Construction

2Q26 Results Wrap-up: Largely Positive; DC Still Charging Growth

Highlights

- The sector's 2Q26 earnings charted commendable earnings growth (+3% yoy, +6% qoq).
- MIDA's statistics shown that approvals for DC and cloud-computing projects remained strong in 1H26, while around RM9b of DC contracts have been secured by companies under our coverage in 2H26 thus far.
- **Maintain OVERWEIGHT;** top picks are Gamuda, IJM, Binastra and Kerjaya.

Analysis

- **2Q26 results round-up showing decent growth, largely within expectations.** Under our coverage, Gamuda, Sunway Construction (Suncon), Kerjaya Prospek, WCT and Binastra's results were within expectations. Meanwhile, IJM Corporation (IJM) beat expectations while Malaysian Resources Corporation (MRCB) underperformed. Overall, the sector charted decent earnings growth (+3% yoy, +6% qoq), as most of the companies continued to register better earnings yoy on the back of: a) accelerated progress billings, particularly from data centres (DC), b) improved profit margins, and c) robust orderbooks on hand due to sustained ytd job flows.
- **Potential re-activation of VOP may alleviate rising cost pressure.** In Aug 26, the Deputy Works Minister said that the government does not rule out the possibility of reactivating the Variation of Price (VOP) clause if there is strong evidence showing a sudden increase in construction material prices. The VOP will allow the government to partially cover increases in materials costs until the applicable government-related projects are completed. Nevertheless, we are of the view that building material prices have remained largely stable despite being slightly elevated ytd, and smaller contractors with infrastructure-focused orderbooks may have to absorb the margin compression over 2H26 results.
- **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.

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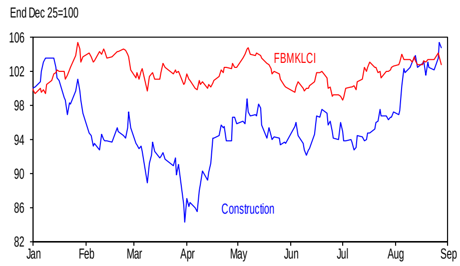
OVERWEIGHT (Maintained)

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Gamuda	GAM MK	BUY	4.60	5.25
IJM	IJM MK	BUY	2.93	3.15
Kerjaya	KPG MK	BUY	3.06	3.54
Binastra	Binastra MK	BUY	2.43	2.68

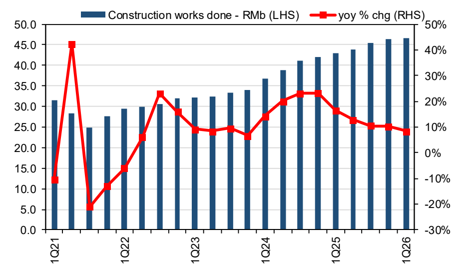
Source: Bloomberg, UOB Kay Hian

Construction Index vs FBMKLCI



Source: UOB Kay Hian

Value Of Construction Works Done (In 7M26)



Source: Department of Statistics Malaysia, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Share Price 13 Aug 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	2.43	2.68	2,652.1	21.8	16.8	14.0	53.6	9.0	3.3
Gamuda	GAM MK	BUY	4.60	5.25	26,929.3	29.7	27.8	22.8	10.2	2.1	2.5
IJM Corporation	IJM MK	BUY	2.93	3.15	10,273.2	27.3	24.0	21.7	4.3	1.0	6.1
Kerjaya Prospek Group	KPG MK	BUY	3.06	3.54	3,847.3	18.7	17.4	15.1	21.1	1.1	4.6
Malaysian Resources Corp	MRC MK	BUY	0.30	0.39	1,341.0	35.5	32.5	24.4	5.4	0.4	3.3
Sunway Construction	SCGB MK	HOLD	7.94	8.44	10,496.7	23.3	21.6	20.3	50.6	9.4	5.8
WCT Holdings	WCTHG MK	HOLD	0.41	0.42	639.6	10.2	11.7	11.7	25.2	0.2	0.0

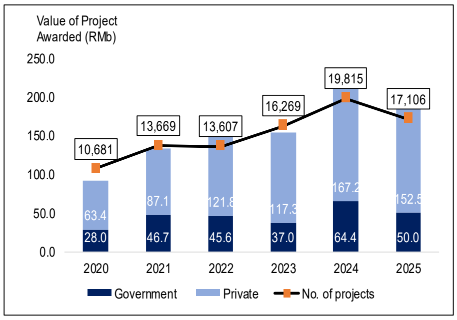
Source: Bloomberg, UOB Kay Hian

- **Sector to deliver commendable earnings growth in 2026-27, backed by strong outstanding orderbooks.** We expect companies under our coverage to deliver an average earnings growth of 15-18% in 2026. This will be largely underpinned by accelerated progress billings and improved profit margins from existing orderbooks secured over last 1-2 years. Our optimistic view on the sector is further supported by an upswing in project rollouts from the private sector particular within the DC segment, besides a selective rollout of domestic infrastructure projects.
- **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.
- **DC job flows remain strong; over RM9b in contracts awarded for companies under our coverage in 2H26 thus far.** Note that: a) Suncon secured two separate DC projects worth RM1.04b and 1.02b 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 858m MEP works in Johor).
- **Rollout of mega projects may be selectively put on hold, with some delays expected…** We opine that several domestic developments are not in the sector's favour in terms of mega-project rollout, and we may see slower progress due to the financial constraints faced by the federal government. Note that the rollout of domestic projects has been slower in 7M26, with the total value of projects awarded standing at around RM131b (-7% yoy). Out of this, only RM29b (22%) are projects awarded by the government, far below 2025's government projects (at only 50%).
- **…despite certain large infrastructure projects coming on-stream this year.** 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 (e.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.

Valuation/Recommendation

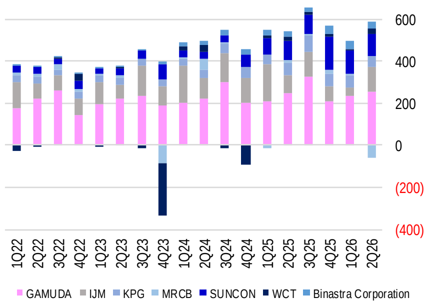
- **Maintain OVERWEIGHT on the sector,** despite the KLCON Index having charted a 9% return since July and outperforming the KLCI Index by 6%. Most contractors under our coverage are poised to deliver resilient earnings throughout 2026-27, backed by record-high private job flows from the residential and DC segments.
- **Our sector top picks** are Gamuda (BUY/Target: RM5.25), IJM (BUY/Target: RM3.15), Binastra (BUY/Target: RM2.68) 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



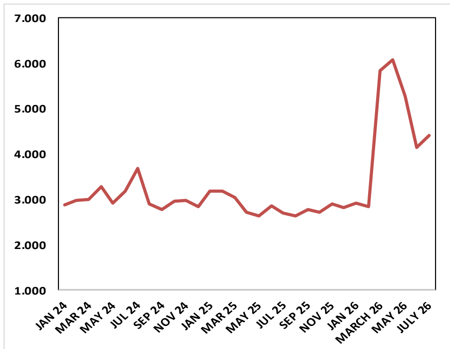
Source: Construction Industry Development Board, UOB Kay Hian

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	16.8x FY27F PE (mean)	2.68
Gamuda	BUY	22x FY27F PE (+1.5SD above mean)	5.25
Sunway Construction	HOLD	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