SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

BUY

(MAINTAINED)

Price: RM8.08
Target Price (% return): RM9.50 (+18%)
52-week High/Low: RM8.40/RM5.02

Construction
Rationale for report: Company Result

Megawatts in Motion

Analyst (s)

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SunCon's 1HFY26 earnings were in line with expectations. Our investment thesis remains unchanged, with future earnings growth dependent on the conversion of its record RM10.5bil order book. With >50% in early stages of execution, we expect revenue recognition to pick up progressively as secured projects move up the S-curve, leading to a meaningful earnings acceleration in FY27. The cost-plus structure of data centre contracts (70% of outstanding order book) is expected to mitigate cost pressures. Maintain BUY with unchanged TP of RM9.50.

- **Keep BUY with unchanged TP of RM9.50,** based on 22x P/E (1 SD above 5-year historical average) and FY27F EPS of 42 sen. We believe the premium valuation is supported by its record order book, industry-leading margin profile and RM1.2bil net-cash position. The Group declared a second interim dividend of 4.0sen/share, bringing total dividends declared to 26.8sen/share in 1HFY26 (+118.8% YoY).
- **Results in line.** After excluding net one-off gains of RM0.2mil, 2QFY26 core net profit increased 22.0% YoY to RM103.4mil. This lifted 1HFY26 core net profit to RM215.8mil (+34.5% YoY), accounting for 53% of ours and 50% of consensus estimates. Despite a 31.1% YoY decline in 2QFY26 revenue to RM1.0bil, core net profit margin expanded to 10.2% from 5.7%. The improvement was driven primarily by better project mix, while the lower effective tax rate of 19.4% provided additional support.
- **Record order book underpins FY27 growth.** SunCon secured RM6.9bil of new contracts YTD, lifting its outstanding order book to a record RM10.5bil. As >50% remains in early stages, we expect revenue recognition to accelerate as projects progress. Management raised its FY26 replenishment target to RM7bil-RM9bil from RM6bil, in line with our RM8bil assumption. Its RM14.2bil active tender book supports future replenishments.
- **Cost-plus DC contracts to support margins.** The Group has completed 3 DCs (total 180MW) and is executing another 10 projects (total 330MW). Its ongoing DC tenders exceed 700MW across several projects. As DC contracts are structured on a cost-plus basis, exposure to elevated material costs is expected to be minimal. We expect execution capacity to remain manageable, supported by the ability to redeploy project teams across different sites and construction phases to ensure work continuity.

YE to December	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	5,338.7	5,815.2	7,815.2	7,918.4
Core net profit (RM mil)	361.8	405.1	562.2	574.1
FD Core EPS (sen)	27.2	30.5	42.3	43.2
FD Core EPS growth (%)	93.7	12.0	38.8	2.1
Consensus Net Profit (RM mil)	-	429.8	504.8	525.4
DPS (sen)	50.5	30.5	33.9	30.3
PE (x)	29.7	26.5	19.1	18.7
EV/EBITDA (x)	19.4	18.9	13.3	12.9
Div yield (%)	6.2	3.8	4.2	3.7
ROE (%)	43.5	47.0	51.0	39.2
Net Gearing (%)	nm	nm	nm	nm

Source: Sunway Construction, AmInvestment Bank Bhd.

Key Changes

Target Price:	⇔
EPS:	⇔

Stock and Financial Data

Shares Outstanding (million)	1,328.1
Market Cap (RMmil)	10,731.2
Book Value (RM/Share)	0.65
P/BV (x)	12.4
ROE (%)	43.5
Net Gearing (%)	-
Free Float	36.0
Avg Daily Value (RMmil)	21.8

Major Shareholders

Sunway Holdings Sdn Bhd	(52.8%)
Employees Provident Fund Board	(5.7%)
Sungei Way Corp Sdn Bhd	(5.5%)

Price performance	3mth	6mth	12mth
Absolute(%)	10.8	25.3	41.0
Relative(%)	9.3	26.6	29.7

Source: Sunway Construction, AmInvestment Bank Bhd.

Price Chart

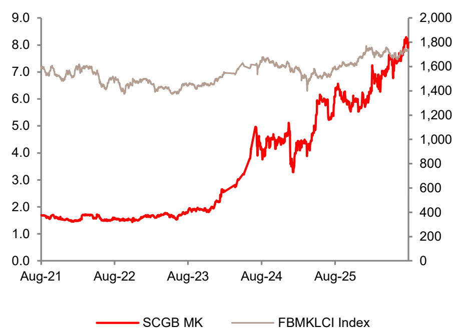


EXHIBIT 1. 1HFY26 Earnings Summary

FYE Dec (RM 'mil)	2QFY26	2QFY25	YoY %	1QFY26	QoQ %	6MFY26	6MFY25	YoY %
Revenue	1,017.7	1,476.9	-31.1	1,022.7	-0.5	2,040.4	2,877.4	-29.1
EBIT	111.3	89.0	25.0	134.7	-17.4	246.0	198.5	23.9
PBT	**131.3**	**122.6**	**7.1**	**154.7**	**-15.1**	**286.0**	**235.8**	**21.3**
Taxation	-25.5	-28.4	-10.0	-37.7	-32.2	-63.2	-55.9	13.1
Minority interest	-2.2	-10.3	-79.0	1.4	-257.8	-0.8	-20.4	-96.1
PATAMI	**103.6**	**83.9**	**23.5**	**118.4**	**-12.5**	**222.0**	**159.6**	**39.1**
Core Net Profit	**103.4**	**84.7**	**22.0**	**112.4**	**-8.0**	**215.8**	**160.5**	**34.5**
EPS (sen)	**7.8**	**6.4**	**22.0**	**8.5**	**-8.0**	**16.2**	**12.1**	**34.5**
DPS (sen)	**4.0**	**7.3**	**-44.8**	**22.8**	**-82.5**	**26.8**	**12.3**	**118.8**
Payout ratio	**51.4**	**113.6**		**269.4**		**165.0**	**101.4**	
Margins (%)			+-ppt		+-ppt			+-ppt
EBIT Margin %	10.9	6.0	4.9	13.2	-2.2	12.1	6.9	5.2
PBT Margin %	12.9	8.3	4.6	15.1	-2.2	14.0	8.2	5.8
Effective Tax Rate %	19.4	23.1	-3.7	24.3	-4.9	22.1	23.7	-1.6
Core Net Profit Margin %	10.2	5.7	4.4	11.0	-0.8	10.6	5.6	5.0

Source: Company, AmInvestment Bank Bhd.

EXHIBIT 2. 1HFY26 Segmental Revenue

FYE Dec (RM 'mil)	2QFY26	2QFY25	YoY %	1QFY26	QoQ %	6MFY26	6MFY25	YoY %
Construction	941.6	1,433.5	-34.3	950.6	-0.9	1,892.2	2,803.4	-32.5
Precast Concrete	76.1	43.4	75.3	72.1	5.5	148.2	74.0	100.2
Total	1,017.7	1,476.9	-31.1	1,022.7	-0.5	2,040.4	2,877.4	-29.1

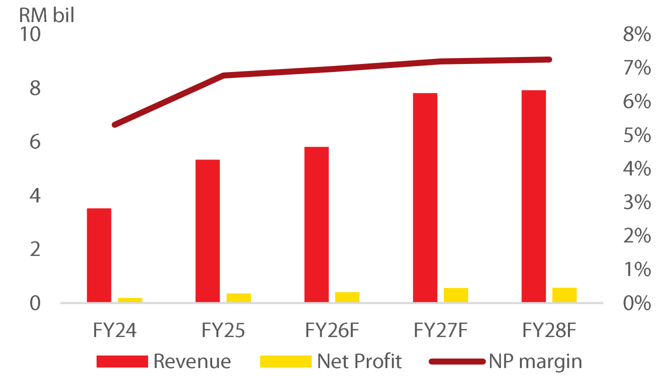
Source: Company, AmInvestment Bank Bhd.

EXHIBIT 3. 1HFY26 Segmental PAT

FYE Dec (RM 'mil)	2QFY26	2QFY25	YoY %	1QFY26	QoQ %	6MFY26	6MFY25	YoY %
Construction	100.8	93.2	8.1	111.8	-9.8	212.6	177.9	19.5
Precast Concrete	5.0	1.1	374.6	5.3	-5.2	10.2	2.1	392.0
Total	105.8	94.2	12.2	117.0	-9.6	222.8	180.0	23.8

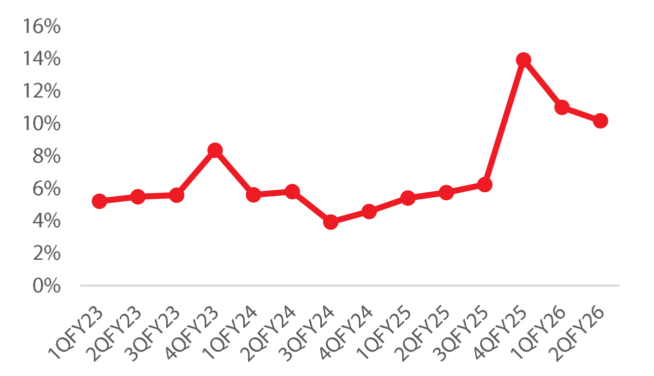
Source: Company, AmInvestment Bank Bhd.

EXHIBIT 4. Revenue, Net Profit and NP Margin Forecasts



Source: Company, AmInvestment Bank Bhd.

EXHIBIT 5. Historical Core PATAMI Margins

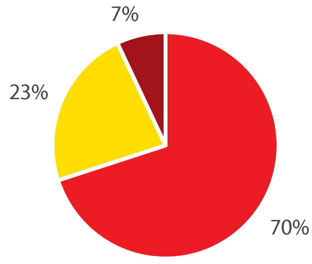


Source: Company, AmInvestment Bank Bhd.

EXHIBIT 6. RM6.9bil YTD Order Book Replenishment

Source: Company, AmInvestment Bank Bhd.

EXHIBIT 7. RM10.5bil Outstanding Order Book



Source: Company, AmInvestment Bank Bhd.

EXHIBIT 8. Valuation

Target PE (x)	**22.4**
FY27F EPS (sen)	**42.3**
ESG Premium	**0%**
Target Price (RM)	**9.50**

Source: AmInvestment Bank Bhd.

Company Profile

Integrated construction and engineering group with strong recurring internal projects

Sunway Construction Group Berhad is an integrated construction and engineering group with capabilities spanning building construction, civil infrastructure, mechanical and electrical works, and precast manufacturing. The Group has established a strong execution track record across technically complex projects and has emerged as one of Malaysia's leading contractors for hyperscale data centres.

SunCon benefits from two complementary sources of contract replenishment. External data centre awards provide strong growth and margin potential, while recurring internal projects from the broader Sunway ecosystem offer a visible pipeline across healthcare, property and other developments. Its RM10.5bil unbilled order book currently comprises 70% data centre projects, 23% internal jobs and 7% other projects.

Investment Thesis and Catalyst

DC-led expansion underway.

We maintain a positive view on SunCon, supported by its record order book, strong data centre exposure and recurring internal project pipeline. The RM10.5bil order book represents a book-to-bill ratio of 1.8x and provides strong medium-term earnings visibility. With FY26 YTD contract wins of RM6.9bil and an outstanding tender book of RM14.2bil, of which 70% is data centre-related, we expect annual order book replenishment of RM8bil to RM10bil over FY26F to FY28F.

Potential catalysts include further hyperscale data centre awards and stronger-than-expected margins as higher-margin data centre projects form a larger share of revenue. Management's commitment to enhanced shareholder returns is another rerating catalyst, with prospective dividend yield of 4% supported by robust FCF generation and RM1.2bil net cash position.

Valuation Methodology

Maintain BUY at unchanged TP of RM9.50.

We maintain BUY with an unchanged target price of RM9.50, based on 22x FY27F P/E (+1SD above five-year historical average), applied to FY27F EPS of 42 sen. The premium valuation reflects its stronger earnings growth, high data centre exposure, robust cash generation and attractive dividend outlook.

Risk Factors

Moderation in data centre investment. Data centre projects account for 70% of SunCon's current order book and 70% of outstanding tender pipeline. A slowdown in hyperscaler capital expenditure, tighter regulatory approvals or constraints relating to power and water availability could delay project awards and result in weaker-than-expected order book replenishment.

Project execution and margin risk. Our earnings forecasts assume timely project execution and a higher net profit margin of 7.6%, supported by the growing contribution from data centre projects. Construction delays, cost overruns, subcontractor issues or unexpected increases in labour and material costs could affect project progress and prevent anticipated margin expansion from materialising.

Lower-than-expected capital returns. Our investment thesis assumes dividend payout ratios of 100%, 80% and 70% for upcoming FYs. A deterioration in cash conversion or higher working capital requirements could result in weaker dividends and weaken justification for SunCon's premium valuation

Financial Summary

Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue	3,521.6	5,338.7	5,815.2	7,815.2	7,918.4
EBITDA	279.3	465.4	496.4	669.3	670.5
Depreciation/Amortisation	(17.3)	(17.2)	(17.4)	(23.4)	(23.8)
Operating income (EBIT)	262.1	448.2	478.9	645.9	646.8
Other income & associates	0.3	15.3	15.3	15.3	15.3
Net interest	10.5	61.9	66.8	117.5	133.1
Exceptional items	-	-	-	-	-
Pretax profit	**272.9**	**525.5**	**561.0**	**778.7**	**795.2**
Taxation	(75.9)	(123.5)	(134.6)	(186.9)	(190.8)
Minorities/pref dividends	(10.1)	(40.3)	(21.3)	(29.6)	(30.2)
Net profit	**186.8**	**361.8**	**405.1**	**562.2**	**574.1**
Core net profit	186.8	361.8	405.1	562.2	574.1

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	85.4	122.1	162.8	217.5	272.9
Intangible assets	-	-	-	-	-
Other long-term assets	636.4	656.0	752.3	886.1	1,019.4
Total non-current assets	**721.8**	**778.0**	**915.1**	**1,103.6**	**1,292.4**
Cash & equivalent	1,015.8	2,000.1	1,592.3	2,008.9	2,149.1
Stock	43.3	60.1	73.9	99.3	100.8
Trade debtors	1,578.9	1,386.7	1,690.9	2,410.9	2,448.1
Other current assets	236.5	199.1	199.1	199.1	199.1
Total current assets	**2,874.4**	**3,646.0**	**3,556.3**	**4,718.3**	**4,897.1**
Trade creditors	1,910.1	3,175.9	3,144.2	4,227.8	4,288.6
Short-term borrowings	730.6	157.7	130.0	100.0	70.0
Other current liabilities	15.9	72.1	53.2	71.5	72.5
Total current liabilities	**2,656.6**	**3,405.7**	**3,327.4**	**4,399.3**	**4,431.1**
Long-term borrowings	-	142.5	112.8	63.3	6.5
Other long-term liabilities	1.2	10.5	10.5	10.5	10.5
Total long-term liabilities	**1.2**	**153.0**	**123.2**	**73.8**	**17.0**
Shareholders' funds	**877.9**	**783.9**	**939.3**	**1,267.4**	**1,659.9**
Minority interests	60.6	81.4	81.4	81.4	81.4
BV/share (RM)	0.71	0.65	0.77	1.02	1.31

Cash Flow (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	272.9	525.5	561.0	778.7	795.2
Depreciation/Amortisation	17.3	17.2	17.4	23.4	23.8
Net change in working capital	534.7	1,134.9	(368.6)	356.4	23.3
Others	(108.4)	(58.6)	(95.0)	(126.7)	(128.2)
Cash flow from operations	**716.4**	**1,619.1**	**114.9**	**1,031.8**	**714.1**
Capital expenditure	(9.4)	(44.1)	(58.2)	(78.2)	(79.2)
Net investments & sale of fixed assets	6.6	22.0	-	-	-
Others	141.3	(7.0)	20.0	22.5	25.0
Cash flow from investing	**138.4**	**(29.1)**	**(38.2)**	**(55.7)**	**(54.2)**
Debt raised/(repaid)	(163.6)	(415.6)	(57.5)	(79.4)	(86.8)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(116.0)	(274.8)	(405.1)	(449.8)	(401.9)
Others	(23.7)	82.8	(21.3)	(29.6)	(30.2)
Cash flow from financing	**(303.4)**	**(607.6)**	**(483.9)**	**(558.8)**	**(518.9)**
Net cash flow	**551.5**	**982.4**	**(407.2)**	**417.4**	**141.0**
Net cash/(debt) b/f	**463.5**	**1,022.8**	**2,000.1**	**1,592.3**	**2,008.9**
Net cash/(debt) c/f	**1,015.8**	**2,000.1**	**1,592.3**	**2,008.9**	**2,149.1**

Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	31.8	51.6	8.9	34.4	1.3
EBITDA growth (%)	13.9	66.6	6.6	34.8	0.2
Pretax margin (%)	7.7	9.8	9.6	10.0	10.0
Net profit margin (%)	5.3	6.8	7.0	7.2	7.3
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	27.8	23.5	24.0	24.0	24.0
Dividend payout (%)	62.1	76.0	100.0	80.0	70.0
Debtors turnover (days)	82	101	97	96	112
Stock turnover (days)	2	4	4	4	5
Creditors turnover (days)	99	174	198	172	196

Source: Company, AmInvestment Bank Bhd.

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