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KL Construction Index vs FBMKLCI



Earnings Summary

IJM Corporation Bhd	BUY	TP: RM3.48
FYE Mar (RM m)	FY26	FY27F FY28F
Revenue (RM'm)	6,754.0	8,217.9 8,699.9
PATAMI (RM'm)	3.0	555.1 668.5
CNP (RM'm)	3.0	555.1 668.5
EPS - core (sen)	0.1	15.2 18.3
P/E (x)	3,343.6	18.5 15.3

Kerjaya Prospek Group Bhd	BUY	TP: RM3.75
FYE Dec (RM m)	FY25	FY26F FY27F
Revenue (RM'm)	2,249.3	2,762.6 3,817.3
PATAMI (RM'm)	227.0	254.4 314.3
CNP (RM'm)	227.0	254.4 314.3
EPS - core (sen)	18.0	20.2 25.0
P/E (x)	19.6	17.5 14.2

GDB Holdings Bhd	BUY	TP: RM0.60
FYE Dec (RM m)	FY25	FY26F FY27F
Revenue (RM'm)	748.1	760.0 721.3
PATAMI (RM'm)	54.3	71.6 64.5
CNP (RM'm)	106.2	71.6 64.5
EPS - core (sen)	10.3	6.9 6.3
P/E (x)	4.0	5.9 6.6

Mitrajaya Holdings Bhd	BUY	TP: RM1.27
FYE Dec (RM m)	FY25	FY26F FY27F
Revenue (RM'm)	808.5	1,138.9 1,522.4
PATAMI (RM'm)	81.8	126.6 170.1
CNP (RM'm)	94.2	137.0 180.5
EPS - core (sen)	12.8	18.6 24.5
P/E (x)	3.8	2.6 2.0

HSS Engineers Bhd	BUY	TP: RM0.70
FYE Dec (RM m)	FY25	FY26F FY27F
Revenue (RM'm)	220.7	232.4 270.3
PATAMI (RM'm)	13.4	24.6 30.2
CNP (RM'm)	25.7	24.6 30.2
EPS - core (sen)	5.1	4.8 5.9
P/E (x)	9.0	9.4 7.7

Southern Score Builders Bhd	BUY	TP: RM0.78
FYE Dec (RM m)	FY26	FY27F FY28F
Revenue (RM'm)	491.0	526.9 583.7
PATAMI (RM'm)	66.4	99.7 110.2
CNP (RM'm)	63.1	99.7 110.2
EPS - core (sen)	2.8	4.4 4.8
P/E (x)	23.0	14.6 13.2

ISF Group Bhd	BUY	TP: RM1.03
FYE Dec (RM m)	FY25	FY26F FY27F
Revenue (RM'm)	98.5	122.6 149.7
PATAMI (RM'm)	25.3	34.9 42.5
CNP (RM'm)	25.3	34.9 42.5
EPS - core (sen)	2.5	3.5 4.3
P/E (x)	31.8	23.1 18.9

Construction Sector

Budget 2027 Preview – Execution Runway Intact

Overweight

- **Budget 2027 – the fifth MADANI budget and second under the 13th Malaysia Plan (2026–2030) – is scheduled for tabling on 9 October 2026 under the theme "Malaysia MADANI: Reaching for the Skies, While Anchored on Our Values."**
- **For construction, the base case is continuity rather than new stimulus: the sector's order book is already underpinned by a multi-year pipeline of rail, highway, water and East Malaysia connectivity projects carried over from Budget 2026, with 2027's key swing factors being execution milestones, including contract awards, tender outcomes and funding progress, rather than new mega-project announcements.**
- **We are OVERWEIGHT on the sector, anchored by the pending Penang LRT CMC2 award, the potential finalisation of the Johor E-ART project, stabilising input costs and a structurally supportive hyperscale data-centre construction pipeline.**
- **Our Top Picks are ISF (BUY; TP RM1.03), KERJAYA (BUY; TP RM3.75) and HSS (BUY; TP RM0.70).**

Construction Backdrop

Penang LRT. Following the award of the **RM8.3bn** Civil Main Contract 1 (CMC1) package to the Gamuda-led SRS Consortium and the **RM3.028bn** System Turnkey Contract (STC) to the MRCB-Theta Edge JV, attention has shifted to the remaining Civil Main Contract 2 (CMC2) package linking Macallum on Penang Island to Penang Sentral in Butterworth. Tender evaluation is currently underway, with MRT Corp targeting a **November 2026 award**. The package is estimated at **RM4–5bn**. CMC1 construction is also progressing, with 45 pile caps and 32 pier columns completed as of August 2026 and works underway across 14 of 19 construction sections.

Johor E-ART. The Johor Bahru Elevated Autonomous Rapid Transit (E-ART) project complements the RTS Link (targeted to begin operations in early 2027) and supports transit-oriented development across Iskandar Malaysia. In May 2026, the Public-Private Partnership Unit (UKAS) issued a Letter of Intent to a consortium led by DOM Industries and MMC Engineering, with technical expertise from Thailand's BTS Group and project promotion by Nylex (Malaysia) and Ancom Nylex; final financing terms and the concession agreement remain under government review. Following scope optimisation, the project value is understood to have been trimmed to **c.RM7–8bn** from an initial RM10bn estimate. The Federal Government has indicated that it will provide funding, although the detailed financing structure and concession arrangements remain to be finalised. The project is targeted for finalisation by end-2026.

MRT3. MRT3 (the Circle Line) has moved beyond the conceptual stage following the Transport Ministry's formal approval of the Final Railway Scheme in July 2025. Land acquisition is underway and targeted for completion by end-2026. Main construction tenders are expected to progress around the completion of land acquisition, with **contract awards potentially extending into late-2026 to mid-2027 and construction likely to begin in 2027**. The project is expected to cost **below RM45bn following cost rationalisation** and comprises a 51.6km orbital alignment integrating with the existing Klang Valley rail network. Given its extensive MRT track record and underground tunnelling capabilities, **Gamuda is among the key potential beneficiaries**, alongside other major civil contractors.

Data centres. Malaysia's positioning as a regional cloud and AI hub continues to underpin a sizeable data-centre construction pipeline. As of 1Q26, TNB was supplying **36 operating data centres with 4.5GW of capacity**, while a further **23 projects totalling 3.8GW were under construction**, implying 59 projects and 8.3GW of maximum demand in aggregate. Using a conservative **RM20–25mn/MW construction-cost assumption**, the 3.8GW under-construction pipeline represents a potential **RM76–95bn** of construction value, although actual value will vary depending on project specification, M&E intensity and phasing. The broader opportunity is considerably larger, with the Data Centre Task Force approving an additional **5GW** of electricity supply capacity in 2026, taking total approved capacity to **13.3GW**. Johor remains the dominant hub, accounting for around 68% of TNB's data-centre capacity, supported by its proximity to Singapore, relatively competitive land and power costs and the JS-SEZ.

Construction Awards & Work Done. Construction activity remains healthy, with construction work done rising **8.7% YoY to RM94.3bn in 1H26**, driven by private-sector activity and civil engineering works. The Government's **RM81bn Development Expenditure allocation for 2026**, including **RM17.5bn for transport**, provides further support for infrastructure spending. Together with the Penang LRT, MRT3 and data-centre pipeline, the ongoing project flow should underpin **orderbook replenishment and earnings visibility into 2027**.

Figure 1: Key Construction Project Pipeline

Project	Contractors	Contract Value (RM'm)	Commence	Target Completion
ECRL Phase 1 (Kota Bharu–Gombak)	China Communications Construction Co.	50,270	2017	End-2026
Penang LRT – Civil Main Contract 1	Gamuda (60%, SRS Consortium)	8,316	Jul 2025	Dec 2031
Penang LRT – Systems contract	MRCB–Theta Edge JV	3,030	Aug 2026	Dec 2031
RTS Link (JB–Singapore)	Ekovest, IJM, SunCon, Gadang Holdings	4,365	2020	End-2026
Johor E-ART	DOM Industries/MMC Engineering-led consortium (with BTS Group, Nylex/Ancom Nylex)	8,000	May 2026	May 2030
Pan Borneo Highway – Sabah Phase 1A	Multiple contractors, incl. Mudajaya–Musyati JV	1,670	2021	Nov 2026
Sarawak–Sabah Link Road – Phase 1 (Lawas–Long Lopeng)	Multiple contractors, incl. Kimlun Corporation	780	2024	Nov 2026
Data Centre in Klang Valley	Gamuda	3,880	2025	2027
Data Centre in Klang Valley	IJM Construction	1,900	2026	2027
Data Centre in Johor and Klang Valley	Sunway Construction	3,816	2026	2028
Data Centre in Johor	Kerjaya	858	Q3 2026	Q1 2027

Source: Various, Apex Securities

Our View on the Sector

Taken together, **these developments reinforce our view that 2027 will be a year of execution rather than new announcements for the construction sector**, with near term share price catalysts sitting largely outside the budget speech itself. The CMC2 award in November and E-ART's finalisation by end 2026 both fall just after Budget 2027 is tabled, meaning the budget itself may only provide supportive commentary while the actual contract news flow crystallises in the following weeks. Gamuda's incumbent position on CMC1 and its tunnelling track record should support its positioning for CMC2 and MRT3, though the six-way contest for CMC2 and the staggered MRT3 timeline (land acquisition into late 2026, tenders into 2027) mean order book conversion will be gradual rather than immediate, and we would treat any slippage in these timelines as the key risk to sector earnings visibility rather than a change in the underlying demand story.

The data-centre pipeline is, in our view, the more structurally durable growth driver, given that much of the pipeline is already supported by signed electricity supply agreements. With 3.8GW of committed capacity still to be built out and an estimated RM76 to 95bn of remaining contract value concentrated in Johor and the Klang Valley, we see this as a demand pool that will keep contractors with power dense, M&E heavy capabilities busy independent of how the public infrastructure cycle evolves, and one that

should partly offset any near-term disappointment if MRT3 or E-ART timelines slip further. **IJM** and **KERJAYA** are positioned to compete for the larger civil, shell-and-core and fit-out packages given their established main-contractor track records, while **ISF** and **SSB8** offer more specialist exposure at the industrialised-building-system and structural-works level that hyperscale facilities increasingly rely on for faster delivery. **HSS**, meanwhile, stands to benefit on the project management and engineering consultancy side, supporting design, planning and technical oversight across the pipeline as operators scale up.

Minimum Wages. The current RM1,700 minimum wage remains well below the RM3,100 “Living Wage” benchmark adopted by GLICs and GLCs. With the government seeking to narrow the structural wage gap, **we expect Budget 2027 to potentially announce a revision to the minimum wage, with the new rate potentially falling within the RM1,700–2,000 range.** For construction, which remains highly reliant on foreign labour, any increase would add to labour costs alongside higher EPF contributions for foreign workers, putting further pressure on project margins, particularly for labour-intensive and fixed-price contracts. Larger contractors with greater scale, automation and IBS adoption should be relatively better positioned to absorb the increase.

Figure 2: Sensitivity of Core Net Profit to Minimum Wage Increase

New min. wage (RM)	IJM	Kerjaya	GDB	Mitrajaya	HSS	ISF	SSB8
1,700	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1,800	-11.7%	-5.1%	-5.2%	-4.6%	-1.8%	-2.0%	-4.0%
1,900	-23.3%	-10.3%	-10.5%	-9.1%	-3.6%	-3.9%	-8.0%
2,000	-35.0%	-15.4%	-15.7%	-13.7%	-5.4%	-5.9%	-11.9%

Source: Apex Securities

Construction Sector Overweight

We are of Overweight stance on the sector, underpinned by: (i) the potential rollout of major infrastructure projects; (ii) stabilising input costs, which should support margin visibility; (iii) an improving property sector, providing stronger construction activity; and (iv) the ongoing data-centre investment upcycle, which should continue to drive project opportunities and order-book replenishment.

Our Top Picks are **ISF (BUY; TP RM1.03)**, **KERJAYA (BUY; TP RM3.75)** and **HSS (BUY; TP RM0.70)**. ISF is favoured as a scarce, high-margin pure-play on Malaysia's DC piping and sewerage build-out with a growing, DC-skewed tender pipeline and a track record of resilient earnings delivery. KERJAYA is favoured for its record RM5.9bn order book and contract wins running well ahead of target, genuine diversification into data centres, Johor Bahru, and M&E/renewable energy via its 31% stake in ES Sunlogy. HSS is favoured for its strong water-sector positioning, steady dividend yield, and healthy order book momentum, with its order book surging to RM2.28bn on new wins across water, transportation, and renewable energy, alongside its diversification into higher-value recurring income streams such as solar, digital/AI, and international contracts.

Figure 3: Peers Comparison

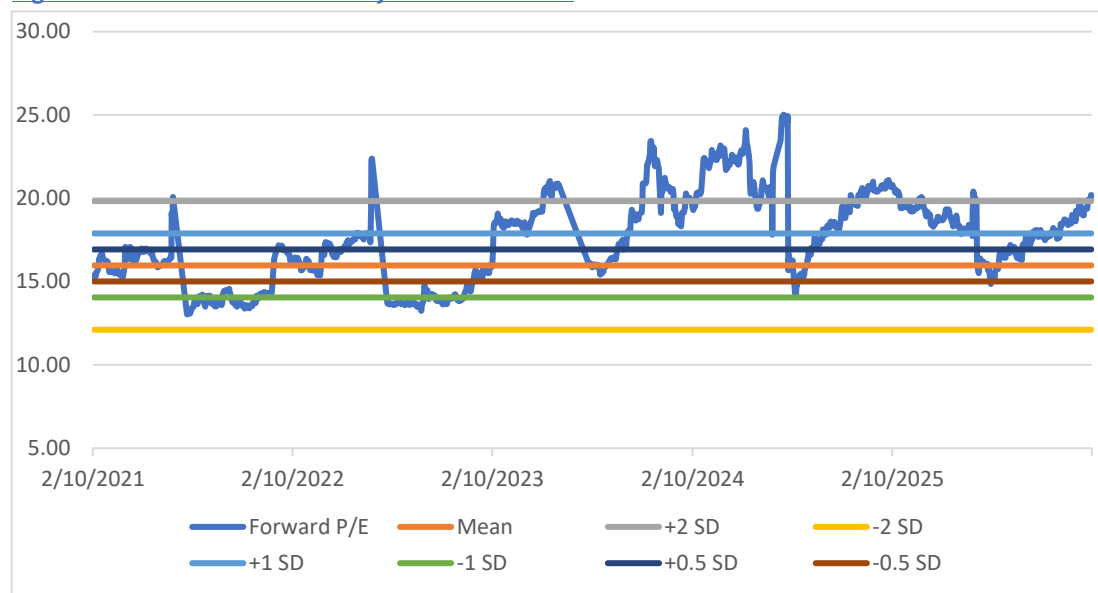
Company	FYE	Market Cap (RM' mil)	Price (RM) as at 1 Oct 2026	P/E (x)		P/B (x)		Dividend Yield (%)		ROE		ESG Rating
				2027F	2028F	2027F	2028F	2027F	2028F	2027F	2028F	
IJM Corporation Bhd	Mar	10,250	2.81	18.5	15.3	0.9	0.8	3.0%	3.0%	4.6%	5.3%	★★★
Kerjaya Prospek Group Bhd	Dec	4,486	3.54	14.2	17.3	3.2	3.0	4.0%	4.0%	22.3%	17.3%	★★★
GDB Holdings Bhd	Dec	423	0.41	6.6	7.2	1.1	1.0	4.6%	4.2%	17.5%	14.3%	★★★
Mitrajaya Holdings Bhd	Dec	361	0.49	2.0	1.9	0.3	0.3	7.0%	7.7%	16.4%	15.1%	★★★
HSS Engineers Bhd	Dec	234	0.46	7.7	5.2	0.6	0.6	3.9%	5.8%	8.2%	10.8%	★★★
Southern Score Builders Bhd	Jun	1,454	0.64	14.6	13.2	3.9	2.9	1.5%	1.5%	27.0%	21.6%	★★★
ISF Group Bhd	Dec	820	0.81	18.9	16.5	4.3	3.3	2.1%	2.4%	22.7%	20.3%	★★★
				11.8	10.9	2.0	1.7					

Source: Apex Securities

Valuation

The KL Construction Index's forward P/E sits around 19.7x, roughly 25% above its 5-year mean of 15.8x and running close to the +2 SD band of 19.8x. We think this **premium is largely justified, as the current re-rating is backed by record order books and a genuine multi-year pipeline** spanning the Penang LRT CMC2, Johor E-ART, MRT3 tendering and the largely de-risked hyperscale data-centre buildout. Still, a premium this size leaves little margin for error, and we would not be surprised to see some compression toward the 16x–18x range should key catalysts such as CMC2 or MRT3 slip, even if the underlying earnings outlook stays intact.

Figure 4: KL Construction Index 5 years Forward P/E



Source: Apex Securities

Key Risks

Carbon tax rollout. Higher steel and cement costs for contractors if no transitional support.

Election-cycle overhang. Stronger BN showing in Johor and Negeri Sembilan state polls fuels early GE16 speculation, risking disappointment if Budget 2027 adopts a supportive tone without substantive new project commitments.

MRT3 timeline risk. Re-tender and re-award window have already slipped once; further delay pushes out the sector's largest earnings-visibility catalyst.

Foreign worker levy framework. Possible levy reform to push automation over manual labour could raise near-term costs for labour-reliant contractors.

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
