs.
Phase 1 Upgrade of Hospital Sultanah Aminah	The project is to be expedited to solve the long-standing congestion issue with an estimated cost of RM500m.
Establishing Hemodialysis Centers in All Felda Settlements	12 hemodialysis centers will be built in all FELDA settlements and at the Yayasan FELDA premises in Kelana Jaya.
Infrastructure for Orang Asli	Enhancing basic infrastructure for Orang Asli including access to housing, clean water, electricity, telecommunication, and healthcare.
Pan Borneo Highway	New phases of Sabah Pan Borneo Highway, Sarawak Sabah Link Road, and Trans Borneo Highway. Progress of Pan Borneo stands at 92% in Sarawak and 74% for Phase 1 in Sabah.
Upgrading Senai-Desaru and North-South Expressways	The projects aim to enhance road connectivity with a total cost of RM27b.
Upgrading East-West Highway	Upgrading the highway from Gerik, Perak and Jeli, Kelantan.
Upgrading Rural Pave Roads	Of the 2,800km targeted 1,175km has been completed in 2022. For Sabah and Sarawak, the target is 700km of rural paved roads for each state. The progress as of 2022, is 110.5km in Sabah and 65.3km in Sarawak has been successfully upgraded or constructed.
Upgrading Road from Tanah Rata to Kea Farm	Upgrading the road which connects Tanah Rata to Kea Farm in Cameron Highlands, Pahang
Penang LRT	The project which will connect Penang Island with Seberang Perai is expected to cost RM10b.

Project	Remarks
Expansion of Penang International Airport	As part of an effort to upgrade airport infrastructure, the expansion of Penang International Airport aims to cater to increased passenger movement.
Upgrading Sultan Abdul Aziz Shah Airport Subang	Subang Airport Regeneration Plan (SARP) will be upgraded to comprise infrastructure for aerospace, business aviation and terminal expansion.
Expansion of Westports Container Terminal	The expansion will enable Westports to increase cargo handling capacity and handle ultra-large container ships, strengthening Port Klang as a regional transshipment hub. Additionally, the Government also planned on building a new port on Carey Island, expected to commence in 2025.
Upgrading Short Take-Off and Landing (STOLports)	A prioritized effort to enhance passenger safety, security, and convenience. This initiative will focus mainly on STOLports in Sabah and Sarawak, including the expansion of the Bario STOLport runway to accommodate aircraft taking off and landing with full passenger loads.
Border-town Developments	Expediting development of towns bordering Thailand and Kalimantan based on <i>Kajian Sempadan Antarabangsa Malaysia-Thailand, Kajian Pembangunan Ekonomi di Sempadan Sabah</i> and the existing development master plan of Sarawak.
Upgrading Maritime Operation Control Centre	Construction of new operation base for Malaysia Maritime Enforcement Agency. Additionally, Maritime Sea Surveillance new military camps will be built to strengthen security at the borders.
New Military Camps at The Borders	New military camps will be built to strengthen border security. The development of the naval base in Bintulu, Sarawak will assist in joint operations at a domestic and regional level.
Upgrading Border Control Facilities	Setting up more security posts in porous areas in Sabah and Sarawak. In addition, the immigration, customs, quarantine, and security complex at certain entry points will be built and improved to ensure robust enforcement at the border. Also included in the plan is, a new jetty and observation tower in Perlis.
An Establishment of Centralized Industrial Wastewater Treatment Is Currently Being Studied	The study will suggest measures to treat discharges from various sources in an industrial zone and consolidate their release into the river from a single point.
Talent Development	<i>Akademi Binaan Malaysia</i> will become an international TVET institution, providing training in high-demand areas like BIM, advanced IBS, and drone technology. Its training programs will broaden to cover construction technology related to roads, highways, rails, and slopes. Existing construction workers will be upskilled through a new training module developed jointly with vocational institutions and industry associations. Companies investing in BIM, IBS machinery, and innovative construction technology will receive priority for financial incentives.

Source: Ministry of Economy, MIDFR

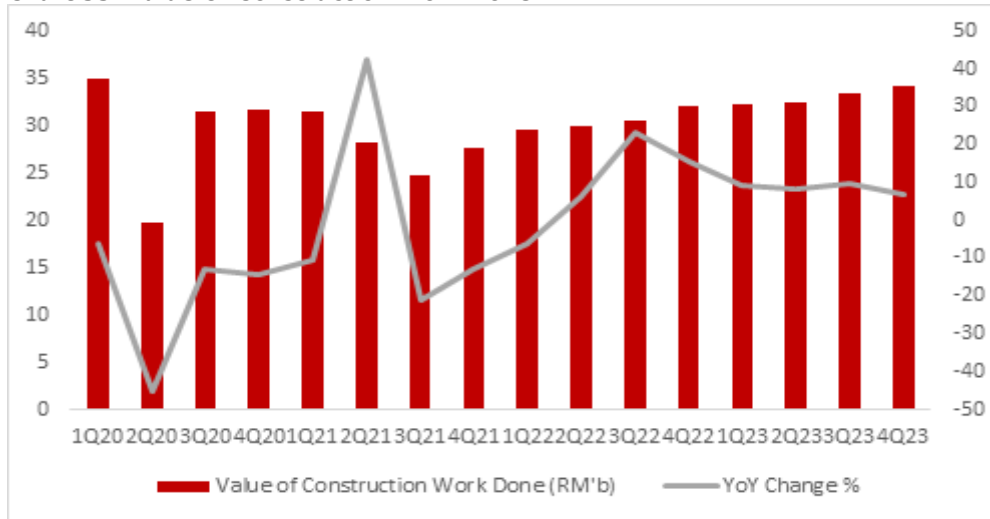
EQUITY

CONSTRUCTION.....Maintain POSITIVE

Analyst: Royce Tan

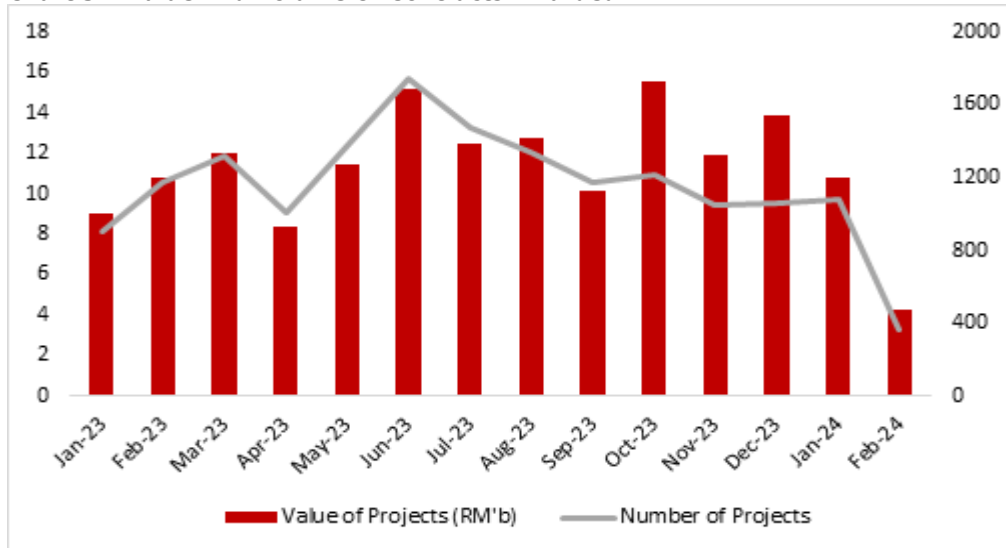
Job flows to pick up. Our economics team revised their forecasted growth for the construction sector in 2024 to +5.2%, just a slight decline from +5.4% expected initially. With the lack or rather delayed rollout of mega pump-priming projects, the construction sector is still expected to be supported by private sector jobs and previously awarded infrastructure projects such as the Pan Borneo Highway, East Coast Rail Link (ECRL), LRT3, and the RTS Link. Looking at CY23, the value of construction work done grew by +8.4%yoy to RM132.1b. For the seventh consecutive quarter, the construction sector remained on a positive trajectory, registering an increase of +6.8%yoy to RM34.1b of work done value in 4QCY23. Out of RM34.1b work done value in 4QCY23, 41.9% or equivalent to RM14.3b was in civil engineering, primarily in the construction of roads and railways (RM7.5b) and construction of utility projects (RM5.2b) activities. The value of work done for non-residential buildings and residential buildings amounted to RM9.5b (27.7%) and RM7.1b (20.9%), respectively. Meanwhile, special trade activities contributed RM3.3b (9.6%), mainly in electrical installation (RM1.1b); plumbing, heat, and air-conditioning installation (RM0.7b); and Site preparation (RM0.7b) activities. As of Feb-24, a total of 1,442 projects have been awarded in 2024, with a total value of RM15.0b. This was markedly lower than the same period in 2023 where 2,083 projects were awarded, with a total value of RM19.9b. We see this as a temporary hiccup, attributed to delays in project rollouts within the pipeline, to be boosted by job flows in the likes of Penang LRT and MRT3 contracts likely by 2HCY24. We do not expect any surprises for 2QCY24.

Chart 33: Value Of Construction Work Done



Source: CIDB, MIDFR

Chart 34: Value And Volume Of Contracts Awarded



Source: CIDB, MIDFR

Updates on mega projects. Reiterating from our previous outlook, we mentioned that the MRT3 tender validity period has been extended several times. In Dec-23, MRT Corp had sought out another three-month extension, to Mar-24, to finalize tenders for the RM50b rail development. Recall that a review was carried out on the MRT3 to bring its cost down by 10% from RM50b to RM45b. This marks the fourth extension requested by MRT Corp since the middle of last year and we do not discount the possibility of another quarter of extension for the mega rail project. Over in East Malaysia, development projects are picking up pace, with the Pan Borneo Highway in Sarawak nearing completion at 98.91% and is expected to be completed in 2024. For the Sabah portion of the highway, Phase 1A is ongoing, at 87% completion, while Phase 1B is currently in the tender process with 19 work packages, of which we believe some awards can be expected in 2QCY24.


Maintain POSITIVE. We reiterate our **POSITIVE** stance on the Construction sector, backed by a strong pipeline of development and infrastructure projects, on top of rising demand for industrial buildings such as logistics warehouses, data centers, and semiconductor foundries. We expect the rollout of mega projects to be a boon to the sector and contribute to increased job flows within the coming quarters. As for material costs, we see the stronger contractors being able to navigate the elevated material cost environment and maintain its margins in the coming quarters. Our preferred names in the sector are still the larger names with great balance sheet strength and overseas presence. On the back of a strong pipeline of civil projects, coupled with the strong demand for industrial buildings such as warehouses, data centers, and semiconductor plants, our top picks for the sector are **Gamuda (BUY, TP: RM5.98)** and **IJM Corp (BUY, TP: RM2.57)**. We also like **Malayan Cement (BUY, TP: RM5.33)**, as it remains one of the main direct beneficiaries of the pick-up in the construction sector. 

Table 3: Construction companies under MIDFR coverage

Stock	FYE	Rec.	Price @ 29 April 2024 (RM)	Target Price (RM)	Core EPS (sen)		Dividend Yield (%)	
					FY24E	FY25F	FY24E	FY25F
Gamuda	July	BUY	5.36	5.98	39.2	42.7	2.0	2.0
IJM Corp	Mar	BUY	2.36	2.57	11.1	14.3	3.1	3.1
Sunway Construction	Dec	NEUTRAL	3.00	2.86	13.9	14.7	2.5	2.5
MRCB	Dec	NEUTRAL	0.68	0.63	1.6	1.6	4.5	4.5
WCT Holdings	Dec	NEUTRAL	0.53	0.49	4.9	4.8	-	1.0
Pintaras Jaya	Dec	NEUTRAL	1.60	1.68	9.7	11.2	3.0	3.0
KKB Engineering	June	BUY	1.84	2.07	12.2	12.5	3.4	3.4
Malayan Cement	June	BUY	5.07	5.33	21.3	22.1	1.1	1.1
Cahaya Mata Sarawak	Dec	BUY	1.10	1.32	14.7	17.2	2.3	2.3

Source: BLOOMBERG, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology