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Data centres still a primary growth engine

Public sector projects to also support sector

CONSTRUCTION

PETALING JAYA: The construction sector is poised for steady expansion into 2026, supported by resilient private investment and a deepening infrastructure pipeline, even as geopolitical tensions and cost pressures weigh on margins.

According to Kenanga Research, growth is expected to remain anchored by data centre developments and public sector projects, offering contractors sustained earnings visibility over the medium term.

“Despite near-term geopolitical headwinds impacting profit margins and a slower-than expected rollout of infrastructure projects, we remain bullish on the sector.

“This outlook is underpinned by persistent demand for data centres and sustained capital expenditure commitments from global technology firms through 2026,” the research house said.

It noted that contract awards had surged to near-record levels in recent years, and while it is maintaining its RM180bil projection for 2026, momentum remains intact.

“Data centre development continues to be the primary growth engine alongside ongoing public sector projects,” it said, pointing to major projects such as the Penang Light Rail Transit package two and three, Pan Borneo Highway phase two and airport expansions.

“We expect the data centre boom to persist for at least the next two years and maintain our assumption of 700MW of new annual capacity, equivalent to about RM21bil worth of data centre construction value each year,” Kenanga Research pointed out.

It highlighted strong participation from global technology firms, with multiple

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Kenanga Research

large-scale projects already secured and more in the pipeline.

Kenanga Research maintained an “overweight” call on the sector, favouring Gamuda Bhd (“outperform”: target price RM5.30), Sunway Construction Group Bhd (“outperform”: target price RM7.76) and IJM Corp Bhd (“outperform”: target price RM3.40).

It named Gamuda as its top pick, alongside Kerjaya Prospek Group Bhd (“outperform”: target price RM3.05) among smaller-cap names.

Meanwhile, RHB Research also retained an “overweight” stance, naming Gamuda, Sunway Construction Group Bhd and Binastra Corp Bhd as top picks.

The research house flagged potential risks from rising energy prices amid geopolitical tensions but viewed the impact as manageable.

“We view that any rise in electricity costs in light of higher energy prices to still be manageable,” it said.

RHB Research added that the country remained cost-competitive for data centre construction, which could attract further foreign investment.

It said ongoing tensions in the Middle

East could even redirect hyperscale demand to Asia, including Malaysia, supported by initiatives such as the Johor-Singapore Special Economic Zone.

However, cost pressures remained a concern.

Kenanga Research said: “The recent surge in building material and transportation costs – driven largely by the Middle East crisis – has resulted in a mixed impact across the sector.”

It noted that diesel-related expenses are harder to pass through, compressing margins, although some material costs are adjustable.

An analyst told *StarBiz* that order books across the sector were already healthy and therefore, if project rollouts face minor delays, contractors still have sufficient earnings visibility heading into 2026.

“The sector’s outlook remains firmly positive, underpinned by a strong pipeline of projects that should sustain earnings growth over the next few years.

“While cost pressures are a concern, the scale of incoming jobs should help offset margin compression and keep overall sector growth on track,” the analyst pointed out.