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Rising diesel price challenge for building sector

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PETALING JAYA: Rising diesel prices have emerged as a near-term margin headwind for the construction sector, particularly for contractors involved in infrastructure, earthworks and foundation projects.

But the impact across the industry is seen to be uneven and will largely be manageable for well-capitalised players.

BIMB Securities Research said the sector remains supported by a strong pipeline of infrastructure and private-sector developments, led by the rapid expansion of data centre (DC) investments, but earnings performance is becoming increasingly differentiated among contractors.

“Project exposure, execution capability and cost management will become more important drivers of shareholder returns,” the research house said, maintaining its “overweight” call on the construction sector.

The latest first-quarter 2026 (1Q26) earnings season highlighted this divergence, it noted.

BIMB Research noted contractors with meaningful exposure to hyperscale DC projects continued to outperform, led by Sunway Construction Group Bhd (SunCon), which benefitted from strong execution and resilient margins.

Meanwhile, weaker results were seen at IJM Corp Bhd, Malaysian Resources Corp Bhd and Cahya Mata Sarawak Bhd, which it said were largely attributed to company-specific issues rather than a broad slowdown in construction activity.

BIMB Research said DC developments remain the dominant growth catalyst for the sector, with investment activity increasingly expanding beyond traditional hubs such as Johor and the Klang Valley.

Negeri Sembilan, specifically, has emerged as a new growth centre, supported by ample power reserves, strategic proximity to the Klang Valley and available industrial land.

Among the major projects underway are a green DC in Nilai backed by United States investors and Gamuda Bhd’s artificial intelligence-focused data hub in Springhill.

Gamuda further strengthened its DC exposure after securing a RM1.72bil hyperscale contract in Port Dickson in April this year. The research house noted Perak is also attracting digital infrastructure investments, with Privasia Technology Bhd’s 10MW Silverstreams facility currently under construction in Bagan Datuk.

It noted many projects awarded over the past 12 to 18 months are now entering

more construction-intensive phases, supporting stronger earnings conversion and margin expansion for contractors.

Meanwhile, the country’s construction activity remains robust, with the value of construction work done reaching a record RM46.5bil in 1Q26, representing an 8.5% year-on-year increase.

Growth was primarily driven by private-sector projects, particularly non-residential developments such as DCs, industrial facilities and logistics hubs.

The DC boom is also creating a secondary wave of construction opportunities through supporting infrastructure, particularly electricity transmission and water-related projects.

BIMB Research also highlighted Tenaga Nasional Bhd’s RM43bil grid modernisation programme under the Fourth Regulatory Period (2025-2027), which is expected to generate substantial transmission and underground utility engineering works linked directly to DC connectivity requirements.

Its top sector picks remain Gamuda, SunCon and Kerjaya Prospek Group Bhd, citing their superior earnings visibility, strong order books and ability to manage rising operating costs.