



CONSTRUCTION

Research Team

Ayesha Wajih | Assistant Manager Research
Syed Faran Ahmad | Associate Research Analyst

© The Pakistan Credit Rating Agency Limited.

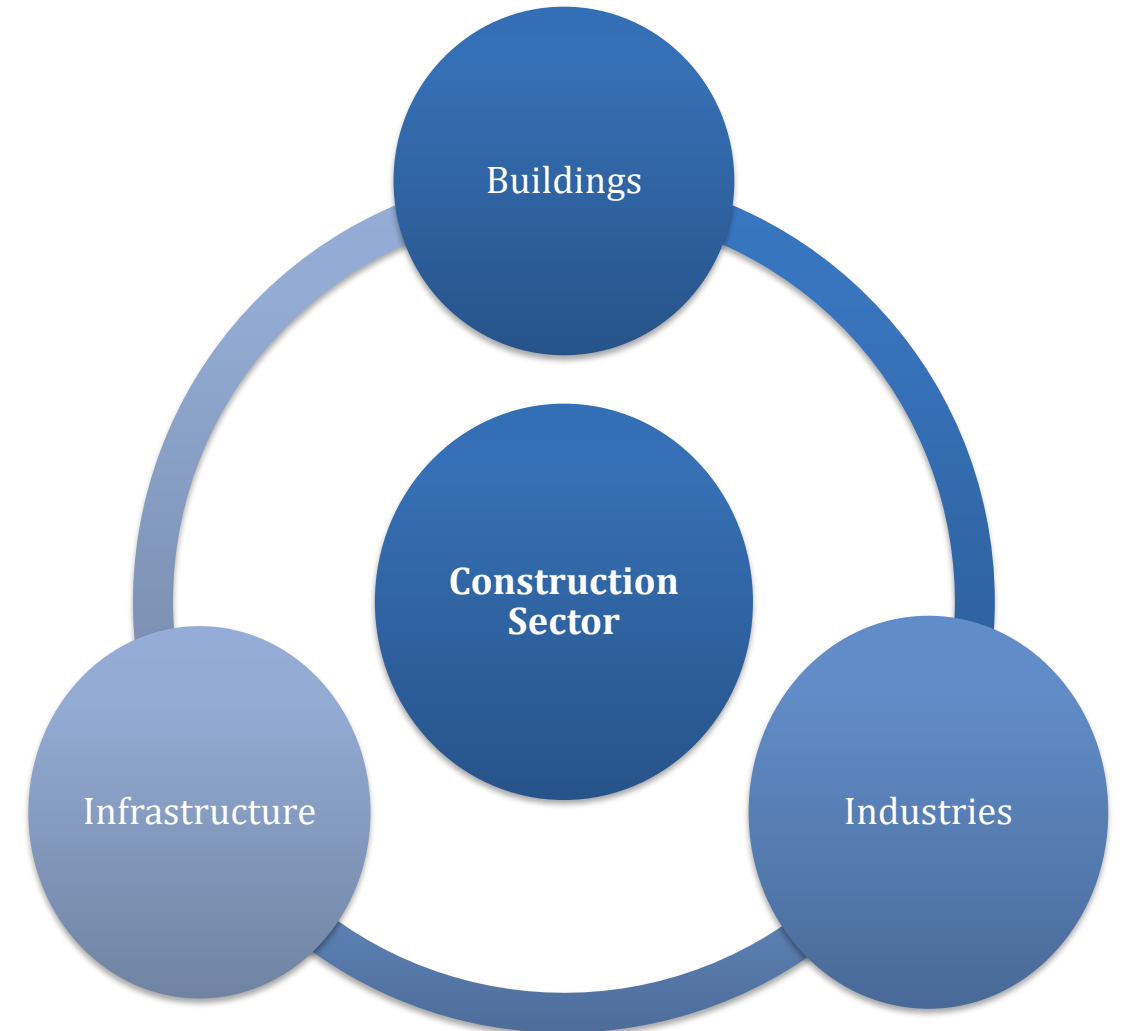


Contents	Page.	Contents	Page.
Introduction	1	Local Business Cycle	10
Global Overview	2	Local Business Risk	11
Global Outlook	3	Local Financial Risk	12
Local Overview	4	Local Financial Risk	13
Local Overview	5	Rating Curve	14
Local Foreign Direct Investment	6	SWOT Analysis	15
Local Transport Infrastructure under CPEC	7	Outlook	16
Local Gwadar Projects under CPEC	8	Bibliography	17
Local Supply	9		

Construction

Introduction

- **Construction** comprises economic activities directed towards the creation, renovation, repair or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other engineering constructions such as roads, bridges, dams and so forth.
- The global construction sector is a growing sector where its market value is expected to increase from USD~13.6trn in CY24 to USD~25.5trn in CY34, with a compound annual growth rate (CAGR) of ~6.5%. Leading contributors to this growth include urbanization, population growth, government support, industrial and infrastructure development, and the rise of smart cities.
- The sector can be broadly classified into the following segments -
 - a) Buildings
 - b) Infrastructure
 - c) Industries
- The Global construction sector, therefore, is of major economic significance, as it contributed ~11.8%* to the gross output in CY24.



Construction

Global | Overview

- The Top 250 construction contractors across the globe recorded construction revenue of USD~2.2trn in CY23 (SPLY: USD~-2.1trn). Domestic revenue for these players accounted for ~77.8% (USD~1.7trn) of the total revenue while international revenue accounted for the rest (USD~0.5trn).
- The top 10 companies, as depicted, contributed ~38.9% of the total construction revenue in CY23. These secured ~940 contracts, ~76.5% of which comprised construction in the Transportation and Buildings segment.
- Infrastructure projects, Transportation and Buildings, comprised ~50.3% of the construction revenue, followed by Petroleum (~16.2%) and Power (~10.4%) while revenue by region revealed that Europe (~26.2%) and Asia (~17.9%) collectively accounted for ~44.1% of the construction revenue during the year.
- To address labor skills, top contractors are investing in their in-house teams, technology and operational improvements to improve productivity. With a focus on reducing carbon emissions, constructions companies are proactively leading expenditure across the world in green construction methods.

Top 10 Contractors CY23 Revenue (USD bln)			
Sr.	Firm	Country	Revenue
1	China State Construction Engineering Corp. Ltd	China	282.4
2	China Railway Group Ltd	China	179.3
3	China Railway Construction Corp. Ltd	China	163.0
4	China Communications Construction Group Ltd	China	137.3
5	China Metallurgical Group Corp	China	81.8
6	Vinci	France	75.3
7	Power Construction Corp. Of China	China	74.0
8	Shanghai Construction Group Co. Ltd	China	57.5
9	Bouygues	France	49.7
10	Grupo Acs/Hochtief	Spain	45.7
Total			874.7

Construction

Global | Outlook

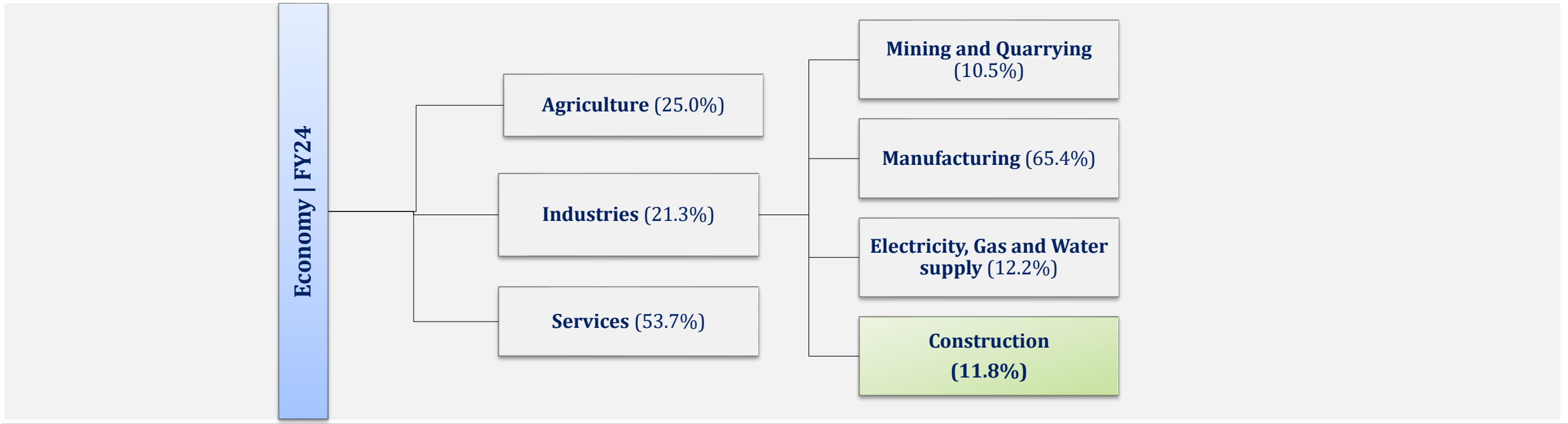
- The global nominal construction spending is forecasted to reach USD~15.6trn by End-CY25 (CY24: USD~14.7trn), up ~6.1% YoY. Infrastructure spending is the key driver and accounts for the biggest chunk of total construction infrastructure. This strong reliance on infrastructure investments — spanning across transportation, water resources, and energy transition projects — illustrates the heavy influence of public-funded initiatives and governmental priorities in driving the overall construction market.
- Many companies across the globe are focusing on cost controls — through better project management, more favorable contract terms, and shifts toward variable-price contracts — to protect margins amidst rising material costs and wage inflation. The ongoing geopolitical tensions and potential for U.S. tariffs on construction materials (such as steel and lumber) might increase costs and lead to project delays or cancellations.
- In China, slower receivables turnover and longer payment cycles could further compress margins and credit headroom. Changes in government policies — such as potential shifts in U.S. subsidies for green energy under the new administration — might also affect market dynamics. Inflationary pressures, even though moderating, continue to affect cost structures and project viability globally.
- Growth is expected to be moderate and gradual, particularly driven by civil engineering and public-funded investments. Engineering & Construction revenue growth is expected to remain challenged by elevated leverage pressures and government control over investment projects. Increased investments in data centers, energy transition projects (including renewables and grid modernization), and transportation and water infrastructure are key growth drivers. The Doge Momentum Index (DMI*) grew ~0.7% MoM in Feb'25 to ~225.6 (Jan'25: ~223.9) and ~27.0% YoY with data centers, traditional office buildings and retail planning being the major contributors.
- On the other hand, the said improving economic conditions are likely to influence construction demand across various segments. Declining mortgage rates could boost demand and residential construction activity. Global housing market trends are forecast to be positive, with rising home prices and low mortgage arrears given declining or stable mortgage rates, limited but positive economic growth, low or stable unemployment (the ILO estimates ~220.0mln people working globally in construction), and resilient demand.

**The DMI is a monthly measure of the value of nonresidential building projects going into planning, shown to lead construction spending for nonresidential buildings by a full year.*

Construction

Local | Overview

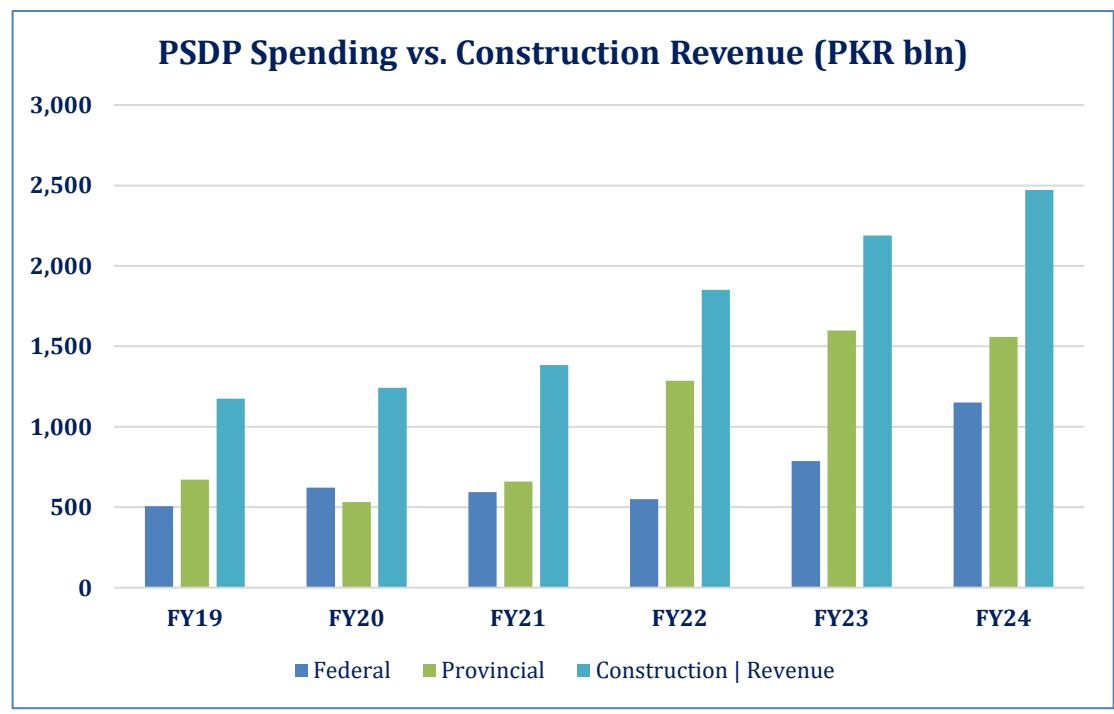
- In FY24, Pakistan’s GDP (nominal) stood at PKR~106.0trn, increasing, in real terms, by ~2.5% YoY (FY23: ~0.2% YoY decline). Industrial activities in FY24 held ~21.3% share in the GDP while the manufacturing activities made up ~13.9% of the value addition. In 2QFY25, Pakistan’s GDP (nominal) stood at PKR~25.8trn, rising in real terms by ~1.7% YoY (SPLY: ~1.8% YoY). Real GDP growth rate for 2QFY25 signals a tepid improvement in economic activity as compared to SPLY, albeit at a slower rate.
- The Construction sector maintained ~11.8% share in Industrial sub-segment of the economy during FY24, while contribution to GDP stood at ~2.5%, at current prices. During the year, the sector registered ~(0.96)% YoY growth, while in 2QFY25, this was recorded at ~(7.1)% YoY (SPLY: ~-3.2% YoY).



Construction

Local | Overview

- A major driver of demand comprises the Public Sector Development Program (PSDP) expenditure, followed by Private Investments in the construction sector. The PSDP FY25 has been aligned towards the 5Es (exports, equity, empowerment, environment and energy) and 4 RF (Resilient Recovery, Rehabilitation and Reconstruction Framework) to regain economic growth.
- PSDP FY25 is up ~15.8% YoY, recording at PKR~1,100.0bln. During 7MFY25, PKR~629.0bln has been authorized, which represents ~57.2% of the total allocated for the FY25. Under PSDP FY25 for Punjab, PKR~6,600mln has been allocated to ~16 ongoing schemes for which total cost stands at PKR~90,772mln. One additional scheme, namely, Dualization of Sialkot-Eminabad Road, has a budgeted PSDP FY25 allocation of PKR~500.0mln, while approved cost stands at PKR~10,688mln.



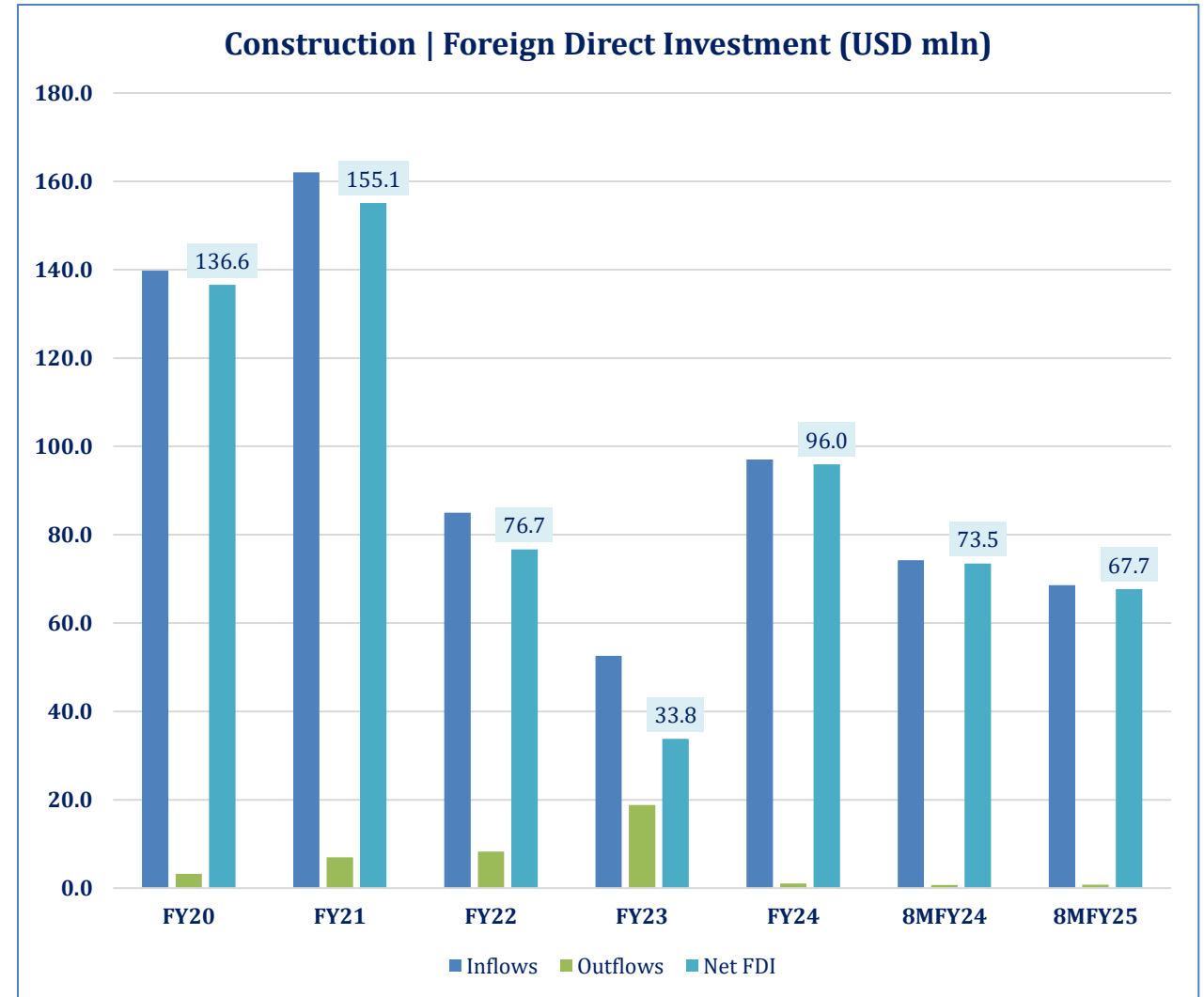
Federal Ministries	FY25		FY24	
	PKR mln	% Share	PKR mln	% Share
Provinces & Special Areas	227,316	21%	169,900	18%
Water Resources	184,598	17%	110,500	12%
National Highways	161,264	15%	157,500	17%
Power (NTDC/ PEPCO)	104,590	10%	55,278	6%
Education	81,866	7%	68,200	7%
Planning, Development & Special Initiatives	51,406	5%	24,897	3%
Railways	35,000	3%	33,020	3%
National Health Services	24,750	2%	13,100	1%
Housing	24,338	2%	40,680	4%
Science & Technology Research	6,650	1%	8,000	1%
Others	198,222	18%	268,926	28%
Total Federal PSDP	1,100,000	100%	950,000	100%

Note: Education includes HEC as well as Federal Education & Professional Training. NHA is classified under Corporations.

Construction

Local | Foreign Direct Investment

- The average Net FDI in construction sector for FY20-24 recorded at USD~99.6mln while in FY24 this stood at USD~96.0mln, ~2.8x the levels recorded in SPLY.
- In 8MFY25, sector's Net FDI registered ~7.9% YoY decline, particularly due to worsening inflows that have fallen by ~7.5% YoY.



Construction

Local | Transport Infrastructure under CPEC

- In addition to the transport infrastructure projects falling under the CPEC ambit (enlisted below), ~08 are in the pipeline, including Dir Expressway and Peshawar-D.I.Khan Motorway, while ~05 are long-term projects, including Karachi Circular Railway and Mirpur-Muzaffarabad-Mansehra Road, to name a few.

Completed Projects	Length (KM)	Location	Approx. Cost (USD mln, PKR)
KKH Phase II (Havelian-Thakot section)	120	KP	1,315
Peshawar-Karachi Motorway (Multan-Sukkur Section)	392	Punjab, Sindh	2,889
Orange Line Metro Train - Lahore	27	Punjab	1,626
Cross Border Optical Fiber Cable (Khunjrab - Rawalpindi)	820	KP, Punjab	44
Pilot Project of Digital Terrestrial Multimedia Broadcast (DTMB)	-	Punjab	4.0
Hakla - D.I Khan Motorway	297	Punjab	PKR~122,181mln
Under Construction Projects	Length (KM)	Location	Approx. Cost (PKR mln)
Zhob - Quetta (Kuchlak) (N-50)	305	Baluchistan	66,833
Khuzdar-Basima Road (N-30)	106	Baluchistan	20,000
Hoshab - Awaran Road Section (M-8)	146	Baluchistan	26,000
KKH Alternate Route Shandur - Chitral Road	153	KP	16,000
Nokundi-Mashkhel Road	103	Baluchistan	16,000

Construction

Local | Gwadar Projects under CPEC

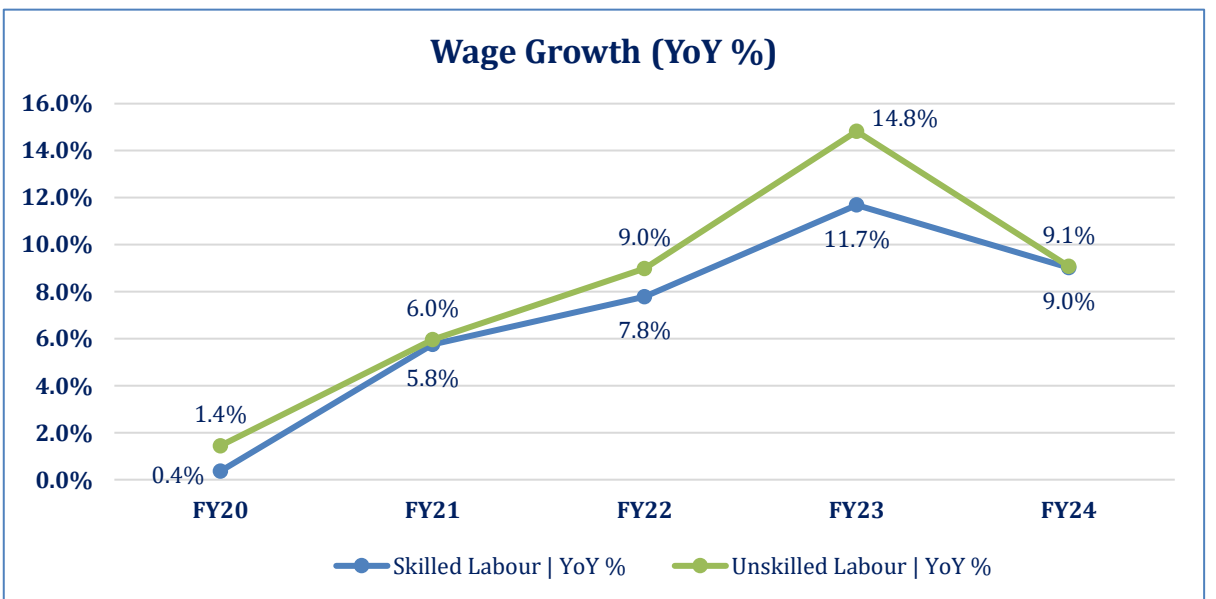
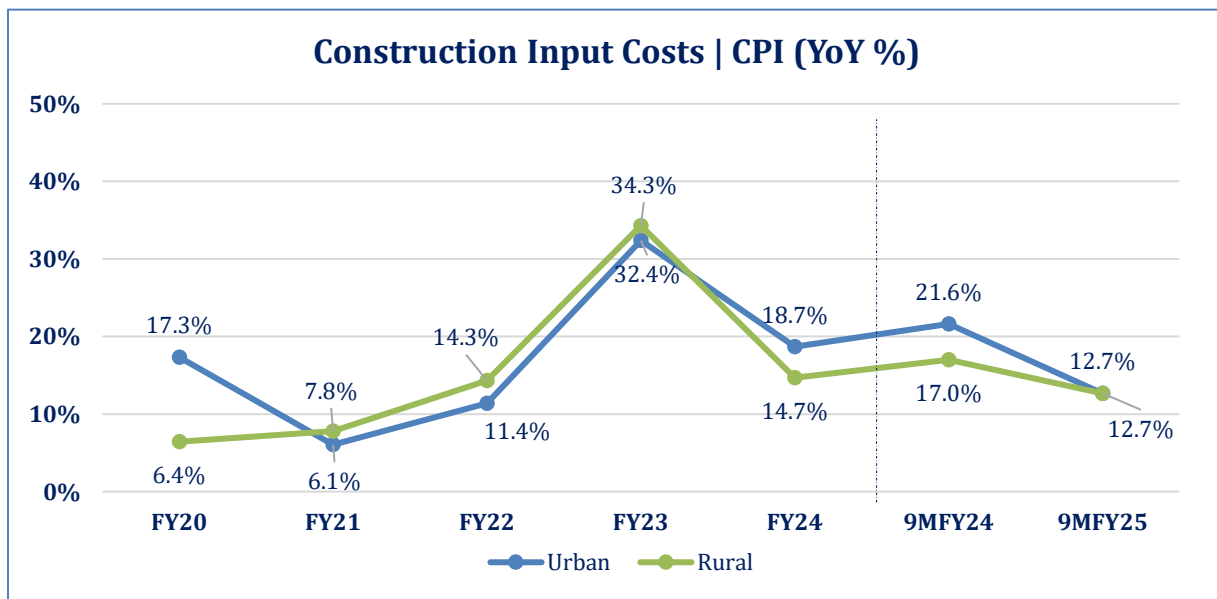
- The total cost for completed projects as of FY25 and depicted, amounted to USD~836.0mln. Under-construction projects are expected to cost USD~16.0bln to the national exchequer, while In-Pipeline projects are expected to cost another USD~692.0mln.
- In addition to enlisted, 2 projects are in the pipeline, including Gwadar Smart Environment Sanitation System and Landfill Project.

Completed Projects	Area (acres)	Approx. Cost (USD mln)
Development of Port and Free Zone	2,281 acres	300
Gwadar Smart Port City Master Plan	-	04
Pak-China Technical and Vocational Institute at Gwadar	-	10
Gwadar Eastbay Expressway	-	179
Pak-China Friendship Hospital	68 acres	100
1.2 MGD Desalination Plant	-	13
New Gwadar International Airport	-	230
Under Construction Projects	Length (KM)	Approx. Cost (PKR bln)
Necessary facilities of fresh water treatment, water supply and distribution	-	11
5 MGD Water Desalination Plant Gwadar	-	5
In-Pipeline Projects	Length (KM)	Approx. Cost (USD mln)
300MW Coal-Fired Power Project at Gwadar	-	542
Construction of Breakwaters	-	123
Dredging of berthing areas & channels	-	27

Construction

Local | Supply

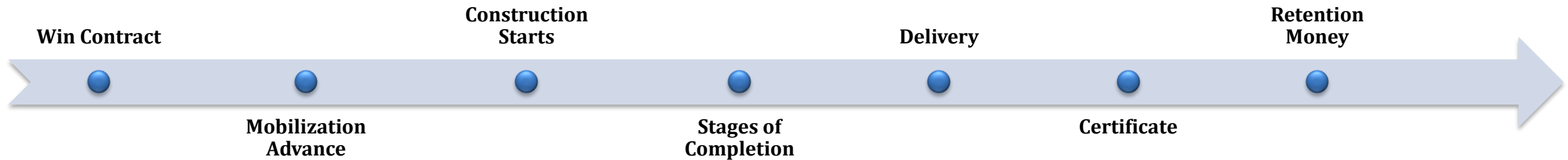
- Material cost constitutes major portion of sector players' cost of sales, followed by salaries and wages of both technical staff and labor. The basic construction material like cement and steel is available locally, although raw materials for each have to be procured through imports. Although the sector is capital-intensive in nature, labor also plays an important role. The sector employs ~9.5% of (10 years-and-above) employed persons in the country (~37.4% are employed in the agriculture segment*), making it one of the largest employers.
- CPI index for the sector's input costs, comprising prices for allied sectors such as cement, steel, glass, among others, averaged at ~16.7% in FY24 for rural and urban areas, depicting ~14.7% and ~18.7% YoY increase, respectively. In 9MFY25, this increase slowed down to ~13.0%, in-line with lower headline inflation (Avg. Inflation - FY24: ~23.9%; 9MFY25: ~5.4%).
- Wages for skilled labor in the construction sector have, on average (FY20-24), been ~47.5% higher than those for the unskilled. In FY24, the former averaged at PKR~1,866/day, with YoY increase of ~9.1% YoY, whereas the latter stood at PKR~1,293/day, up ~9.1% YoY. Meanwhile, the minimum wage in Pakistan stands at PKR~37,000/month.



*PBS report on labor from CY22.

Construction

Local | Business Cycle



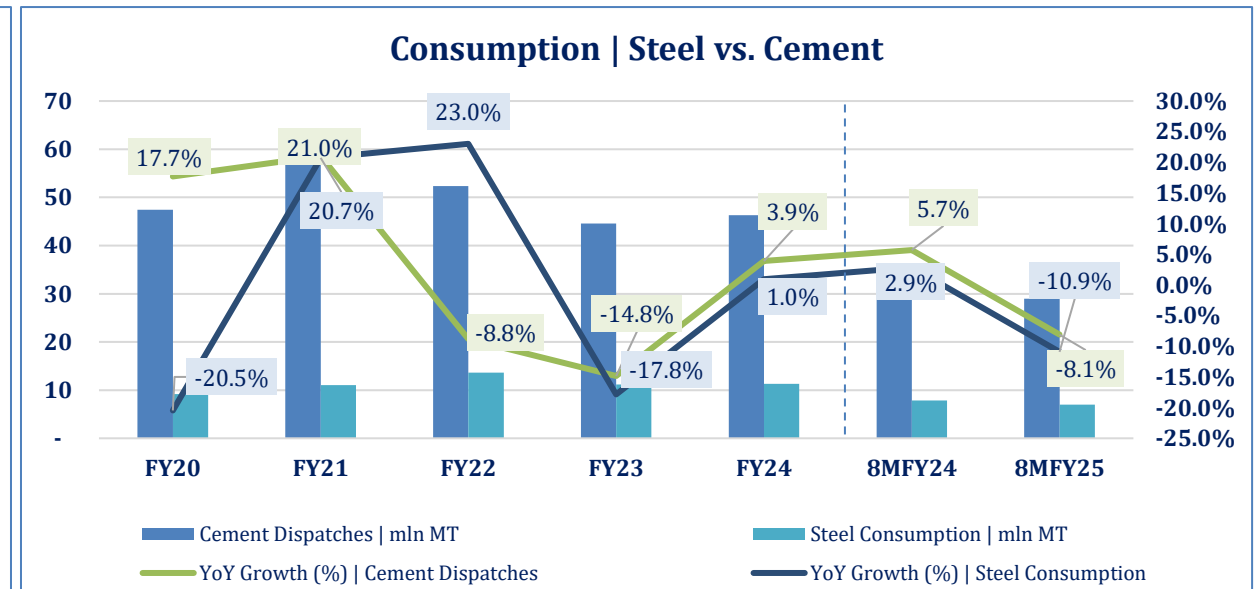
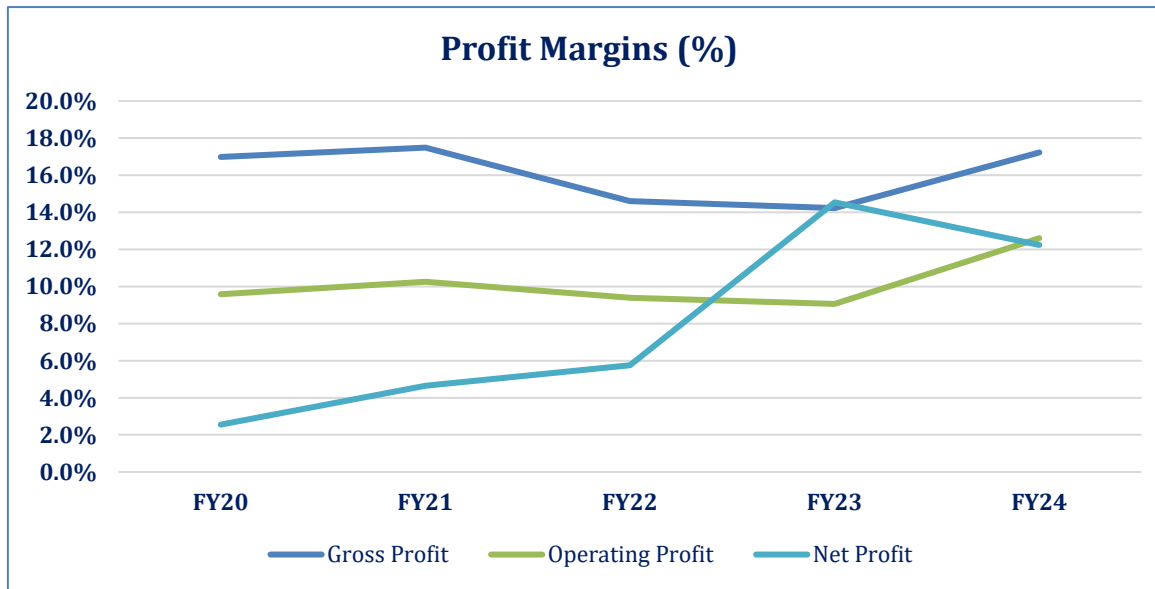
Construction projects generally have the following 7 stages in their life cycle:

- **Win Contract:** After successful bidding the contract is awarded to the contractor.
- **Mobilization Advance:** Is given to the contractor so that machinery, equipment and labor can be mobilized.
- **Construction Starts:** Within a stipulated time period, as mentioned in the contract.
- **Stages of Completion:** The project is divided into certain number of stages and the contractor is paid after successful completion of each milestone.
- **Delivery:** The project needs to be delivered within an agreed timeframe after which the contractor may accrue damages.
- **Certificate:** When the client is satisfied and there are no pending disputes, a certificate of completion is issued.
- **Retention Money:** Is returned to the contractor after completion of a certain time period after project delivery.

Construction

Local | Business Risk

- The sector's average gross profit margin during FY20-24 stood at ~16.1%. In FY24, these recorded at ~17.2% (FY23:~14.2%). Sector's revenue registered an uptick of ~30.8% YoY, hand-in-hand with an increase of ~26.2% YoY in COGS. The sector's operating margin showed considerable improvement to stand at ~12.6% (SPLY: ~9.1%). Average net margin recorded at ~12.2% (SPLY: ~14.2%), mainly due to ~13.5% YoY higher finance costs on the back of high interest rates. These are likely to improve by End-FY25 owing to monetary easing during 7MFY25.
- The COGS breakdown for FY24 revealed raw material as the largest contributor at ~56.9% while wages represented ~12.6% share. Prices for long steel products and cement rose ~5.3% (SPLY: ~32.4%) and ~16.4% (SPLY: ~12.7%) YoY, respectively. In 8MFY25, lower steel and cement consumption indicates a lack of momentum in large-scale infrastructure and small-scale construction projects. During the period, prices still rose ~12.3% and ~22.4% YoY, respectively. Going forward, with downward revision in local energy tariffs and international cement prices expected to remain on the lower end, local prices for steel and cement are likely to stabilize, giving way to improved construction activity.

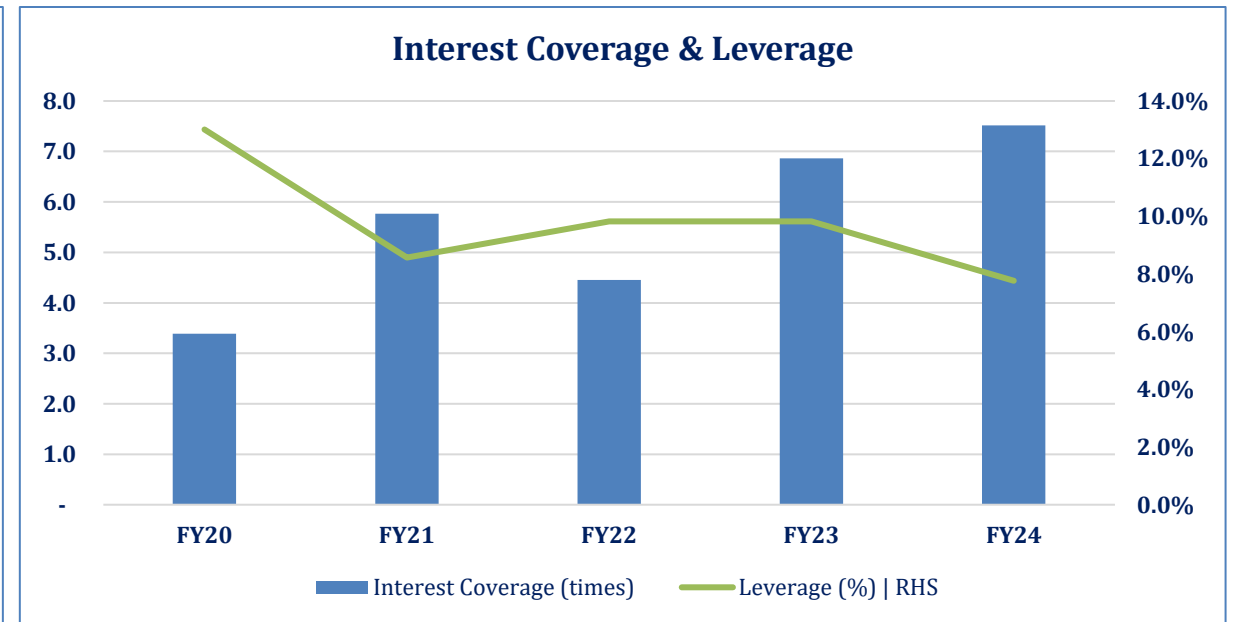
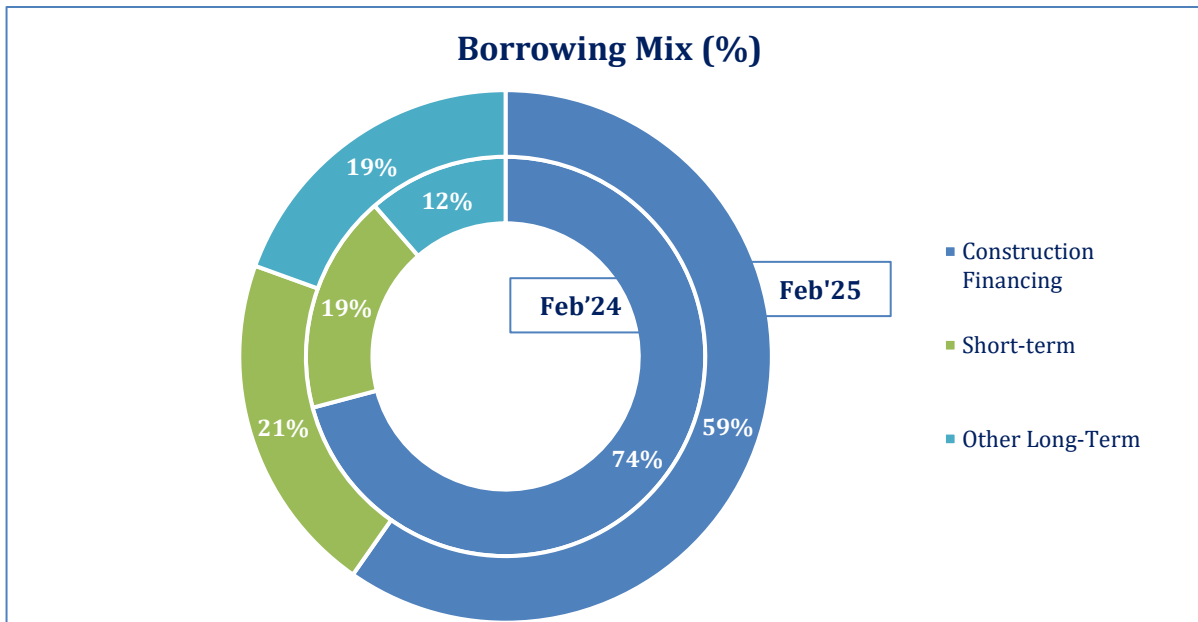


Note: Margins reflective of ~8 PACRA-rated/listed sector players in FY24. A significant asset revaluation by one player drove net margins to exceed gross margins in FY23. Steel Production prorated using 7M data for fair comparison. *Reflects ~03 sector players.

Construction

Local | Financial Risk

- As of End-Feb'25, the sector's total borrowings stood at PKR~213.0bln, up ~11.8% YoY. Construction financing stood at PKR~126.0bln, down ~10.6% YoY and held the largest share in the overall borrowing mix at ~59.2% (SPLY: ~74.0%). Other long-term financing, including LTFF, stood at PKR~41.0bln, up ~81.4% YoY and held a share of ~19.3% in overall borrowings (End-Fe: ~11.9%). Short-Term financing, including export and import financing schemes, rose to PKR~43.8bln, up ~24.3% YoY. The share of short-term financing in total borrowing stands at ~20.6% (End-Feb'24: ~18.5%).
- In FY24, sector's average leverage clocked in at ~7.8% (SPLY: ~9.8%), coinciding with improved interest coverage at ~7.5x (SPLY: ~6.9x). The SBP eased the policy rate by ~1,000bps over the 7MFY25 period to ~12.0% from ~22.0% as of June 07'24. Going forward, this is likely to reflect in further improvement in interest coverage, despite an increase in borrowings during the same period. As of End-Mar'25, the policy rate remained stable at ~12.0%.

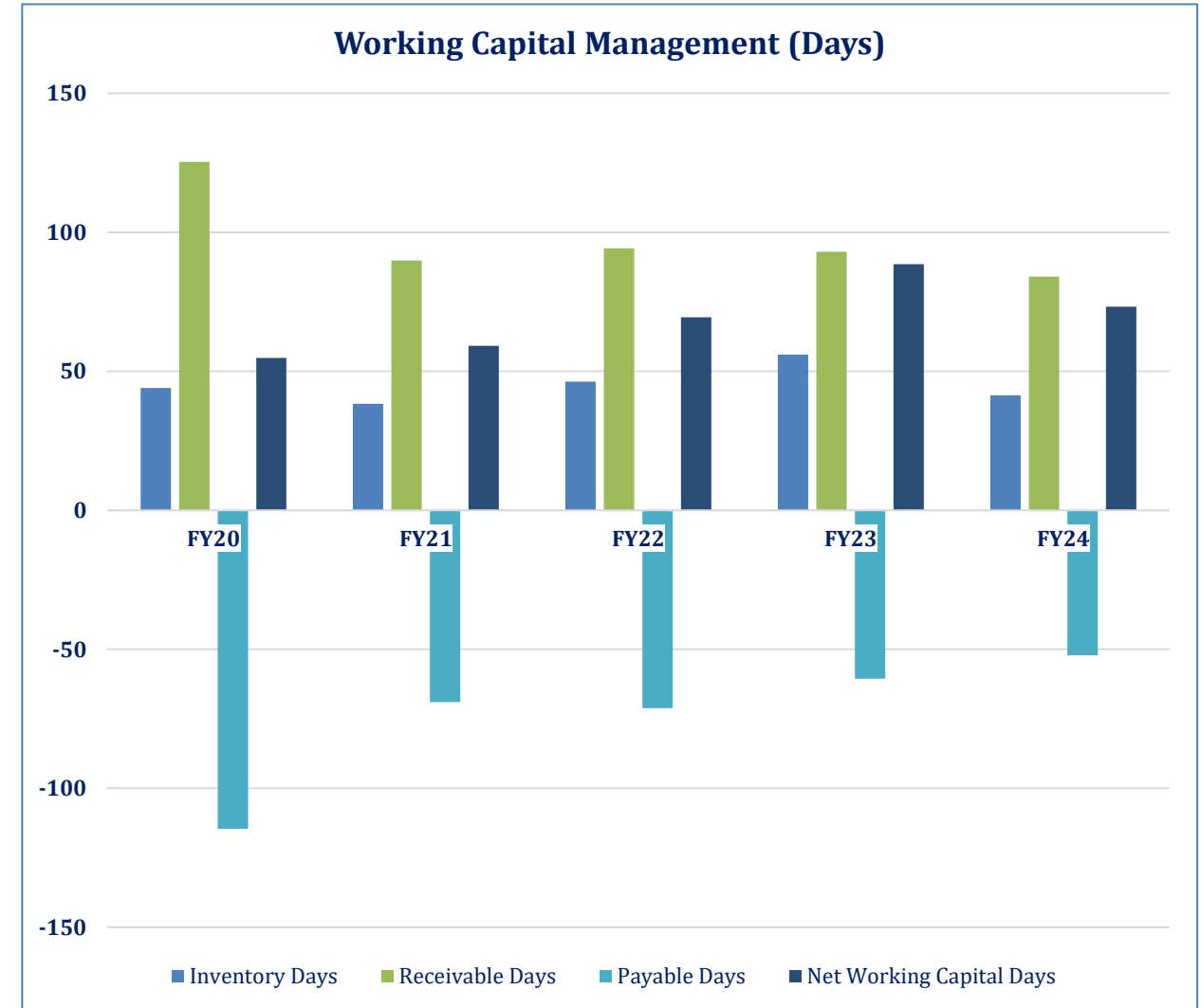


Note: Borrowing Mix pertains to SBP classification "Construction". Interest coverage and leverage data pertains to ~08 PACRA-rated/ listed sector players.

Construction

Local | Financial Risk

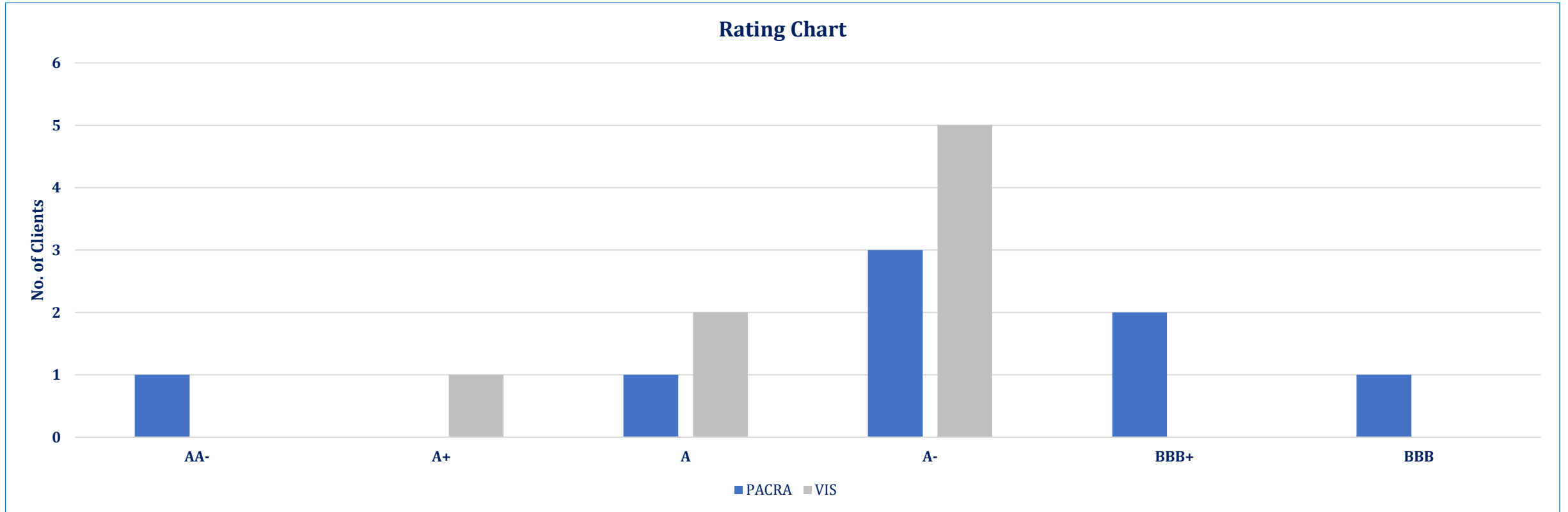
- Construction is a capital-intensive business requiring uninterrupted financial backing from banks. The nature of construction work is uneven wherein delays and prolonged deadlines are often times common. These render construction sector's working capital needs high, reflecting in high dependence on long-term debt.
- In FY24, the sector's average working capital days were recorded at ~73 days (FY23: ~89 days) as improvement was recorded across all working capital days.
- Average inventory days declined to ~41 days (FY23: ~56 days) owing largely to increase in sales of ~30.8% (SPLY: ~9.0%) and lower inventories by ~3.4% YoY. This reflects a sluggish construction activity, with price effects being factored in on the sector's revenue.
- Meanwhile, average receivable days registered a decrease of ~9 days and clocked in at ~84 days while average payable days declined by ~8 days to ~52 days in FY24. The lower working capital cycle indicates improved cash flows.



Construction

Rating Curve

- PACRA rates 8 players of the construction sector with a long-term rating bandwidth ranging from BBB to AA-.



Construction

SWOT Analysis

- Availability of labor force
- Large infrastructure development needs
- Readily available raw materials
- Increased government spending

Strengths

Weaknesses

- Unskilled labor and low efficiency
- Lack of technological innovation
- Highly impacted by allied industries
- Delays and frequent cost overruns
- Quality Issues

- Low barrier to entry
- Exchange rate fluctuation
- High inflation
- Linkages with allied sectors i.e., steel, cement etc.

Threats

Opportunities

- Government initiatives
- Lower Capital Gain Tax
- Advancement in Technology

Construction

Outlook: Stable

- In FY24, Pakistan's economy posted a real GDP growth of ~2.5% (FY23: ~-0.22%). Meanwhile, the LSM grew ~0.9% YoY (FY23: ~-10.3%) owing to a low-base effect. The economy has posted a growth of ~1.7% YoY in 2QFY25 while the LSM has declined in 7MFY25 by ~1.8% YoY. The decline in LSM is primarily because of the industry reeling in from high interest rate of previous two years. Meanwhile, the SBP estimates the GDP growth between 2.5%-3.5% for FY25 while the IMF projections for the same stand at ~3.0% for CY25.
- In 2QFY25, the sector registered a negative growth of ~7.1% YoY. The decline was attributed to factors like increase in input prices and wages, higher borrowing costs, and slower growth in development spending. Input prices for long steel and cement were up ~12.3% and ~22.4%, respectively, in 8MFY25, signaling a continued slow growth momentum in construction activity. The PSDP FY25 was budgeted at PKR~1,110bln, of which ~57.2% has been disbursed as of 7MFY25.
- This, combined with factors like PKR~7.6/kWh reduction in energy tariffs and lower international coal prices, is likely to result in improved construction. The previous two years (FY23-24) were marred by extremely high inflation levels, with headline inflation recording at an average of ~26.5%. However, headline inflation has eased in 9MFY25 to record at an average of ~5.4% (SPLY: ~27.2%).
- During FY24, average gross and net margins improved largely on the back of higher revenues (factoring in the price effect) and lower short-term borrowing, respectively. Going forward, with the policy rate standing at ~12.0% as at End-Mar'25, financial indicators like net margins and interest coverage are expected to remain stable. These can improve depending on GoP-supported project activities as well as allied sectoral performances (steel, cement, glass etc.). Moreover, continued support to the sector in the form of foreign direct investment is critical in the short- to medium term.

Construction

Bibliography

- World Bank (WB)
- Doge Construction Network (DCN)
- Standard and Poor's (S&P)
- Fitch Ratings (Fitch)
- Deloitte
- International Trade Union Confederation (ITUC)
- Pakistan Bureau of Statistics (PBS)
- State Bank of Pakistan (SBP)
- Pakistan Economic Survey (PES)
- Ministry of Finance (MoF)
- Pakistan Stock Exchange (PSX)
- Planning & Development Board, Govt. of Punjab (PND)
- Ministry of Industries & Production (MoI&P)
- PACRA Database

Research Team	Ayesha Wajih Assistant Manager ayesha.wajih@pacra.com	Syed Faran Ahmad Associate Analyst faran.ahmad@pacra.com
Contact Number: +92 42 35869504		

DISCLAIMER

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.