

HLIB Research

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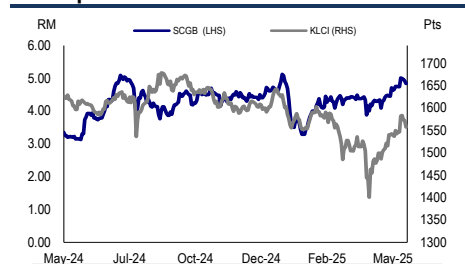
BUY (Maintain)

Target Price: **RM5.36**
Previously: **RM4.80**
Current Price: **RM4.88**

Capital upside	9.8%
Dividend yield	2.6%
Expected total return	12.4%

Sector coverage: Construction

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

Share price


Historical return (%)	1M	3M	12M
Absolute	12.0	18.3	49.4
Relative	7.9	20.1	55.0

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	6,316
3-mth average volume ('000)	4,258
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★ ★ ★

Major shareholders

Sunway Berhad	54.6%
EPF	7.8%

Earnings summary

FYE (Dec)	FY24	FY25f	FY26f
PATMI - core (RM m)	172.9	296.3	344.3
EPS - core (sen)	13.4	22.9	26.6
P/E (x)	36.5	21.3	18.3

Sunway Construction Group

Blistering start

SunCon reported 1QFY25 earnings of RM82.4m beating both our and consensus expectations. DPS of 5 sen was declared. Billings from its key DC projects accelerated further in the current quarter. Taking cue from the typical slow start, we anticipate stronger quarters ahead. YTD wins have hit RM2.2bn with more imminent contract upsizing. We raise our contract win assumption to RM6bn supported by RM16bn tenders. Raise FY25f/26f core PATAMI forecasts by +10.5%/+3.2% and introduce FY27 forecast of RM350m. Maintain BUY with higher TP of RM5.36.

Beats expectations. SunCon reported 1QFY25 results with revenue of RM1.4bn (flat QoQ, +131.6% YoY) and core PATAMI of RM82.4m (+12.0% QoQ, +187.1% YoY). Results were significantly higher than our and consensus expectations coming in at 31%/30% of full year forecasts. Positive deviation came from higher-than-expected construction billings as SunCon continues to run down on its JHB1X0 DC project. We expect stronger numbers in the coming quarters as billings benefit from accelerated project progress while margins pick-up towards project tail end.

Els. 1QFY25 core PATAMI is adjusted for: (i) FV loss on ESOS – RM3.3m (ii) FV loss on hedging – RM161k and (iii) accretion of financial liabilities – RM3.3m.

Dividends. First interim DPS of 5 sen going ex. on 9-June-25. SunCon is accelerating return of capital to shareholders amid record earnings.

QoQ. Core PATAMI came in higher by 12.0% despite flattish revenue partly driven by lower sequential effective tax rates (-5.5ppts). Sequentially, the quarter saw slightly higher construction revenue (+1.2%) while segmental PBT expanded by 4.5% riding on enhanced margins – lifted by higher margin Johor DC project. Though construction billings was flattish we view this as a strong indicator for sturdy earnings growth in FY25 considering typical billings recognition surge in 4Qs. Revenue from the precast segment on the other hand contracted by -34.1% due to sluggish deliveries in 1Q. Nevertheless, deliveries are expected to pick-up sequentially as SunCon digests its sizable unbilled precast orders (RM697m).

YoY. Core PATAMI surged by 187.1% mainly driven by strong construction segment performance as segmental revenue climbed by 131.6%. This was fuelled by accelerated execution across several data centre projects.

Orderbook and net cash. Latest unbilled orderbook stands at RM6.6bn (1.9x cover on FY24 revenue). This is inclusive of newly clinched DC contract from K2 (existing customer) worth RM393m as well as VOs worth RM167m for JHB1X0. Meanwhile, net cash grew significantly QoQ from RM285m to RM835m (or RM0.65 net cash per share) on better receivables collection.

Targets easily achievable. We lift our wins target for FY25 to RM6bn considering positive progress in contract win execution. In our view this is achievable considering imminent DC upsizing valued at ~RM1.0bn (by 2QFY25) coupled with other high probability projects (internal and precast). This will incrementally add to secured YTD wins worth RM2.2bn. By our estimates, the above could result in ~RM4bn worth of jobs while remaining RM2bn could come from new contracts riding on its sizable RM16bn outstanding tenders (80% DCs). We anticipate award decisions for new DC tenders towards 2H25. Opportunities in the DC space remained robust, skewing towards US HQ-ed companies as well as SG names.

Diffusion rescinded, new rules expected. The Biden-era AI Diffusion rule was rescinded recently and during this intermittent period no restrictions apply -

benefitting AI deployments in Malaysia, near term. Nevertheless, [reportedly](#) a new ruling is being drafted by the current Administration and will be implemented in due course.

Forecast. Post earnings beat, we raise FY25f/26f core PATAMI forecasts by +10.5%/+3.2% adjusting for contract assumptions and margins. Introduce FY27 core PATAMI earnings forecast of RM350m.

Maintain BUY, TP: RM5.36. Maintain BUY with higher TP of RM5.36 (from RM4.80). Our TP is derived by pegging FY26 EPS to 19.3x (from 18.6x) post P/E multiple recalibration based on +0.5SD over the 3 year range. Consistent with our previous valuation methodology (prior to net debt position between FY20-23), we are adding net cash per share of RM0.22 (based on AR24) to derive TP. In our view, SunCon's premium valuation is justified given solid prospects and projected upshift in already superior ROEs (~27%). Downside risks include: costs inflation, AI hardware restrictions & DC project execution.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)
Revenue	604.8	1,400.3	1,400.5	0.0	131.6
EBIT	49.4	96.0	116.2	21.0	135.2
Finance income	4.7	33.2	14.3	(57.1)	201.3
Finance cost	(16.2)	(14.6)	(12.9)	(11.5)	(20.4)
PBT	37.9	115.0	119.9	4.3	216.0
PAT	29.0	82.3	92.4	12.3	218.5
Core PATMI	28.7	73.6	82.4	12.0	187.1
Reported PATMI	32.4	69.2	75.7	9.5	133.7
Core EPS (sen)	2.2	5.7	6.4	12.0	187.1
EBIT margin (%)	8.2	6.9	8.3		
PBT margin (%)	6.3	8.2	8.6		
PATMI margin (%)	4.7	5.3	5.9		

HLIB Research, Bursa

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	1,720.1	1,818.5	2,027.9
Receivables	1,893.2	1,968.9	2,043.7	2,228.4	2,195.1
Inventories	46.4	43.3	54.3	59.2	58.4
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	4,384.7	4,669.2	4,839.6
Debt	926.0	730.6	991.8	865.0	852.0
Payables	1,193.3	1,805.7	2,173.8	2,369.7	2,334.2
Others	71.6	121.4	121.4	121.4	121.4
Liabilities	2,190.8	2,657.7	3,287.1	3,356.1	3,307.6
Shareholder's equity	820.2	877.9	1,011.3	1,217.9	1,427.9
Minority interest	71.8	60.6	86.3	95.2	104.1
Equity	892.0	938.5	1,097.6	1,313.0	1,532.0

Cash Flow Statement

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Profit before taxation	195.1	254.2	412.8	452.8	460.3
Depreciation & amortisation	21.0	17.3	22.1	23.5	24.9
Changes in working capital	(510.7)	539.9	282.3	6.3	(1.4)
Share of JV profits	14.1	(0.3)	(0.3)	-	-
Taxation	(42.8)	(71.1)	(90.8)	(99.6)	(101.3)
Others	23.8	(23.4)	-	-	-
Operating cash flow	(299.4)	716.4	626.1	383.0	382.5
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)	261.2	(126.9)	(13.0)
Issuance of shares	-	-	-	-	-
Dividends paid	(77.3)	(77.8)	(163.0)	(137.7)	(140.0)
Others	(30.5)	(30.3)	-	-	-
Financing cash flow	337.4	(303.4)	98.2	(264.6)	(153.0)
Net cash flow	(24.8)	551.5	704.3	98.4	209.5
Forex	-	-	-	-	-
Others	3.6	(6.1)	-	-	-
Beginning cash	491.6	470.4	1,015.8	1,720.1	1,818.5
Ending cash	470.4	1,015.8	1,720.1	1,818.5	2,027.9

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Revenue	2,671.2	3,521.7	4,662.1	5,083.4	5,007.5
EBITDA	251.8	271.1	421.1	453.7	442.7
EBIT	230.8	253.8	399.0	430.2	417.9
Net finance income/ (cost)	(21.5)	0.0	13.5	22.5	42.4
Associates & JV	(14.1)	0.3	0.3	-	-
Profit before tax	195.1	254.2	412.8	452.8	460.3
Tax	(42.8)	(71.1)	(90.8)	(99.6)	(101.3)
Net profit	152.3	183.0	322.1	353.2	359.0
Minority interest	(0.7)	(10.1)	(25.7)	(8.8)	(9.0)
Core PATAMI	151.6	172.9	296.3	344.3	350.0
Exceptional items	(6.5)	14.0	-	-	-
Reported earnings	145.1	186.9	296.3	344.3	350.0

Valuation & Ratios

FYE Dec (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Core EPS (sen)	11.7	13.4	22.9	26.6	27.1
P/E (x)	41.6	36.5	21.3	18.3	18.0
EV/EBITDA (x)	26.1	24.2	15.6	14.5	14.8
DPS (sen)	6.0	6.0	12.6	10.7	10.8
Dividend yield	1.2%	1.2%	2.6%	2.2%	2.2%
BVPS (RM)	0.6	0.7	0.8	0.9	1.1
P/B (x)	7.7	7.2	6.2	5.2	4.4
EBITDA margin	9.4%	7.7%	9.0%	8.9%	8.8%
EBIT margin	8.6%	7.2%	8.6%	8.5%	8.3%
PBT margin	7.3%	7.2%	8.9%	8.9%	9.2%
Net margin	5.7%	5.2%	6.9%	6.9%	7.2%
ROE	19.5%	20.4%	31.4%	30.9%	26.5%
ROA	4.8%	4.2%	5.5%	5.5%	5.2%
Net gearing	55.5%	CASH	CASH	CASH	CASH

Assumptions

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

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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.

Sector rating guide

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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