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Sunway Construction (SCOG.KL)

MACC probe into employee

CITI'S TAKE

Suncon has announced that the MACC has initiated inquiries regarding one of its employees, specifically relating to his engagement with certain subcontractors. **Our summarized thoughts:** We see any potential financial impact to be limited, given that subcontractors have always been appointed on a best-cost basis, while management has reiterated there has been no detriment relating to their clients or potential contract awards. Positive results from external audits on Suncon's corporate governance is also reassuring, and management reiterates that this is an isolated incident. However, risk of reputational fall-out, and how widespread is the issue remains unanswered questions. Nonetheless, we believe Suncon is still one of the better names for DC project in terms of job execution and delivery. No changes to our rating and TP, as we see no fundamental effects on the company.

Buy

Price (18 Jul 25 17:00)	RM5.98
Target price	RM6.70
Expected share price return	12.0%
Expected dividend yield	1.8%
Expected total return	13.9%
Market Cap	RM7,857M
	US\$1,850M

Steven Chan^{AC}

MACC probe into employee – Sunway Construction (Suncon) has announced that the Malaysian Anti-Corruption Commission (MACC) has initiated inquiries against one of the group's employees relating engagements with certain subcontractors. The announcement also states that this is an isolated investigation, and does not concern the way the group secures contract from clients. The announcement was made following press reports on the MACC raid on Johor data center (DC) construction project bribery ([FMT](#), 18 July 2025).

An investor briefing was also held.

Takeaways from the briefing:

- Management reiterates that this is an isolated incident. The investigation only relates to a particular employee, and two subcontractor companies, which Suncon confirmed belong to the same group of companies. The probe is reportedly not into Suncon as a company, or into its directors or key management team.
- The two subcontractor companies in question won their first jobs from Suncon back in 2019. In total, they have tendered for 12 jobs, being successful in 6.
- The employee in question – a contract manager – has been with the company ~10 years (being with the company throughout his career). The employee has already been issued a suspension letter, and may be subsequently terminated.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

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- Management has reiterated that appointments of its subcontractors have been transparent, done via e-bidding, with only the lowest bid being awarded, with no exceptions.
- Management has also reiterated that they are in good standing with clients, and show no indication of this issue impacting current contract negotiations.
- In the past 12 months, Suncon has undergone 3 external audits regarding its corporate governance, including by external auditors (e.g. EY) on their anti-corruption and bribery (ABC) policies as per request from clients, as well as by SIRIM on their Anti Bribery Management System (ABMS), all with positive results.

Our thoughts – Any financial impact from the case is limited, in our view considering that Suncon's appointment of subcontractors has always been on a lowest-price basis, and Suncon's margins for DC projects are also largely on par with peers. Additionally, there should be little risk of any project cancellation, given that Suncon has seemingly secured all its contracts legitimately. Positive results from external audits regarding its corporate governance policies as requested by clients, plus no indication of detriment in their relationships with clients as well as prospects of future contract awards, are also reassuring. However, handling of the reputational fallout, changes to current standard-of-procedures, as well as how widespread or systemic is this bribery issue remains unanswered, and we can only wait for further developments from the MACC probe for more clarity. The Sunway Group has seemingly been known for its corporate governance, so we are taken aback by this development. However, ultimately, time-to-market and quality in project delivery are still the two key factors for DC projects, both of which Suncon has a good track record of (eg being able to deliver a recent DC project 6 months ahead of schedule). We see the dip as an enhanced buying opportunity, with Suncon still our best Malaysia DC play within the construction space.

Implication – No changes to rating, TP and earnings.

Sunway Construction

Valuation

We value Suncon based on 27x FY2026E P/E, at roughly +1SD from its 5-year mean, for a target price of RM6.70. We feel a premium is warranted for Suncon's valuations as we remain overwhelmingly bullish on the Malaysian data center space, highlighting Suncon as the best play for this thematic.

Risks

Possible downside risks to our target price include (i) slowdown in DC investments in Malaysia, especially on the back of heightened geopolitical tensions or policies, (ii) job execution risks, given the high working capital requirement, (iii) delay in roll-out of Malaysian infrastructure jobs, and (iv) slowdown of in-house jobs.

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Appendix A-1

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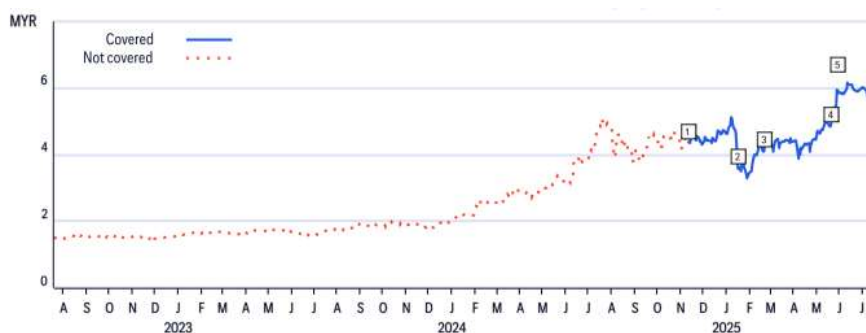
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Sunway Construction (SCOG.KL)

Ratings and Target Price History
Fundamental Research

Analyst: Steven Chan



Date	Rating	Target Price	Closing Price
1 11-Nov-24 07:20:49	*1	*5.10	4.37
2 17-Jan-25 18:31:51	1	*4.20	3.63

Date	Rating	Target Price	Closing Price
3 20-Feb-25 13:08:39	1	*5.00	4.12
4 20-May-25 09:55:33	1	*5.70	4.88

Date	Rating	Target Price	Closing Price
5 29-May-25 13:21:57	1	*6.70	5.83

*Indicates Change

Rating/target price changes above reflect Eastern Time

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