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Upbeat on construction as more projects come in 2024

Rachel Lau

KUCHING: The research arm of Kenanga Investment Bank Bhd (Kenanga Research) is maintaining their 'Overweight' call on the construction sector as they are expecting a fresh wave of public infrastructure projects to finally hit the market in 2024.

In a sector update report, the research arm highlighted that high on the priority list of 2024 infrastructure projects are the RM4.5 billion MRT3 or MRT Circle Line, the RM9.5 billion Bayan Lepas LRT, and the roll-out of six flood mitigation projects that are worth around RM13 billion.

These flood mitigation projects include the flood mitigation works at Sungai Johor (Johor), the construction of the Sungai Klang-Sungai Rasau dual-function reservoir (Selangor) and the Sungai

Golok Integrated River Basin Development Phase 3 (Kelantan).

In terms of timing, the Bayan Lepas LRT is expected to roll out in the next 3 to 4 months while the MRT3 is more likely to only get off the ground in the second half of the year (2H24) as the validity of tenders for its work packages has again been extended for the fourth time to the end of 1Q23.

Kenanga Research guides that they expect these line-up of jobs to be sufficient to go around for all major players within the industry.

And while the gross development expenditure of RM90 billion in Budget 2024 was lower than RM97 billion in Budget 2023, the research arm still reckons that 2024 might be a more robust year for the construction sector in terms of public sector jobs as they note the government will be able to

tap into DanaInfra Nasional Bhd to fund large-scale public projects on an off-balance sheet basis.

For private sector projects, the project pipeline is also expected to stay vibrant due to massive investment in new semiconductor foundries and data centres where related projects are estimated to be worth around RM1 billion to RM1.5 billion with better margins due to being on a fast-track basis.

Players like Sunway Construction Bhd and Kerjaya Prospek Group Bhd (KPG) have already bagged such contracts.

"Malaysia is gaining traction in terms of destination for data centre investment, as evidenced by Tenaga Nasional Bhd (TNB) having signed Electricity Supply Agreements with eight data centres boasting a total capacity of 2,000MW, out of which six or

292MW are already up-and-running," Kenanga Research explained.

Additionally, the national utility company also announced that there is a potential additional demand for 7,000MW of electricity from data centres by 2034.

The construction industry is also expected to see margin recovery in the New Year as Kenanga Research notes that newly-secured contracts have reflect cost inflation.

"In addition, post the pandemic, it has become increasingly common for contracts to carry price escalation clauses to safeguard the margins of contractors. As such, we expect industry margins to improve in 2024 as older contracts with low margins tail off and new contracts with more normalised margins start to contribute," they conclude.