

## Sunway Construction

Outperforming for another quarter; notable step-up in DC tenders

SunCon reported 1Q25 PATAMI of RM76mn, up 129% YoY/9% QoQ. The result beat both JPMe and consensus, making up 30%/27% of JPMe/consensus for the full year.

- **Key positives: (1) Record-high revenue:** SunCon has sustained record-high revenue for two consecutive quarters, and its profit margins improved 1.2ppt YoY/0.2ppt QoQ as the revenue contribution from data center projects increased. DC revenue was ~80% of revenue in Q1 vs. ~60% in Q4, based on our estimates. **(2) Project wins:** SunCon secured RM2.2bn worth of project wins in Q1, including a transit-oriented development in Johor worth RM1.5bn and a data center project worth RM0.4bn, tracking ahead of its full-year target of RM4.5bn-6bn. **(3) Higher tender book:** The tender book increased to RM16bn from RM14.5bn in Q4. Notable new tenders include multiple data center work packages for a prospective US-based tech MNC client that management believes could be awarded within the next six months, as well as a new phase of data center development for an existing co-location client.
- **Key risks:** We understand that project margins for the new DC tenders could be lower than for other DC developments in SunCon's existing portfolio due to the competitiveness of the tenders and the learning curve required to meet the prospective client's technical specifications. Although we are conservative on SunCon's chances of securing new DC projects from the prospective tech MNC client, any positive developments for this project could pose material upside risk to SunCon's current project win guidance, given the sheer size of these work packages.
- **Changes to our forecasts:** We increase our 2025/26 earnings forecasts by 24%/11% to account for the earnings beat and a higher project win assumption, as we now assume that RM5.4bn in new projects (~RM2bn DC-related) will be secured in 2025E. As a result, we raise our Dec-25 PT to RM3.30, derived by assuming an 18x P/E (+0.5SD vs. the 10-year average) on SunCon's 2026E normalized earnings. SunCon's current 22x P/E is rich, in our view (+1.5SD), and we think the market has priced in a higher DC win assumption of RM4bn. We would see a share price rally on project announcements as a good opportunity to take profits.

## Underweight

SCOG.KL, SCGB MK

Price (20 May 25):RM4.88

▲ **Price Target (Dec-25):RM3.30**

Prior (Dec-25):RM2.80

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## Key Changes (FYE Dec)

	Prev	Cur
Adj. EPS - 25E (RM)	0.20	0.25
Adj. EPS - 26E (RM)	0.16	0.18

## Style Exposure

Quant Factors	Current	Hist %Rank (1=Top)			
	%Rank	6M	1Y	3Y	5Y
Value	39	52	43	37	39
Growth	29	7	54	39	43
Momentum	3	3	5	48	50
Quality	35	39	35	41	31
Low Vol	84	84	72	54	80

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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## Price Performance



	YTD	1m	3m	12m
Abs	5.4%	13.0%	18.4%	45.7%
Rel	11.1%	9.7%	20.3%	50.5%

## Company Data

Shares O/S (mn)	1,289
52-week range (RM)	5.30-3.10
Market cap (\$ mn)	1,466
Exchange rate	4.29
Free float (%)	26.1%
3M ADV (mn)	4.19
3M ADV (\$ mn)	4.3
Volatility (90 Day)	57
Index	FBMKLCI - FTSE BURSA MALAYSIA KLCI
BBG ANR (Buy   Hold   Sell)	14 2 1

## Key Metrics (FYE Dec)

RM in millions	FY24A	FY25E	FY26E	FY27E
<b>Financial Estimates</b>				
Revenue	3,522	5,250	4,279	3,690
Adj. EBITDA	284	467	342	294
Adj. EBIT	262	445	318	269
Adj. net income	187	318	229	198
Adj. EPS	0.14	0.25	0.18	0.15
BBG EPS	0.13	0.21	0.23	0.25
Cashflow from operations	717	(137)	400	271
FCFF	709	(154)	380	247
<b>Margins and Growth</b>				
Revenue Growth Y/Y (%)	31.8%	49.1%	(18.5%)	(13.7%)
EBITDA margin	8.1%	8.9%	8.0%	8.0%
EBITDA Growth Y/Y (%)	15.7%	64.7%	(26.8%)	(14.0%)
EBIT margin	7.4%	8.5%	7.4%	7.3%
Net margin	5.3%	6.1%	5.4%	5.4%
Adj. EPS growth	28.8%	70.1%	(27.9%)	(13.8%)
<b>Ratios</b>				
Adj. tax rate	27.8%	24.0%	24.0%	24.0%
Interest cover	NM	128.4	4,261.1	NM
Net debt/Equity	NM	0.0	NM	NM
Net debt/EBITDA	NM	0.1	NM	NM
ROCE	11.3%	20.0%	13.3%	10.6%
ROE	22.0%	33.2%	21.0%	16.5%
<b>Valuation</b>				
FCFF yield	11.3%	(2.5%)	6.0%	3.9%
Dividend yield	1.7%	2.5%	1.8%	1.6%
EV/Revenue	1.7	1.2	1.4	1.6
EV/EBITDA	21.4	13.7	18.0	20.4
Adj. P/E	33.7	19.8	27.5	31.9

## Summary Investment Thesis and Valuation

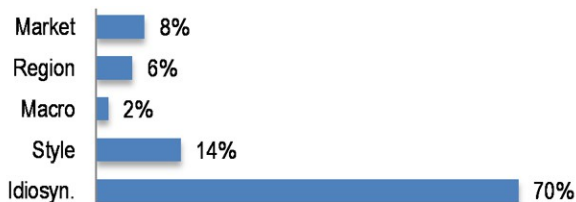
### Investment Thesis

We think SunCon's current 22x P/E (+1.5SD vs. the 10Y historical average) is rich and largely prices in optimism around sizeable DC contract awards. We believe share price strength from further DC project awards could be a good opportunity for investors to take profits.

### Valuation

Our Dec-25 PT of RM3.30 is based on 18x FY26E normalized earnings, 0.5SD above SCGB's 10-year historical average.

## Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.27	0.27
Region: Malaysia	0.45	0.26
<b>Macro:</b>		
JPM EM Currency(EMCI) Fixing	0.10	0.19
Emerging Central Bank Rate	0.01	-0.15
HSI Volatility Index	-0.04	-0.09
<b>Quant Styles:</b>		
Size	0.53	0.29
Growth	0.32	0.29
DivYld	-0.22	-0.25

Figure 1: Results summary

RM'mn	1Q25	1Q24	YoY	4Q24	QoQ
Revenue	1,400.5	604.8	132%	1,400.3	0%
EBITDA	105.9	50.2	111%	86.9	22%
EBIT	109.5	53.1	106%	91.6	20%
PBT	113.2	41.6	172%	110.6	2%
PATMI	75.7	33.0	129%	69.2	9%
<b>Margin</b>			<b>Chg in ppt</b>		<b>Chg in ppt</b>
EBITDA	7.6%	8.3%	-0.7ppt	6.2%	1.4ppt
EBIT	7.8%	8.8%	-1.0ppt	6.5%	1.3ppt
PBT	8.1%	6.9%	1.2ppt	7.9%	0.2ppt
PATMI	5.4%	5.5%	-0.1ppt	4.9%	0.5ppt

Source: Company data.

## Investment Thesis, Valuation and Risks

### Sunway Construction *(Underweight; Price Target: RM3.30)*

#### Investment Thesis

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#### Valuation

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#### Risks to Rating and Price Target

Upside risks include easing regulations around chip sourcing, which could revive DC project awards in Malaysia.

Downside catalysts include: (1) the late delivery of projects, which could deter revenue recognition, limit the ability to take on new projects and negatively impact the company's credibility; (2) margin compression due to intensifying competition and/or higher input costs; and (3) delays in project awards for public infrastructure projects.

## Sunway Construction: Summary of Financials

Income Statement						Cash Flow Statement					
	FY23A	FY24A	FY25E	FY26E	FY27E		FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	2,671	3,522	5,250	4,279	3,690	Cash flow from operating activities	(299)	717	(137)	400	271
COGS	(2,237)	(2,994)	(4,345)	(3,582)	(3,094)	o/w Depreciation & amortization	21	0	22	24	25
Gross profit	434	528	904	697	596	o/w Changes in working capital	(517)	535	(495)	135	38
SG&A	(226)	(302)	(439)	(362)	(313)	Cash flow from investing activities	(63)	139	(20)	(20)	(20)
Adj. EBITDA	245	284	467	342	294	o/w Capital expenditure	0	0	(20)	(20)	(20)
D&A	(21)	(21)	(22)	(24)	(25)	as % of sales	0.0%	0.0%	0.4%	0.5%	0.5%
Adj. EBIT	224	262	445	318	269	Cash flow from financing activities	337	(303)	(159)	(115)	(99)
Net Interest	(21)	11	(4)	(0)	5	o/w Dividends paid	(71)	0	(159)	(115)	(99)
Adj. PBT	189	273	441	318	274	o/w Shares issued/(repurchased)	0	0	0	0	0
Tax	(43)	(76)	(106)	(76)	(66)	o/w Net debt issued/(repaid)	(1,010)	0	0	0	0
Minority Interest	(1)	(10)	(17)	(12)	(11)	Net change in cash	(24)	552	(316)	266	152
Adj. Net Income	145	187	318	229	198	Adj. Free cash flow to firm	(280)	709	(154)	380	247
Reported EPS	0.11	0.14	0.25	0.18	0.15	y/y Growth	50.2%	(353.0%)	(121.8%)	(346.2%)	(35.0%)
Adj. EPS	0.11	0.14	0.25	0.18	0.15						
DPS	0.06	0.09	0.12	0.09	0.08						
Payout ratio	53.3%	58.6%	50.0%	50.0%	50.0%						
Shares outstanding	1,289	1,289	1,289	1,290	1,290						
Balance Sheet						Ratio Analysis					
	FY23A	FY24A	FY25E	FY26E	FY27E		FY23A	FY24A	FY25E	FY26E	FY27E
Cash and cash equivalents	470	1,016	699	965	1,117	Gross margin	16.3%	15.0%	17.2%	16.3%	16.2%
Accounts receivable	1,241	1,843	2,077	1,605	1,354	EBITDA margin	9.2%	8.1%	8.9%	8.0%	8.0%
Inventories	46	43	80	66	54	EBIT margin	8.4%	7.4%	8.5%	7.4%	7.3%
Other current assets	1,698	1,907	2,177	1,691	1,428	Net profit margin	5.4%	5.3%	6.1%	5.4%	5.4%
Current assets	2,239	2,922	2,876	2,656	2,545	ROE	18.6%	22.0%	33.2%	21.0%	16.5%
PP&E	98	85	83	79	75	ROA	5.5%	5.6%	8.9%	6.7%	6.1%
LT investments	253	224	224	224	224	ROCE	11.7%	11.3%	20.0%	13.3%	10.6%
Other non current assets	745	588	588	588	588	SG&A/Sales	8.5%	8.6%	8.4%	8.5%	8.5%
Total assets	3,083	3,596	3,548	3,324	3,208	Net debt/Equity	0.5	NM	0.0	NM	NM
Short term borrowings	438	731	731	731	731	Net debt/EBITDA	1.9	NM	0.1	NM	NM
Payables	921	1,913	1,688	1,338	1,112	Sales/Assets (x)	1.0	1.1	1.5	1.2	1.1
Other short term liabilities	342	13	13	13	13	Assets/Equity (x)	3.4	3.9	3.7	3.1	2.7
Current liabilities	1,702	2,657	2,432	2,082	1,856	Interest cover (x)	11.4	NM	128.4	4,261.1	NM
Long-term debt	488	0	0	0	0	Operating leverage	84.6%	53.1%	141.8%	153.7%	112.0%
Other long term liabilities	489	1	1	1	1	Tax rate	22.7%	27.8%	24.0%	24.0%	24.0%
Total liabilities	2,191	2,658	2,433	2,083	1,857	Revenue y/y Growth	23.9%	31.8%	49.1%	(18.5%)	(13.7%)
Shareholders' equity	820	878	1,037	1,152	1,250	EBITDA y/y Growth	16.5%	15.7%	64.7%	(26.8%)	(14.0%)
Minority interests	72	61	78	90	101	EPS y/y Growth	7.3%	28.8%	70.1%	(27.9%)	(13.8%)
Total liabilities & equity	3,083	3,596	3,548	3,324	3,209						
BVPS	0.64	0.68	0.80	0.89	0.97	Valuation					
y/y Growth	11.3%	7.0%	18.1%	11.0%	8.6%		FY23A	FY24A	FY25E	FY26E	FY27E
Net debt/(cash)	456	(285)	31	(234)	(386)	P/E (x)	43.4	33.7	19.8	27.5	31.9
						P/BV (x)	7.7	7.2	6.1	5.5	5.0
						EV/EBITDA (x)	27.8	21.4	13.7	18.0	20.4
						Dividend Yield	1.2%	1.7%	2.5%	1.8%	1.6%

Source: Company reports and J.P. Morgan estimates.

Note: RM in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

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Sunway Construction (SCOG.KL, SCGB MK) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Sep 03, 2024. All share prices are as of market close on the previous business day.

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