

Construction

Budget 2027 Neutral; Marginal Lift From Expansionary Stance

Highlights

- Budget 2027 provides a higher development expenditure of RM83b, but there is a limited visible pipeline for construction companies under our coverage.
- The reinstatement of VOP may relieve the cost impact for smaller contractors, while the impacts from the minimum wage hike are fairly manageable for large-cap contractors under our coverage.
- Maintain OVERWEIGHT**; top picks are Gamuda, IJM, Suncon, Binastra and Kerjaya.

Analysis

- Development expenditure of RM83b earmarked in Budget 2027.** Budget 2027 reaffirms the government's commitment with RM83b in development expenditure (+2.5% yoy). Including RM11b in public-private investments, RM14.2b of federal statutory bodies investments, and RM25b from government-linked investment companies, public development expenditure for 2026 will be RM133.2b (2026: RM131.8b). The larger development expenditure supports an expansionary spending stance, and shall continue to support a healthy domestic infrastructure project pipeline.
- Key highlights for the sector.** Some of the key infrastructure projects highlighted are: a) Johor's elevated autonomous rapid transit (E-ART) project; b) National Non-Revenue Water programme (RM2.5b); and c) various flood mitigation projects. There was a lack of new mega projects announced, which implies an absence of a visible pipeline for the construction companies under our coverage.
- Reinstatement of VOP may alleviate rising cost pressure.** In Budget 2027, the government also reactivated the Variation of Price (VOP) clause for diesel and bitumen cost increases. This allows selected projects valued up to RM5m using the Malaysian Public Works Department's pre-approved plans to proceed through quotation procurement. The VOP will allow the government to partially cover increases until the applicable government-related projects are completed. We are of the view that this will relieve the cost impact for smaller contractors with infrastructure-focused orderbooks.
- Manageable cost impact from minimum wage hikes, particularly for large-cap contractors.** Meanwhile, the increase in minimum wage from RM1,700 to RM2,000 (from July 27 onwards) is not viewed as a material risk for mid-large cap contractors under our coverage, and remains manageable. Notably, large-cap contractors such as Gamuda, Suncon and IJM have already been paying most of their construction workers above RM1,700. Furthermore, the sector's median salary is above RM3,000. Hence, the impact on larger construction companies is likely to be manageable.

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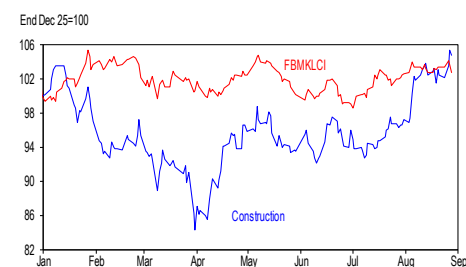
OVERWEIGHT (Maintained)

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Gamuda	GAM MK	BUY	4.95	6.26
Suncon	SCGB MK	BUY	7.55	8.44
IJM	IJM MK	BUY	2.82	3.15
Kerjaya	KPG MK	BUY	3.49	3.54
Binastra	Binastra MK	BUY	2.70	3.05

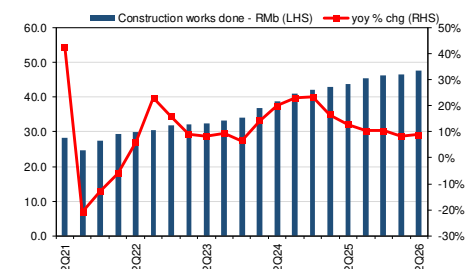
Source: Bloomberg, UOB Kay Hian

Construction Index vs FBMKLCI



Source: UOB Kay Hian

Value of construction works done (in 6M26)



Source: Department of Statistics Malaysia, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Share Price	Target	Market	PE			ROE	Price/NTA	2026F
			13 Aug 26 (RM)	Price (RM)	Cap (RMm)	FY25 (x)	FY26F (x)	FY27F (x)	2026F (%)	2026F (%)	Div Yield (%)
Binastra Corporation	BNASTRA MK	BUY	2.70	3.05	2,946.8	36.7	36.7	25.0	53.6	10.0	3.1
Gamuda	GAM MK	BUY	4.95	6.26	28,978.3	35.4	33.1	27.2	10.2	2.3	3.0
IJM Corporation	IJM MK	BUY	2.82	3.15	9,887.5	35.8	24.0	21.7	4.3	1.0	6.3
Kerjaya Prospek Group	KPG MK	BUY	3.49	3.54	4,388.0	18.7	17.4	15.1	21.1	1.2	4.0
Malaysian Resources Corp	MRC MK	BUY	0.26	0.39	1,162.2	35.5	32.5	24.4	5.4	0.3	3.8
Sunway Construction	SCGB MK	BUY	7.55	8.44	9,981.1	25.6	23.3	21.6	50.6	9.0	5.2
WCT Holdings	WCTHG MK	HOLD	0.32	0.42	499.2	10.2	11.7	11.7	25.2	0.2	0.0

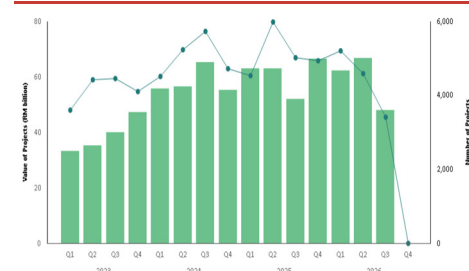
Source: Bloomberg, UOB Kay Hian

- **Decline in projects awarded in 3Q26, but expected to pick up in 4Q26-1H27.** Note that 3Q26's quarterly value of construction work awarded declined to RM39.9b (-27.9% qoq, -7.5% yoy). The rollout of domestic projects has also been slower in 9M26, with the total value of projects awarded standing at around RM176.8b (-1% yoy). Out of this, only RM37.3b (21%) are projects awarded by the government, far below 2025's government projects (at only 50%). The slower award rate may be due to the financial constraints faced by the federal government.
- **Selective large infrastructure projects coming on-stream in 4Q26-2027.** Notable mega infrastructure projects awarded ytd include: a) Phase 1 of the Ulu Padas water supply scheme in Sabah (RM5.98b); b) Penang LRT Mutiara Line project system packages (RM3.03b); and c) Tanah Rata bypass and federal road upgrade (RM430m). Some key mega projects anticipated in 4Q26-2027 are: a) EPCC contract for Perak-Penang Water Supply Scheme (~RM4b); b) Penang LRT Mutiara Line Segment 2 (~RM4b); c) Johor's Elevated Autonomous Rapid Transit (e-ART) project (RM7b-10b); d) East Coast Rail Link-Port Klang extension (RM0.7b-0.9b), and e) more water-related infrastructure projects in the pipeline.
- **DC job flows remain strong; over RM9b in contracts awarded to companies under our coverage in 2H26 thus far.** Note that: a) Suncon secured two separate DC projects worth RM1.04b and RM1.02b in Johor in August; b) Gamuda secured four DC contracts worth RM5.7b (three in Negeri Sembilan and one in Cyberjaya); c) Binastra secured a RM491m DC contract in Cheras; and d) Kerjaya secured two DC-related works worth RM911m in total (RM53m subcontract works for a Klang Valley DC, and RM858m engineering works in Johor).
- **Valuations above average, but remain palatable given earnings upcycle.** The current valuations of the companies under our coverage (average 2026F PE of 18.6x) are now above their five-year mean PE (average of 17x), but this is justifiable given the multi-year high orderbook and rising optimism on the near-term earnings outlook. However, they are still lower than the elevated valuations in the last construction supercycle in 2017-18 (average of 19-20x), when the sector was flooded with mega projects, including the Kuala Lumpur-Singapore High Speed Rail (HSR) and Mass Rapid Transit Phase 3 (MRT3), both of which are currently inactive. Should companies continue to secure more projects from the public and private sectors, sector valuations could trend up further to the 2017-18 levels.

Valuation/Recommendation

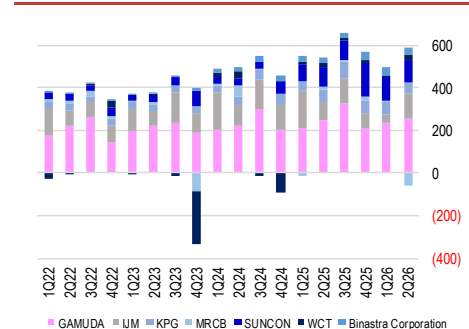
- **Maintain OVERWEIGHT on the sector,** despite the KLCON index having charted an 11% return in 2H26 thus far and outperforming the KLCI index by 13%. Most contractors under our coverage are poised to deliver resilient earnings throughout 2026-27, backed by record-high private job flows from the residential and DC segments.
- **Our sector top picks are** Gamuda (BUY/Target: RM6.26), Suncon (BUY/Target: RM8.44), IJM (BUY/Target: RM3.15), Binastra (BUY/Target: RM3.05) and Kerjaya (BUY/Target: RM3.54). We like these companies for their DC growth aspects and internal project visibility. Ratings and target price of other stocks under coverage are in the RHS table.

Domestic Projects Awarded



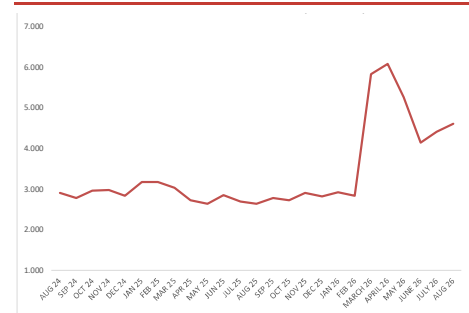
Source: Construction Industry Development Board, UOB Kay Hian

Construction Firms' Earnings Trend



Source: Respective companies, UOB Kay Hian

Diesel Price (RM/litre)



Source: UOB Kay Hian

Valuations and Target Price

Company	Ratings	Implied Valuations	Implied TP (RM)
Binastra	BUY	16x FY28F PE (mean)	3.05
Gamuda	BUY	21x FY28F PE (mean)	6.26
Sunway Construction	BUY	21.6x 2026F PE (+1SD above mean)	8.44
IJM Corp	BUY	23.6x FY27F PE (+1SD above mean)	3.15
Kerjaya Prospek Group	BUY	15.1x 2026F PE (+1SD above mean)	3.54
WCT	HOLD	11.6x 2026F PE (slightly below mean)	0.42
Malaysian Resources	BUY	33x 2027F PE (mean)	0.39

Source: UOB Kay Hian

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