Construction

Positive (Maintain)

Margins Steady, Demand Ready

HIGHLIGHTS

- Average steel bar prices in Malaysia softened for the fourth consecutive month, declining -2.05%mom to RM2,272.50 per metric tonne in Feb-25, reflecting a -20.4%yoy decrease.
- Cement prices remained steady at RM380 per metric tonne of bulk cement for the 19th consecutive month since July-23.
- Maintain positive as falling steel prices, stable cement costs, and a strong pipeline of infrastructure and data centre projects support sector resilience.
- Preferred names are **SunCon (BUY, TP: RM4.82)**, **IJM Corp (BUY, TP: RM3.89)**, **Gamuda (BUY, TP: RM5.42)** and **Malayan Cement (BUY, TP: RM7.10)**

SECTOR OVERVIEW

Softening steel bar prices. The average prices of steel bars in Malaysia softened for the fourth consecutive month as of Feb-25. Based on the prices of steel bars quoted through channel checks in the market, the average price declined -2.05%mom in Feb-25 (Jan-25: -5.04%mom) to RM2,272.50 per metric tonne. The price in Feb-25 also reflected a -20.4%yoy decrease while Jan-25 showed a -19.8%yoy decrease. This decline in steel bar prices can still be largely attributed to China's steel exports in CY24 surging to its highest since CY15, surpassing 100m tonnes, inundating global markets with low-cost supply, driven by a steep decline in domestic demand. Chinese steel producers (which account for more than 50% of global steel production), have been offloading excess supply into international markets, thereby contributing to a global oversupply and exerting downward pressure on prices. Moreover, the imposition of tariffs by the U.S. on steel and aluminium imports, including a 25% tariff which was effective on March 12 2025, has disrupted global trade flows. These tariffs have led to increased market volatility, contributing to price declines. Besides that, according to the World Steel Association, global raw steel production fell to 144.7m metric tonnes during Feb-25, a -3.8%mom drop from the Jan-25 total, and a decrease that was evident in nearly all of the world's top producer nations. The first two months of CY25 resulted in 302.0m metric tonnes produced worldwide, -2.2% lower than Jan-Feb CY24. The figures document carbon steel produced in basic-oxygen or electric arc furnaces and cast into semi-finished forms like billets for bar and rod products; slabs for flat products; or blooms, for beam and pipe products. Specialty and stainless steel volumes are not included. Steel production worldwide continues to face weak demand, and steelmakers in most industrialised regions continue to try and restrain and surplus tonnage that may weaken prices.

Cement prices remain steady. As of Feb-25, the monthly average price for the binding substance has remained unchanged for the 19th consecutive month since Jul-23, holding steady at RM380 per metric tonne. This prolonged price stability is attributed to a balanced supply-demand dynamic in the market and consistent raw material costs leading to easing cost pressures that help to sustain price. Prices have remained consistent across all regions, including the northern, central, and eastern Peninsula, as well as Sabah and Sarawak. Despite rising energy costs globally, local producers have managed to maintain operational efficiencies, ensuring no upward adjustments in pricing. Furthermore, we expect the price of bulk cement to remain relatively stable moving forward, backed by the consistent demand from key projects such as the reinstatement of five LRT stations, the Penang LRT and the Pan Borneo Highway, along with the sustained demand for industrial projects and property development.

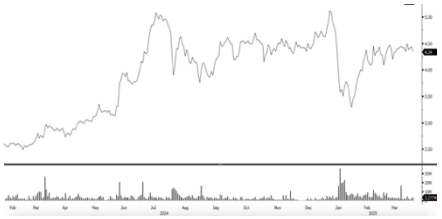
COMPANY *IN FOCUS*

SunCon Group Bhd

Maintain BUY | Target Price: RM4.82
Price @ 04 April 2025: RM4.34

- Outstanding order book stands at RM5.83b while active tender book is RM14.6b
- Returned to net cash position with a 59% dividend payout ratio in 4QFY24
- Recently secured an RM1.5b contract for the RTS TOD at Bukit Chagar, Johor

SHARE PRICE CHART

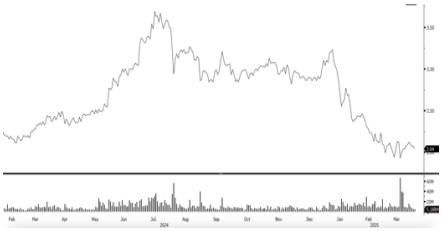


IJM Corp Bhd

Maintain BUY | Target Price: RM3.89
Price @ 04 April 2025: RM2.04

- Solid outstanding order book of RM11.5b
- Recently secured anchor tenant at 25 Finsbury property in London
- The property division has unbilled sales amounting to approximately RM1.6b

SHARE PRICE CHART



Remained on positive trajectory. Looking at CY24, the value of construction work done grew by +20.2%yoy to RM158.8b. For the eleventh consecutive quarter, the construction sector remained on a positive trajectory, registering an increase of +23.1%yoy to RM42.0b of work done value in 4QCY24. Out of RM42.0b work done value in 4QCY24, 37.2% or equivalent to RM15.6b was in civil engineering, primarily in the construction of roads and railways (RM6.9b) and construction of utility projects (RM6.8b) activities. The value of work done for non-residential buildings and residential buildings amounted to RM11.8b (28.0%) and RM9.9b (23.5%), respectively. Meanwhile, special trade activities contributed RM4.7b (11.3%), mainly in sites preparation (RM1.2b); electrical installation (RM1.1b); and plumbing, heat, and air-conditioning installation (RM1.0b. As of Feb-25, a total of 1,596 projects have been awarded in CY25, with a total value of RM18.9b. This is slightly higher than the same period in CY24 where 1,442 projects were awarded, with a total value of RM15.0b. We see this as a positive development despite the headwinds suffered by the construction sector in 1QCY25, attributed to delays in project rollouts within the pipeline and the AI chip restrictions imposed by the U.S. We do not expect any surprises for 2QCY24.

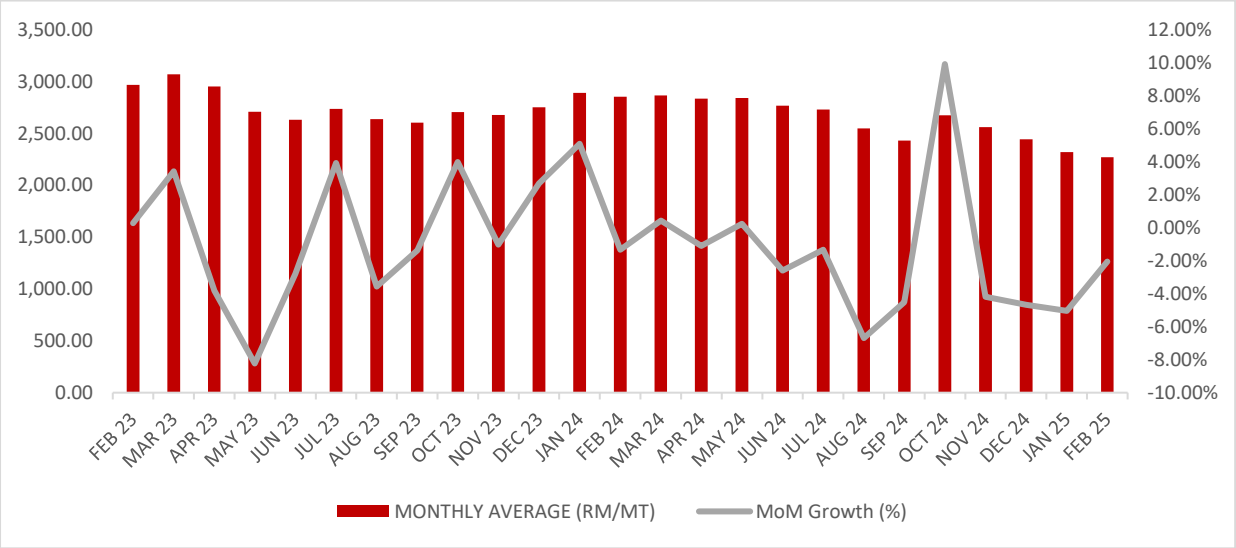
Jobs flowing steadily. Our economics team has maintained their forecasted growth for the construction sector in CY25 at +12.0%. With the lack or rather delayed rollout of mega pump-priming projects under Budget 2025, the construction sector is still expected to be supported by private sector jobs with a focus on industrial buildings such as logistics warehouses, data centres, and semiconductor foundries. This will be further backed by previously awarded infrastructure projects such as the Pan Borneo Highway, East Coast Rail Link (ECRL), RTS Link and the recently reinstated five LRT3 stations. The Government aims to generate RM78.0b worth of public-private partnership (PPP) investments across 17 key initiatives by CY30, according to the PPP Master Plan 2030. Other upcoming projects that could boost the sector include, the Penang LRT (value estimated to be >RM10.3b), Penang International Airport expansion; the RM6.1b Northern Coastal Highway in Sarawak; the RM5.6b Sabah-Sarawak Link Road; the RM4.0b Sungai Perak raw water transfer project, and the rollout of the MRT3 project amongst others.

Data centres. Major construction firms, notably Gamuda, IJM, and Sunway Construction (SunCon), are capitalising on the upward trend of data centres in Malaysia. Their expertise in digital infrastructure and advanced Industrialised Building Systems (IBS) has enabled them to secure significant DC projects, particularly from hyperscale clients with stringent timelines. SunCon's outstanding order book includes RM3.19b worth of DC projects, accounting for 55% of its total orders. Similarly, IJM has secured three DC projects in Johor YTD FY25 and is actively participating in two hyperscale tenders. The demand for DC projects remains robust, undeterred by challenges such as AI chip export restrictions from the U.S. and initiatives like Stargate. Notably, Microsoft is set to launch its first cloud region in Malaysia, comprising three data centres, by mid-CY25 . Additionally, Oracle has announced plans to invest over USD6.5b to establish its first public cloud region in Malaysia . These developments underscore the sector's vitality and suggest sustained growth in the foreseeable future. However, this rapid expansion has heightened competition among construction companies vying for DC contracts. While this intensifies the competitive landscape, it also signifies a thriving market with ample opportunities. Firms that can differentiate themselves through technological innovation, timely delivery, and quality execution are well-positioned to succeed in this dynamic environment. Malaysia's DC sector is still on an accelerated growth trajectory, offering substantial opportunities for construction companies adept at navigating the evolving demands of this competitive market and we see this demand continuing in 2QCY25.

Limited impact from U.S. tariffs on Malaysia's construction sector. On April 2 2025, during the "Liberation Day" announcement, the U.S. imposed a 24% reciprocal tariff on imports from Malaysia, effective April 9. While this has raised concerns across various export-oriented sectors, the direct impact on Malaysia's construction sector is expected to be minimal. Construction is fundamentally a domestic-facing industry, and unlike sectors such as automotive or consumer electronics, it does not rely on exports for revenue. As such, it is largely insulated from trade-related shocks, apart from potential cost pressures. Tariffs may indirectly affect the sector via input inflation, especially if global steel or cement prices rise due to supply chain distortions. However, most companies under our coverage – namely MRCB, WCT, MCEMENT, CMSB, Gamuda and SunCon – have no direct revenue exposure to the U.S. market. IJM does have some exposure in the form of industrial concrete products exports to the U.S., but it is limited and not expected to materially impact their outlook. Even in cases like SunCon's data centre projects for U.S.-based hyperscale clients, the construction work is done locally in Malaysia for domestic infrastructure, meaning it falls outside the scope of U.S. tariffs. Overall, while some indirect effects may emerge through raw material pricing, the broader construction sector remains well-shielded from the immediate implications of the U.S.-Malaysia tariff action.

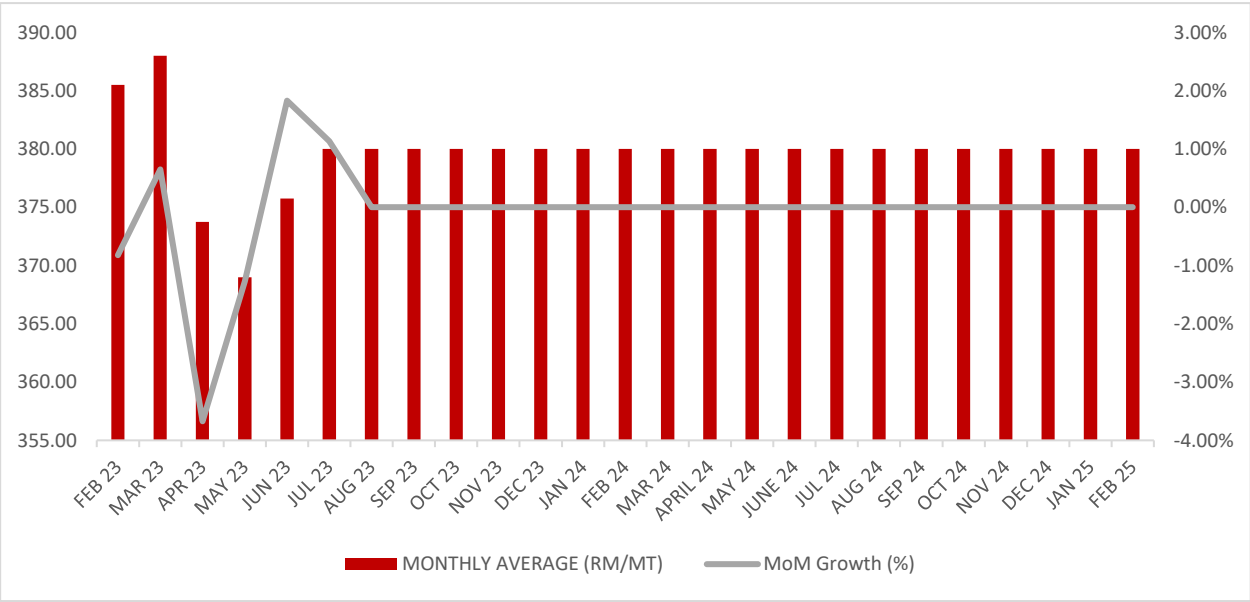
Maintain POSITIVE. We maintain our **POSITIVE** view on the construction sector, supported by a favourable cost environment and steady project momentum. Steel bar prices have continued to ease for the fourth consecutive month amid global oversupply, while cement prices remain stable due to disciplined domestic production and raw material cost control. These dynamics help cushion contractors from margin pressures. While recent geopolitical developments such as the Liberation Day tariffs have introduced some volatility, we see limited impact on the sector given its domestic focus and low direct exposure to U.S. markets. Moreover, key inputs remain reasonably priced, and sector fundamentals are supported by healthy job flows, a strong pipeline of industrial and infrastructure projects, and sustained data centre demand. Our top picks remain **Gamuda (BUY, TP: RM5.42)**, **IJM Corp (BUY, TP: RM3.89)**, and **Sunway Construction (BUY, TP: RM4.82)**. For cement exposure, we recommend **Malayan Cement (BUY, TP: RM7.10)** as a key beneficiary of construction sector expansion.

CHART 1: Average prices of steel bars



Source: Companies, MIDFR

CHART 2: Average bulk cement price



Source: Companies, MIDFR

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 4th April 2025 (RM)	Target Price (RM)	Core EPS (sen)		Dividend per share (DPS)		Net Gearing ratio (x)	Upside (%)
					FY24A	FY25F	FY24A	FY25F		
Gamuda	July	BUY	4.05	5.42	32.8	20.8	16.0	10.0	0.39	+36.3
IJM Corp	Mar	BUY	2.04	3.89	14.4	16.7	8.0	8.0	0.28	+94.6
Sunway Construction	Dec	BUY	4.34	4.82	14.5	18.6	8.5	7.0	Net Cash	+13.2
MRCB	Dec	BUY	0.44	0.56	1.4	1.5	1.0	1.0	0.27	+29.7
WCT Holdings	Dec	BUY	0.64	0.97	3.7	5.4	0.0	0.0	0.73*	+51.6
Malayan Cement	June	BUY	4.78	7.10	26.7	30.6	10.0	10.0	0.38	+50.7
Cahya Mata Sarawak	Dec	BUY	0.89	1.57	11.9	15.3	3.0	3.0	Net Cash	+78.9

Source: Companies, MIDFR
**WCT's net gearing ratio is expected to fall lower post the commencement of their REIT listing*

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology