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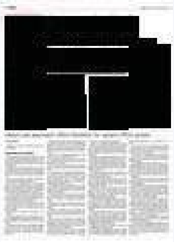

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Construction leads Budget 2027 plays

The Star, Malaysia

ECONOMY

Construction leads Budget 2027 plays

Infrastructure allocations to bolster project flows

PETALING JAYA: Budget 2027 is expected to remain moderately expansionary, with construction likely to offer the clearest equity exposure, followed by utilities, renewable energy, consumer staples, healthcare and selected technology companies.

MBSB Research said Budget 2027 should be judged less by the number of new initiatives announced and more by how quickly approved programmes move into procurement and construction; whether investment incentives create Malaysian skills and intellectual property; whether development spending improves productivity and whether household protection is delivered without reversing fiscal reform.

MBSB Research said Budget 2027 is being formulated against a more challenging backdrop given geopolitical conflict in the Middle East (which impact may yet to be felt) and increased importance of delivering visible economic outcomes.

The research house noted the conflict presents downside risks through higher energy prices, supply-chain disruptions, potentially weaker external demand and renewed inflationary pressures.

It added this creates a policy balancing act between preserving fiscal consolidation, protecting households from external shocks and accelerating development expenditure that can generate employment, productivity gains and broader economic spillovers.

Given this backdrop, MBSB Research said it expects a "mild expansionary" budget which focuses on infrastructure spending and consumer-friendly measures for Budget 2027.

"The emphasis will likely remain on projects with visible economic and social benefits, including flood mitigation, water infrastructure, roads, public transport, hospitals, schools and industrial-supporting facilities."

MBSB Research said Sabah and Sarawak should continue to receive meaningful allocations, while infrastructure requirements associated with the Johor-Singapore Special Economic Zone could provide an additional source of project flows.

"Potential beneficiaries include Gamuda Bhd, IJM Corp Bhd and Sunway Construction Group Bhd for larger and more complex infrastructure packages, Malaysian Resources Corp Bhd for transport and urban infrastructure exposure, Malayan Cement Bhd as a building-materials proxy, and Cahya Mata Sarawak Bhd for its leverage to construction activity in Sarawak."

"Among the sectors, we believe construction offers the clearest and most direct transmission from Budget allocations to corporate earnings."

MBSB Research said the country's expanding semiconductor, industrial and data-centre pipeline requires substantial investment in electricity generation, transmission, grid stability, water capacity and renewable energy.

It expects Budget 2027 to support grid upgrades, battery storage, large-scale solar, corporate renewable-energy procurement and energy-efficiency initiatives, although it also noted that much of the spending may sit outside direct federal development expenditure.

"Tenaga Nasional Bhd should be the principal listed beneficiary of higher grid and transmission investment, while Pekat Group Bhd and Samaiden Group Bhd could benefit from additional solar and energy-storage opportunities.

"Electrical equipment and cable companies could also gain from the wider electrification cycle. However, we would be selective on data-centre-related names, favouring companies with secured power capacity, credible customers and visible project execution," the research house said.

MBSB Research said it views artificial intelligence (AI) as an important secondary Budget theme, with the most investable exposure likely to lie among companies possessing commercially relevant capabilities rather than those benefiting mainly from thematic association.

"Budget 2027 is likely to move the policy emphasis beyond data-centre construction towards AI adoption, commercialisation, sovereign digital infrastructure, cybersecurity and higher-value semiconductor activities.

"Possible measures include matching grants or tax deductions for micro, small and medium enterprises adopting AI and automation, support for cloud and cybersecurity expenditure, funding for AI-related skills, and financing for chip design, advanced packaging as well as research and development."

To this end, MBSB Research said potential beneficiaries include Oppstar Bhd through local integrated-circuit design and semiconductor equipment and services companies such as Pentamaster Corp Bhd, Greatech Technology Bhd, Frontken Corp Bhd, Inari Amertron Bhd and ViTrox Corporation Bhd.

It said the eventual beneficiaries from the Budget will depend on the scale, design and implementation of the measures announced.

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> MBSB Research

Run-up to Belanjawan 2027 MALAYSIA MADANI