Corporate Update

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

3 Stars | SHARIAH Compliant | FTSE4Good

Maintain **BUY**

Unchanged Target Price **RM6.44**

Powering Through Headwinds; DC Thesis Intact

Maintain BUY. We maintain our **BUY** call on Sunway Construction Group Berhad (SunCon) with an unchanged target price of RM6.44, pegging its FY26F EPS of 22.2 sen to a PER of 29x, which is +1SD above its five-year mean. Our earnings estimates remain unchanged, underpinned by sustained demand momentum for data centre (DC) projects. SunCon's DC pipeline remains robust with multiple phases of development still anticipated, supported by substantial land acquisitions by global DC operators and aggressive ongoing tender activity. With an outstanding order book of RM7.90b (as at May-25), comprising >50% DC projects, SunCon continues to demonstrate margin discipline amid intensifying competition, reinforcing earnings visibility. Furthermore, the strategic diversification post-DC cycle into key infrastructure projects such as MRT3, Penang Airport expansion, and potential regional DC expansions positions SunCon well for medium-term growth.

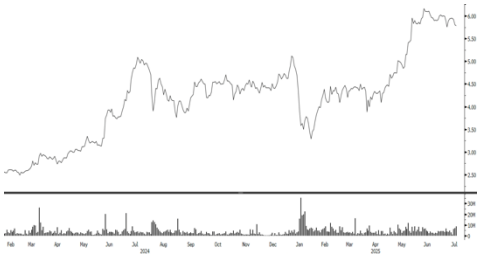
Data centre pipeline accelerating despite US chip restrictions and tariff hikes. Following our latest engagement with SunCon's management on 15 July 2025, management reiterated strong confidence in the sustainability of the robust demand for data centre (DC) projects. Despite expanded U.S. export restrictions on high-end AI and semiconductor chips, SunCon noted no slowdown from clients. In fact, management indicated an acceleration, particularly with lease-based hyperscale clients. Management also highlighted that numerous tenders are currently active, noting aggressive investment from large U.S. multinational companies. On the operational front, the recent electricity tariff hike by TNB has minimal impact at the contractor level. Energy consumption for contractors becomes meaningful only during the testing and commissioning stage, which forms a small component of overall project costs. In our view, while DC operators may experience a rise in OPEX, Malaysia remains regionally competitive given lower land and infrastructure costs.

Multiple phases of data centre development still ahead. SunCon remains optimistic about DC momentum beyond FY26. In our view, we are projecting at least another two phases of DC developments. A "phase" typically represents one physical DC facility, with Malaysian contractors, including SunCon, currently in the initial phase of hyperscale DC developments. Its flagship Yondr DC project (JHB1X0) is progressing approximately six months ahead of schedule, with expected completion slated for end-CY25, enabling SunCon to redeploy key resources to other active DC projects and tenders. We believe SunCon is well-positioned to capitalise on upcoming opportunities in the DC sphere. In addition to potential subsequent phases from SunCon's existing clients, several NYSE-listed DC operators have already secured land but have yet to commence construction – signalling strong future potential. For example, in locations like Sedenak, Johor, there is ample land and electricity capacity to support further phases. Additionally, other DC operators in the region have been actively engaging in land banking over the past two years, and tenders for these new developments are now beginning to enter the market.

Tender activity remains healthy. SunCon has submitted bids for several major hyperscale DC packages from a U.S. multinational company, with awards expected by end-Jul-25 or early Aug-25. Management remains hopeful on the tender outcome, aiming to secure at least one award. Management noted increased DC competition, especially from new local entrants in smaller scale DC tenders, however, in our view,

RETURN STATISTICS	
Price @ 17 Jul 2025 (RM)	5.78
Expected share price return (%)	+11.4
Expected dividend yield (%)	+1.2
Expected total return (%)	+12.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-5.2	-5.8
3 months	-3.7	31.4
12 months	17.0	25.7

INVESTMENT STATISTICS

FYE Dec	2025E	2026F	2027F
Revenue	3964.9	4163.1	4371.3
Operating Profit	303.7	333.1	349.7
Profit Before Tax	318.6	337.2	354.1
Core Net Profit	273.6	287.3	301.6
Core EPS (sen)	21.1	22.2	23.3
DPS (sen)	7.0	7.0	7.0
Dividend Yield	1.2	1.2	1.2

KEY STATISTICS	
FBM KLCI	1,520.94
Issued shares (m)	1292.90
Estimated free float (%)	27.32
Market Capitalisation (RM'm)	7,573.50
52-wk price range	RM3.26 – RM6.27
3-mth average daily volume (m)	4.45
3-mth average daily value (RM'm)	24.28
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	53.69
Sungei Way Corp Sdn Bhd	9.92
Employees Provident Fund Board	4.27

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SunCon retains significant advantages, being one of the first few local contractors with records exceeding 100MW of completed hyperscale DC capacity.

Strategic considerations for medium-term outlook post-DC cycle. While management is capitalising on the immediate opportunity in DC projects – with >50% of its outstanding orderbook (total outstanding orderbook: RM7.90b as at May-25) focused on DC works, management also outlined clear plans for diversification as the current DC demand cycle matures. SunCon is actively pursuing significant infrastructure projects, notably highlighting Penang Airport expansion main terminal tenders and LRT Mutiara Line. Additionally, management expressed interest in participating in MRT3 package tenders, which are anticipated to commence in CY27. SunCon also aims to leverage its DC expertise regionally, particularly in ASEAN markets. Internally, SunCon continues supporting Sunway Group's property development, especially commercial buildings and medical centres.

Precast segment facing near-term headwinds; recovery expected in FY26. Management acknowledged continued softness in the precast segment, with 1QFY25 revenue down ~-50%yoy primarily due to delayed execution of Singapore HDB contracts by the main contractors. SunCon currently acts as a subcontractor in precast projects, with project progress heavily dependent on main contractors' execution schedules. Hence, any slowdown by main contractors directly impacts SunCon's precast earnings. Despite a robust precast order book of RM722.0m and a healthy pipeline of anticipated HDB contracts, revenue is expected to remain subdued throughout FY25, especially since most existing precast contracts have already encountered delays by main contractors in Singapore. SunCon guided that 1HFY25 results will be particularly soft, with only a marginal improvement anticipated in 2HFY25. Management anticipates a meaningful rebound in the precast segment only in FY26, as execution momentum gradually recovers. Management also clarified that although SunCon possesses the technical capability to produce precast components for DC projects, other construction methods can be equally efficient as the precast approach. For instance, many DC construction projects use steel-based structures instead of the precast method. Furthermore, SunCon's existing precast infrastructure is specifically tailored to meet HDB market requirements, including dedicated production lines. As such, selling precast components externally in SGD remains significantly more attractive compared to internal utilisation for DC projects.

SST implementation impact manageable, though uncertainty persists. The recently expanded SST on construction services directly increases construction costs by 6%, however, it will be borne primarily by clients. SunCon is actively engaging with the Ministry of Finance (MOF) and the Royal Customs Department for further clarification before the slated Sep-25 implementation. Nevertheless, clients, particularly US hyperscalers, appear receptive to these incremental costs. Machinery leasing is also now SST-subject, prompting SunCon to adopt a deliberate strategy of divesting older machinery and minimising internal plant and equipment holdings. Management indicated that subcontractor packages, which include equipment leasing, have become the primary approach to mitigate these additional costs.

India divestment and opportunities in renewable energy and infra. SunCon continues actively divesting its partially completed infrastructure project in India, freeing substantial cash for redeployment. However, given heightened competitive pressures and constrained margins, a continuation of business activity in local Indian infrastructure appears less feasible. Nevertheless, SunCon remains interested in India's DC market and high-value advanced technology facility (ATF) sectors, such as semiconductor projects, post saturation in Malaysia. Domestically, with a stronger balance sheet, SunCon is keen to explore local public-private partnership (PPP) or private finance initiative (PFI) opportunities in renewable energy and infrastructure, though solar projects remain unattractive due to tight margins.

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2023A	2024A	2025E	2026F	2027F
Revenue	2,671.2	3,521.7	3,964.9	4,163.1	4,371.3
Net operating expenses	(2,501.0)	(3,300.1)	(3,484.6)	(3,642.7)	(3,824.8)
Operating profit	224.3	262.2	303.7	333.1	349.7
Profit before tax	188.6	273.0	318.6	337.2	354.1
Net profit	145.1	186.9	273.6	287.3	301.6
Core net profit	143.9	179.9	273.6	287.3	301.6
Core EPS (sen)	11.1	13.9	21.1	22.2	23.3
DPS (sen)	6.0	8.5	7.0	7.0	7.0
Balance Sheet (RM'm)	**2023A**	**2024A**	**2025E**	**2026F**	**2027F**
Fixed assets	98.6	85.4	130.6	124.1	117.9
Other investments and assets	745.1	636.4	518.9	532.0	532.0
Non-current assets	**843.6**	**721.8**	**649.6**	**656.1**	**649.9**
Cash	470.4	1,015.8	548.3	520.8	494.8
Trade debtors	1,595.6	1,795.1	1,304.2	1,369.4	1,369.4
Current assets	**2,239.2**	**2,874.4**	**2,013.5**	**2,051.3**	**2,025.2**
Trade creditors	1,242.5	1,912.7	1,277.4	1,335.4	1,335.4
Short-term debt	438.2	730.6	197.6	217.3	239.1
Current liabilities	**1,701.8**	**2,656.6**	**1,491.6**	**1,569.4**	**1,591.1**
Long-term debt	487.7	0.0	150.6	118.3	118.3
Non-current liabilities	**489.1**	**1.2**	**102.4**	**-47.2**	**-281.7**
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	590.0	660.9	810.4	926.7	1,107.2
Equity	**892.0**	**938.5**	**1,069.0**	**1,185.3**	**1,365.8**

Cash Flow (RM'm)	2023A	2024A	2025E	2026F	2027F
PBT	**188.6**	**273.0**	**232.3**	**262.7**	**262.7**
Depreciation & amortisation	21.0	17.3	28.8	27.4	27.4
Changes in working capital	-516.6	**-534.7**	-23.9	-16.7	-16.7
Operating cash flow	**-299.4**	716.4	**297.7**	**286.1**	**252.7**
Capital expenditure	-18.9	-9.4	-25.0	-30.0	-30.0
Investing cash flow	**-62.9**	**138.4**	**184.8**	**189.8**	**189.8**
Debt raised/(repaid)	420.9	-167.2	**-145.4**	**-145.4**	**-145.4**
Dividends paid	-70.9	-116.0	-77.4	-77.4	-77.4
Financing cash flow	**337.4**	**-303.4**	**-222.8**	**-222.8**	**-222.8**
Net cash flow	-24.8	551.5	**259.8**	**253.1**	**219.7**
Beginning cash flow	**407.7**	**384.0**	**936.3**	**1196.0**	**1449.2**
Ending cash flow	**384.0**	936.3	**1196.0**	**1449.2**	**1668.9**
Profitability Ratios (%)	**2023A**	**2024A**	**2025E**	**2026F**	**2027F**
Operating profit margin	8.4%	7.4%	7.7%	8.0%	8.0%
PBT margin	7.1%	7.8%	8.0%	8.1%	8.1%
PAT margin	5.4%	5.3%	5.6%	6.3%	6.3%
Core PAT margin	5.4%	5.1%	6.1%	6.2%	6.2%

Source: Bloomberg, MIDFR

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MBSB INVESTMENT BANK (formerly known MIDF INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology