HLIB Research
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Sunway Construction Group

Back in the running

SunCon reported 1HFY25 earnings of RM175.9m falling within our expectations. DPS of 7.25 sen was declared. Billings from its key DC projects accelerated further in the current quarter. Billings for 2H could slow slightly given accelerated execution for its key Johor project in 1H. YTD wins have hit RM3.8bn with more expected, backed by tenders worth RM14.8bn including >760MW of DCs. Recent MACC update is encouraging and positions the company firmly back in contention. No change to forecasts. Maintain BUY with unchanged TP of RM6.70.

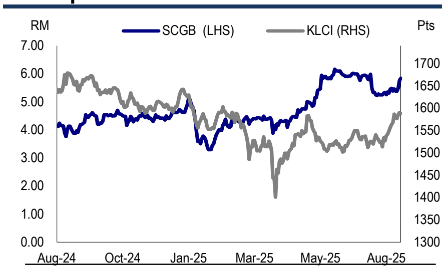
BUY (Maintain)

Target Price:	**RM6.70**
Previously:	**RM6.70**
Current Price:	**RM5.85**

Capital upside	14.5%
Dividend yield	2.2%
Expected total return	16.7%

Sector coverage: Construction
Company description: SunCon is involved in construction and precast products.

Share price



Historical return (%)	1M	3M	12M
Absolute	6.6	13.6	42.0
Relative	2.1	10.5	39.4

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,315
Market capitalisation (RM m)	7,696
3-mth average volume ('000)	4,258
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Sunway Berhad	54.6%

Earnings summary

FYE (Dec)	FY24	FY25f	FY26f
PATMI - core (RM m)	172.9	305.8	416.3
EPS - core (sen)	13.4	23.7	32.2
P/E (x)	43.7	24.7	18.2

Strongest quarter ever. SunCon reported 2QFY25 results with revenue of RM1.5bn (+5.5% QoQ, +126.8% YoY) and core PATAMI of RM93.5m (+13.5% QoQ, +148.3% YoY). This brings 1HFY25 core PATAMI to RM175.9, increasing by 165.1%. Results were within our and consensus expectations coming in at 58% of full year forecasts. Recall that we had previously revised earnings upwards by 10.5% post 1QFY25. We anticipate a slight tapering in 2H earnings due to project timing as its JHB1X0 project saw accelerated progress while newer secured DCs gestate in 2H. That said, we believe faster-than-expected completion of JHB1X0 project could lead to recognition of acceleration fees in FY26, in addition to reversal of over budgeted project costs.

EIs. 2QFY25 core PATAMI is adjusted for: (i) FV loss on ESOS – RM7.3m, (ii) allowance for impairment of receivables – RM3.0m, (iii) decretion of financial liabilities – RM1.7m, and (iv) gain on PPE disposal – RM2.4m.

Dividends. Second interim DPS of 7.25 sen going ex. on 10-Sept-25 (1HFY25: 12.25 sen; FY24: 8.5 sen). SunCon is accelerating return of capital to shareholders amid record earnings and ballooning cash pile.

QoQ. Core PATAMI came in higher by 13.5% following sequential overall revenue growth of 5.5%. The driver for stronger QoQ performance came from the construction segment driven by accelerated progress from newer projects. On the other hand, precast PBT contribution was flat despite revenue growth of 41.8% due to finalisation account in 1Q.

YoY. Core PATAMI surged by 148.3% mainly driven by strong construction segment performance as segmental revenue & PBT climbed by 139.9% and 158.8%. This was fuelled by accelerated execution across several data centre projects.

YTD. Similar to the above, strong performance on a YTD basis came from quick execution of data centre projects – in particular, partial delivery of the JHB1X0 project.

Orderbook and net cash. Latest unbilled orderbook stands at RM6.7bn (1.9x cover on FY24 revenue). This is inclusive of newly clinched DC contract from a US MNT (new customer) worth RM1.15bn as well as RM89m from two early site works (shell works). Meanwhile, net cash grew significantly QoQ from RM835m to RM1.2bn (or RM0.92 net cash per share) on accelerated receivables collection.

Investigation updates are encouraging. SunCon announced that they have received a confirmation letter from MACC clarifying that the investigation is limited to SunCon's ex. employee and remains an isolated case. Neither SunCon or any of its subsidiaries are under any investigation by MACC including Section 17A. To note, Section 17A carries potential liability to the corporate if internal controls are found to be inadequate that led to the individual's actions - even in cases where the company did not benefit. We view this as a piece of good news where: (i) the company is unlikely to face financial liability from the fiasco and (ii) to a certain extent restores

SunCon's reputation as a well-managed contractor. SunCon's live tenders amounting to more than 760MW of DCs are very much active and we think such developments are positive to this end. To date, the company has completed 108MW of DC projects (including liquid cooled).

Forecast. No change.

Maintain BUY, TP: RM6.70. Maintain BUY with unchanged TP of RM6.70. Our TP is derived by pegging FY26 EPS to 20.1x based on +0.5SD over the 3 year range including an assumed net cash per share of RM0.22 (based on AR24). In our view, SunCon's premium valuation is justified given solid prospects and projected upshift in already superior ROEs (>30%). We see reasons to remain optimistic of its prospects in the space, backed by widening gap in hyperscale DC execution track record – SunCon has now commissioned DCs for both K2 and Yellowwood ahead of time. Downside risks include: costs inflation, AI hardware restrictions & DC project execution.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Cash	470.4	1,015.8	1,822.2	2,014.8	2,273.2
Receivables	1,893.2	1,968.9	2,230.0	2,573.4	2,547.9
Inventories	46.4	43.3	59.3	68.4	67.7
PPE	98.0	85.1	83.1	79.6	74.7
Others	574.8	483.2	483.5	483.5	483.5
Assets	**3,082.8**	**3,596.2**	**4,678.0**	**5,219.7**	**5,447.1**
Debts	926.0	730.6	1,082.1	998.8	988.8
Payables	1,193.3	1,805.7	2,371.8	2,736.4	2,709.1
Others	71.6	121.4	121.4	121.4	121.4
Liabilities	**2,190.8**	**2,657.7**	**3,575.3**	**3,856.6**	**3,819.3**
Shareholder's equity	820.2	877.9	1,015.5	1,265.3	1,519.1
Minority interest	71.8	60.6	87.2	97.8	108.7
Equity	**892.0**	**938.5**	**1,102.7**	**1,363.1**	**1,627.7**

Cash Flow Statement

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Profit before taxation	195.1	254.2	426.0	547.4	556.1
Depreciation & amortisation	21.0	17.3	22.1	23.5	24.9
Changes in working capital	(510.7)	539.9	289.0	12.0	(1.1)
Share of JV profits	14.1	(0.3)	(0.3)	-	-
Taxation	(42.8)	(71.1)	(93.7)	(120.4)	(122.4)
Others	23.8	(23.4)	-	-	-
Operating cash flow	**(299.4)**	**716.4**	**643.1**	**462.5**	**457.5**
Net capex	(1.1)	32.5	(20.0)	(20.0)	(20.0)
Others	(61.8)	106.0	-	-	-
Investing cash flow	**(62.9)**	**138.4**	**(20.0)**	**(20.0)**	**(20.0)**
Changes in borrowings	445.2	(195.3)	351.5	(83.3)	(10.0)
Issuance of shares	-	-	-	-	-
Dividends paid	(77.3)	(77.8)	(168.2)	(166.5)	(169.2)
Others	(30.5)	(30.3)	-	-	-
Financing cash flow	**337.4**	**(303.4)**	**183.3**	**(249.9)**	**(179.1)**
Net cash flow	**(24.8)**	**551.5**	**806.4**	**192.6**	**258.4**
Forex	-	-	-	-	-
Others	3.6	(6.1)	-	-	-
Beginning cash	491.6	470.4	1,015.8	1,822.2	2,014.8
Ending cash	470.4	1,015.8	1,822.2	2,014.8	2,273.2

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Revenue	**2,671.2**	**3,521.7**	**5,087.1**	**5,870.6**	**5,812.5**
EBITDA	251.8	271.1	437.0	555.1	546.8
EBIT	230.8	253.8	414.9	531.6	521.9
Net finance income/ (cost)	(21.5)	0.0	10.8	15.8	34.3
Associates & JV	(14.1)	0.3	0.3	-	-
Profit before tax	**195.1**	**254.2**	**426.0**	**547.4**	**556.1**
Tax	(42.8)	(71.1)	(93.7)	(120.4)	(122.4)
Net profit	**152.3**	**183.0**	**332.4**	**427.0**	**433.8**
Minority interest	(0.7)	(10.1)	(26.6)	(10.7)	(10.8)
Core PATAMI	**151.6**	**172.9**	**305.8**	**416.3**	**422.9**
Exceptional items	(6.5)	14.0	-	-	-
Reported earnings	145.1	186.9	305.8	416.3	422.9

Valuation & Ratios

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Core EPS (sen)	11.7	13.4	23.7	32.2	32.7
P/E (x)	49.9	43.7	24.7	18.2	17.9
EV/EBITDA (x)	31.1	28.9	17.9	14.1	14.3
DPS (sen)	6.0	6.0	13.0	12.9	13.1
Dividend yield	1.0%	1.0%	2.2%	2.2%	2.2%
BVPS (RM)	0.6	0.7	0.8	1.0	1.2
P/B (x)	9.2	8.6	7.4	6.0	5.0
EBITDA margin	9.4%	7.7%	8.6%	9.5%	9.4%
EBIT margin	8.6%	7.2%	8.2%	9.1%	9.0%
PBT margin	7.3%	7.2%	8.4%	9.3%	9.6%
Net margin	5.7%	5.2%	6.5%	7.3%	7.5%
ROE	19.5%	20.4%	32.3%	36.5%	30.4%
ROA	4.8%	4.2%	5.5%	6.1%	5.7%
Net gearing	55.5%	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Construction	2,235	3,778	6,700	4,800	4,800
Precast	270	443	300	400	500
Total new job wins	**2,300**	**4,221**	**7,000**	**5,200**	**5,300**

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY24	1QFY25	2QFY25	*QoQ (%)*	*YoY (%)*	1HFY24	1HFY25	*YoY (%)*
Revenue	651.2	1,400.5	1,476.9	5.5	126.8	1,256.0	2,877.4	129.1
EBIT	51.5	116.2	122.4	5.4	138.0	100.9	238.6	136.6
Finance income	15.3	14.3	19.7	38.3	28.6	20.1	34.0	69.4
Finance cost	(17.8)	(12.9)	(12.8)	(0.8)	(28.2)	(34.0)	(25.7)	(24.5)
PBT	49.0	119.9	132.3	10.3	169.9	87.0	252.2	190.0
PAT	36.6	92.4	103.9	12.4	184.0	65.6	196.3	199.3
Core PATMI	37.7	82.4	93.5	13.5	148.3	66.4	175.9	165.1
Reported PATMI	38.9	75.7	83.9	10.8	115.8	71.3	159.6	123.9
Core EPS (sen)	2.9	6.4	7.2	13.5	148.3	5.1	13.6	165.1
EBIT margin (%)	7.9	8.3	8.3			8.0	8.3	
PBT margin (%)	7.5	8.6	9.0			6.9	8.8	
PATMI margin (%)	5.8	5.9	6.3			5.3	6.1	

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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