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Construction sector margins to improve: Kenanga

KUALA LUMPUR: The construction industry's margins are expected to improve in 2024 as older contracts with low margins tail off and new contracts with more normalised margins start to contribute, said Kenanga Research.

In a note on Friday, it said the industry is poised for margin recovery as newly-secured contracts have reflected cost inflation.

"In addition, it has become increasingly common for contracts to carry price escalation clauses to safeguard the margins of contractors post-pandemic," it said.

Hence, the research house retained its 'overweight' call for the construction sector.

"After the lull last year, we expect a fresh wave of public infrastructure projects to finally hit the market in 2024.

"While the gross development expendi-

ture of RM90 billion in Budget 2024 is lower than RM97 billion in Budget 2023, the government could tap into DanaInfra Nasional Bhd to fund large-scale public projects on an off-balance sheet basis," it noted.

Projects that are high on the priority list include the RM45 billion Metro Rail Transit Line 3 (MRT3) or MRT Circle Line which will provide connectivity to the existing MRT, Light Rail Transit (LRT), Monorail and train lines through interchange stations as well as the Bayan Lepas LRT to ease the chronic traffic congestion in Penang.

"We believe, realistically speaking, MRT3 is more likely to get off the ground in the second half of 2024," it said.

The research house also noted that the government has committed to expediting ongoing projects in East Malaysia such as

the Pan Borneo Highway and the Sabah-Sarawak Link Road.

On private sector construction, it said the sector would stay vibrant, underpinned by massive investment in new semiconductor foundries and data centres.

"Malaysia is gaining traction in terms of destination for data centre investment, as evidenced by Tenaga Nasional Bhd having signed Electricity Supply Agreements with eight data centres, boasting a total capacity of 2,000 megawatts.

"These semiconductor foundry and data centre projects range from RM1 billion to RM1.5 billion each, and are typically on a fast-track basis, which means better margins," it said, naming Gamuda Bhd, IJM Corporation Bhd and Sunway Construction Group Bhd as its top picks for the sector.