UOBKayHian

Sector – Update | Malaysia

Monday, 16 November 2026

Construction

Unwarranted, Collateral Damage From Nvidia Sequel

Highlights

- Concerns on tighter US AI chip regulations due to the Nvidia affairs may de-rail Malaysia's DC prospects have caused a staggering sector-wide selldown.
- Nevertheless, we assess that the clients of the companies under our coverage are mostly US hyperscalers or non-China-oriented, limiting impacts on AI chips procurement. There are some risks for colocation DC contractors.
- **Maintain OVERWEIGHT** on the sector's record-high orderbook and multi-year earnings visibility. Top picks are Gamuda, IJM, Suncon, Binastra and Kerjaya.

Analysis

- **A sector-wide selldown following Nvidia fallout.** The KLCON Index marked a 5.1% decline (underperforming FBMKLCI's -1.8%) since the newsflow of Nvidia CEO Jensen Huang's affair with an alleged Chinese spy on 29 Oct 26. The affair provoked concerns on tightening regulations and licensing requirements for AI chips and Nvidia graphic processing units (GPU) into Malaysia, which could potentially result in delayed data centre projects' timeline and investments.
- **Tighter AI chip controls may slow down DC progress, but not broad-based...** While stricter legislation may be rolled out by the US administration, we deem that the main objectives will be to tighten control for China-linked entities from accessing Nvidia's AI chips, besides avoiding transshipment from neighbouring countries like Malaysia into China. Meanwhile, US-based DC hyperscalers which are asset owners and are not operating colocation DCs in Malaysia will likely have uninterrupted access to AI chips.
- **…with limited primary impact towards most domestic contractors under our coverage, except colocation DC contractors.** The DC contractors under our coverage are mainly involved in the designing, construction and infrastructure stages for US hyperscalers and non-China entities (not operators or owning assets). Hence, the viability of their DC pipeline likely remains intact. That said, we do not rule potential slowdown for colocation-oriented DCs with China-related offtakers, if the tightening AI chip controls delay chip procurements, financing, or impact demand and capacity.
- **Drawing parallels to the earlier AI diffusion framework introduced in Jan 25, which was then rescinded in May 25.** To recall, Malaysia was classified as a Tier 2 country under the AI diffusion framework and chip exports restriction introduced by former US President Joe Biden's administration. Under that proposal, Malaysia will be permitted to import only 50,000 GPUs over two years, while DC operators can only deploy a maximum of 7% of their computing capacity in the nation. There are no cancellations or scale-backs of major DC projects related to US hyperscalers during this period as their procurement of AI chips were largely uninterrupted.

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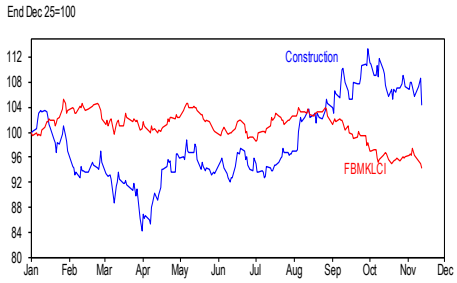
OVERWEIGHT (Maintained)

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Gamuda	GAM MK	BUY	4.56	6.26
Suncon	SCGB MK	BUY	7.81	8.44
IJM	IJM MK	BUY	2.51	3.15
Kerjaya	KPG MK	BUY	3.24	3.54
Binastra	Binastra MK	BUY	2.60	3.05

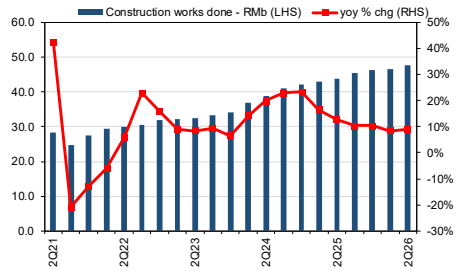
Source: Bloomberg, UOB Kay Hian

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 13 Nov 26 (RM)	Target Price (RM)	Market Cap (RMm)	PE FY25 (x)	PE FY26F (x)	PE FY27F (x)	ROE 2026F (%)	Price/NTA 2026F (%)	2026F Div Yield (%)
Binastra Corporation	BNASTRA MK	BUY	2.60	3.05	2,837.6	31.3	21.3	15.5	58.2	9.6	3.0
Gamuda	GAM MK	BUY	4.56	6.26	26,695.2	25.8	24.1	19.2	10.2	2.1	2.5
IJM Corporation	IJM MK	BUY	2.51	3.15	8,800.6	28.5	19.2	17.3	4.3	0.9	7.1
Kerjaya Prospek Group	KPG MK	BUY	3.24	3.54	4,073.7	17.1	16.0	13.8	21.1	1.1	4.3
Malaysian Resources Corp	MRC MK	BUY	0.25	0.39	1,117.5	22.7	20.8	15.6	3.7	0.3	4.0
Sunway Construction	SCGB MK	BUY	7.81	8.44	10,324.8	23.7	21.6	20.0	58.4	9.3	5.9
WCT Holdings	WCTHG MK	HOLD	0.27	0.42	421.2	6.6	7.5	7.5	1.3	0.1	0.0

Source: Bloomberg, UOB Kay Hian

- **Real DC impact on sector may not be as severe as market expects.** Based on our assessments, DC-related projects made up 0-75% of total orderbook for respective stocks within our coverage. Suncon has the most exposure in terms of DC pipelines (75% of current outstanding orderbook), followed by Binastra, Kerjaya, Gamuda. IJM and WCT. Meanwhile, MRCB has no direct exposure to DC projects.

Existing Orderbook And Exposure To Data Centre

Companies	Estimated outstanding DC orderbook (RM'm)	Total Orderbook (RM'm)	% of DC to total orderbook	Share price decline since Nvidia affairs on 29th Oct (%)
Gamuda	8800	61200	14%	-8.8%
Suncon	10019	13400	75%	3.0%
IJM	2400	18200	13%	-4.6%
Binastra	1302	6200	21%	-2.3%
Kerjaya	911	5800	16%	-6.9%
MRCB	0	8500	0%	-3.9%
WCT	2400	18200	0%	-3.6%

Source: Respective companies, UOB Kay Hian

- **MIDA's statistics revealed robust approvals for DC and cloud-computing projects in 1H26.** Based on the Malaysian Investment Authority (MIDA), DC and cloud-computing projects attracted RM95.8b/44% investments out of 1H26's overall approved investment of RM218.5b (+12% yoy). As of end-2Q26, Malaysia's total electricity demand for DC had reached 8,350 MW for 61 DC projects. 42 of these projects are completed (5,650 MW). Meanwhile, total electricity demand for uncompleted projects is around 2,700MW (19 projects). Such robust DC investments will continue to support orderbook opportunities for local contractors with DC exposure, anchoring a multi-year earnings upcycle.
- **DC job flows remain strong; over RM11.8b in contracts awarded to companies under our coverage in 2H26 thus far.** Note that: a) Suncon secured four separate DC contracts worth (totalling RM4.72b) in August and November; 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).
- **Weak sentiment induced valuations' mean reversion; sector poses appealing capital upside.** Following the recent retracement with both foreign and local institutional funds suspected to be the main antagonists, the construction companies under our coverage pose palatable capital upside opportunities based on our forecasted earnings trajectories (refer to RHS table). The current valuations of the companies under our coverage (average 2027F PE of 15.6x) are now below their five-year mean PE (average of 17x) and are attractive given the multi-year high orderbook and rising optimism on the near-term earnings outlook.

Valuation/Recommendation

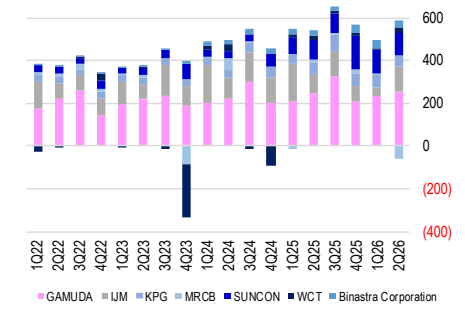
- **Maintain OVERWEIGHT on the sector.** While we do not rule out knee-jerk selldown if stricter AI chip regulations are imposed on Malaysia, further retracement offers opportunities to accumulate at attractive levels. This is given that most contractors under our coverage are poised to deliver resilient earnings throughout 2026-27, backed by record-high private job flows from the residential and DC segments.
- **Sector share prices have also proven resilient and swiftly rebounded from similar staggering selldowns** arising from the earlier AI diffusion framework (in Jan 25) and Chinese startup DeepSeek's new AI model release (in Jan 25) when market sentiment recovered.
- **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.

Domestic Projects Awarded



Source: Construction Industry Development Board, UOB Kay Hian

Construction Firms' Earnings Trend



Source: Respective companies, 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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