Construction

Dissecting GE16 Impact And Domestic Infrastructure Momentum

Highlights

- **The rollout of domestic projects has seen a slowdown** in 7M26 (-7% yoy); government-awarded projects stand at RM29b (22% of total).
- **A trifecta of impediments may further delay mega project awards**: a) rising building material and diesel costs; b) a change in the political landscape; c) a potential cut in government expenditure due to rising petrol subsidies.
- **Based on historical trends, there is minimum downside risk from general elections**, which suggest that sector share prices should re-rate upwards from here on.
- **Maintain OVERWEIGHT;** top picks are Gamuda, Binastra and Kerjaya.

Analysis

- **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 projects roll-out, 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.
- **Pump-priming of domestic mega projects due to looming GE16 also unlikely, and we think that election risks are mostly priced in.** Fundamental impacts of the 16th General Election (GE16) on the construction sector may be fairly limited, given that the award of mega projects, which provide crucial fiscal stimuli, have seen a slowdown in the past three years due to the government's more conservative budget allocation. We also believe that the potential downside risk is limited given the market has already partially priced in the election risk premium into valuations. Sector valuations now trade at 18-19x 2027F PE, which are still attractive after factoring in earnings growth amidst the private job flow upcycle.

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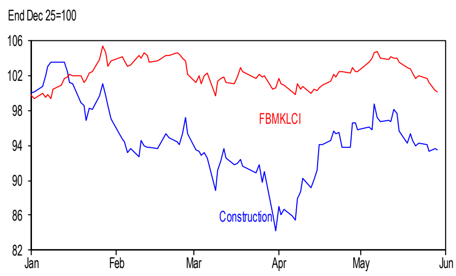
OVERWEIGHT (Maintained)

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Gamuda	GAM MK	BUY	4.50	5.25
Kerjaya	KPG MK	BUY	2.74	3.20
Binastra	Binastra MK	BUY	2.20	2.68

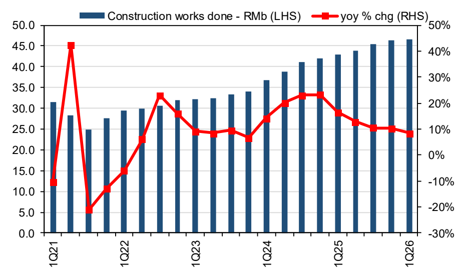
Source: Bloomberg, UOB Kay Hian

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	2.20	2.68	2,401.1	21.8	16.8	14.0	53.6	8.1	3.6
Gamuda	GAM MK	BUY	4.50	5.25	26,461.0	29.7	27.8	22.8	10.2	2.1	2.6
IJM Corporation	IJM MK	BUY	2.72	2.48	9,571.9	27.3	24.3	20.7	3.2	1.0	2.4
Kerjaya Prospek Group	KPG MK	BUY	2.74	3.20	3,457.6	16.9	15.8	14.3	21.5	2.6	4.5
Malaysian Resources Corp	MRC MK	HOLD	0.345	0.32	1,519.8	30.9	28.3	21.3	5.4	0.4	2.9
Sunway Construction	SCGB MK	HOLD	8.28	7.88	10,893.3	22.4	22.0	21.3	50.6	9.8	4.1
WCT Holdings	WCTHG MK	HOLD	0.415	0.50	639.6	12.2	14.7	15.2	25.2	0.2	0.0

Source: Bloomberg, UOB Kay Hian

- **Trifecta of impediments may slow down pace of public infrastructure projects award during 2H26-1H27.**

  1. **Rising building material and diesel costs.** Despite building material prices having normalised from March-April's peak due to the de-escalation of Iran war, we estimate that general construction costs for public infrastructure projects are still 10-15% higher than before the Iran war, mainly due to diesel price (50% higher than pre-Iran war) related cost escalations. Furthermore, there is limited variation of prices (VOP) for public infrastructure projects as compared with private job flows, and infrastructure projects usually do not allow delays or work orders as it is deemed as a violation of contract conditions.
  2. **Changes in the political landscape** are likely to lead to delays in public projects (especially large infrastructure projects). Projects are now under more careful scrutiny and key development policies may require a longer tender processing period.
  3. **Potential cut in government expenditure to cope with rising petrol subsidies.** Given the rising crude oil prices and constraints on petrol price hikes currently, the federal government would need to control expenditure to achieve its budget deficit target of 3.5% (or RM74.6b) of GDP for 2026. At the current high crude oil prices of above US$84/barrel, the government's fuel subsidy allocation has increased to RM40b from the RM15b initially budgeted for 2026. We are of the view that more fiscal constraint on government expenditure will potentially delay the rollout of certain mega-projects, despite broad-based construction expenditure possibly remaining at high levels.

- **Update on MRT3 and HSR railway projects.** To recall, the final railway scheme for the Mass Rapid Transit 3 (MRT3) circle line was approved back in 3Q25, with landbank acquisition targeted to be completed by end-2026. Nevertheless, we do not rule out a further delay into 2027, anticipating that the tender awards for contractors will materialise only in 2H27-1H28. Meanwhile, we also understand that there is no major progress for the KL-Singapore High-Speed-Rail (HSR) projects, as the government had earlier proposed that the project be private sector-led and funded, under a concession model. There is also no newsflow on any specific proposal raised with the Singapore government yet.

- **A simple comparison between general elections - minimum downside risk.** Construction companies are unlikely to suffer the magnitude of the 2018 election sell-down when Barisan Nasional ended its 60-year reign as the ruling government for the first time. During the 15th General Election (GE15) in 2022, the KLCON index and most construction stocks within our coverage saw a correction of 1-12% two months before the election, and surged 4-14% two months after the GE15. We are of the view that the downside from the upcoming election is limited as: a) the market has already factored in the volatility, and b) sector bellwethers are riding on the data centre (DC) upcycle with record-high earnings delivery. As such, we expect share prices to re-rate upwards from here on, limiting the impact and sentiment from GE16.

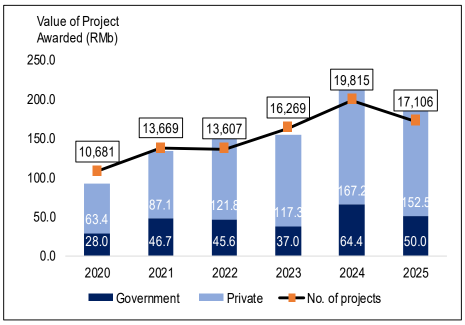
Share Price Reaction Before Past Elections

	Dates		KLCON Index	Gamuda	Suncon	IJM	WCT	Binastra	Kerjaya	MRCB
GE 11	21-Mar-04	2 months before	6.5%	-0.8%	n.a.	8.0%	6.1%	n.a.	-4.6%	2.0%
		2 months after	-18.3%	-17.5%	n.a.	-8.8%	-16.4%	n.a.	-12.6%	-30.5%
GE 12	8-Mar-08	2 months before	-21.9%	-37.9%	n.a.	-20.6%	-18.6%	-14.7%	-9.2%	-32.8%
		2 months after	11.1%	7.5%	n.a.	0.9%	10.6%	42.4%	-21.6%	28.4%
GE 13	5-May-13	2 months before	2.8%	2.0%	n.a.	6.5%	4.0%	7.0%	-13.1%	0.7%
		2 months after	10.4%	10.2%	n.a.	2.1%	1.2%	-6.6%	15.0%	2.6%
GE 14	9-May-18	2 months before	-1.7%	3.0%	11.7%	3.5%	-6.6%	-70.7%	5.2%	-2.0%
		2 months after	-29.2%	-34.7%	-24.7%	-35.8%	-37.9%	-8.2%	-8.1%	-40.0%
GE 15	19-Nov-22	2 months before	-6.0%	-8.1%	-2.0%	-11.3%	-11.5%	0.0%	-0.9%	-12.1%
		2 months after	7.2%	7.4%	13.8%	4.0%	3.9%	811.6%	7.0%	5.2%
	Ytd (2026)		0.7%	-9.8%	44.3%	18.5%	-28.4%	-2.3%	0.0%	-9.2%

** Data collected two months before and after General Election*

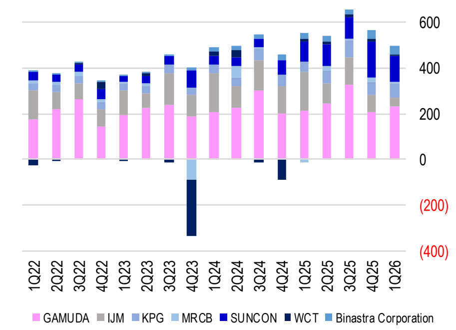
Source: Bloomberg, UOB Kay Hian

Domestic Projects Awarded



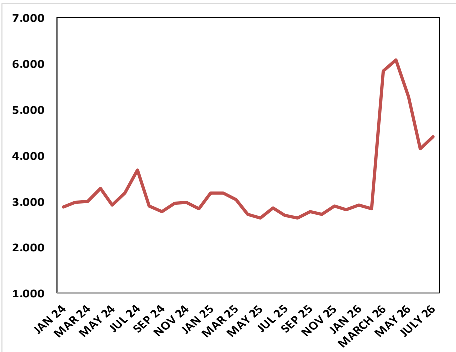
Source: Construction Industry Development Board, UOB Kay Hian

Construction Firms' Earnings Trend



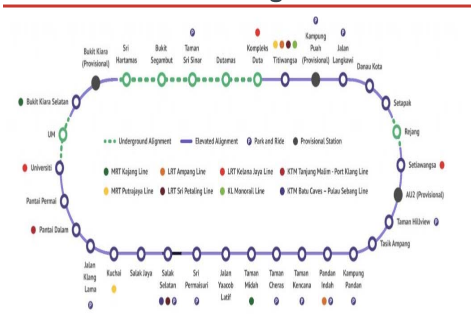
Source: Respective companies, UOB Kay Hian

Diesel Price (RM/litre)



Source: UOB Kay Hian

MRT 3 Circle Line Alignment



Source: UOB Kay Hian

Valuation/Recommendation

- **Maintain OVERWEIGHT on the sector,** as 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.
- **For infrastructure projects,** more patience is required for local contractors that may benefit, as the award of mega projects remain selective and could face a delay.
- **Our sector top picks are** Gamuda (BUY/Target: RM5.25), Binastra (BUY/ Target: RM2.68) and Kerjaya (BUY/Target: RM3.20). 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.

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	22x 2026F PE (+1SD above mean)	7.88
IJM Corp	BUY	24.8x FY27F PE (+1SD above mean)	2.48
Kerjaya Prospek Group	BUY	15.8x 2026F PE (+1SD above mean)	3.20
WCT	HOLD	9.9x 2026F PE (slightly below mean)	0.50
Malaysian Resources	HOLD	33x 2027F PE (mean)	0.32

Source: UOB Kay Hian

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