

21 May 2025

Sunway Construction Group

1QFY25 Shines, K2 Contract Upsized

By Teh Kian Yeong | tehky@kenanga.com.my

SUNCON delivered a strong 1QFY25 set of results which topped expectations on higher revenue mix from accelerated data centre project progress. A 5.0 sen NDPS came as a pleasant surprise, suggesting the potential for regular quarterly dividends. It also secured a new phase of the K2 data centre expansion. We remain bullish on robust data centre job prospect to propel its earnings further. We upgraded FY25-FY26 earnings forecasts by 8%-12% and raised our TP by 12% to RM5.94. **OUTPERFORM** reaffirmed.

1QFY25 result beat forecast with core profit of RM82.2m which made up 30% of our FY25 forecasts as well as consensus estimates. The variance against our forecast came largely from higher-than-expected revenue (1QFY25 revenue accounted for 30% of our FY25 assumption), mainly attributed to accelerated progress in data centre jobs that come with a higher margin. It declared a first interim NDPS of 5.0 sen, which is a pleasant surprise, vs. our FY25 projection of 8.5 sen.

Data centre revenues propelled 1QFY25 earnings. Despite a flat revenue at RM1.4b, 1QFY25 core profit surged 29% QoQ to RM82.2m, driven by increased revenue recognition from data centre (c.RM1.1b vs. c.RM0.8b). In addition, share of JV income rose to RM2.3m from RM0.3m, attributable to Sunway-ENGIE JV's Yellowwood project as the data centre project progressed. The effective tax rate normalised to 24% from 31%/30% in 3QFY24/4QFY24 which were impacted by one-off higher tax rate related to the India highway project.

Similarly, 1QFY25 core profit soared 3-fold to RM82.2m, supported by a 132% jump in revenue due to the acceleration of data centre work progress. The high proportion of data centre revenue contributed to an improved pre-tax margin of 8.1%, up from 6.9% in 1QFY24.

Secured K2 Phase 2 contract. Separately, SUNCON also announced yesterday that it has secured a Stage 3 works for K2 Strategic Infrastructure Malaysia Sdn Bhd's (K2) Phase 2 data centre project worth RM260m. This is in addition to the unannounced award of Stage 1 and 2 works secured in Feb 2025, which were below the mandatory disclosure threshold. The total contract value for the entire K2 Phase now stands at RM392.7m, with completion targeted by March 2026. This brings its YTD contract wins to RM2.16b and its current outstanding order book to RM6.65b from RM4.22b three months ago.

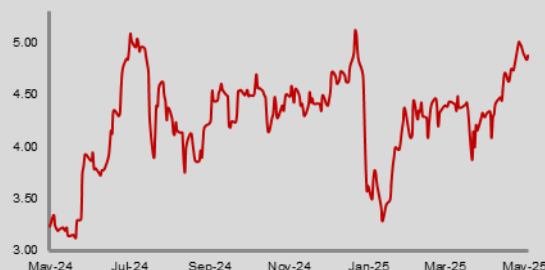
Outlook. We understand that SUNCON has tendered for several data centre projects currently, including two projects from its existing two early contractor involvement (ECI) projects. Typically, data centre building jobs can fetch a PBT margin at the higher-end of the range of 5% to 8% for building jobs, thereby improving its blended margin in the future. Other projects in the pipeline are Penang LRT Package 2 and 3, beside in-house projects within the SUNWAY Group.

Forecasts. We raised FY25/FY26 earnings forecasts by 8%/12% to account for higher revenue assumptions of RM4.7b/RM5.0b from RM4.5b/RM4.6b with a higher assumption for EBIT margin of 8.1%/8.6% from 7.7%/8.2% as we expect higher data centre revenue recognition. However, we keep our job win assumptions unchanged at RM6.0b/RM4.0b respectively. We also increased NDPS projections to 12.5 sen each for FY25/FY26 (payout ratio of 55%/49%) from 8.5 sen each previously.

OUTPERFORM ↔

Price: **RM4.88**
Target Price: **RM5.94** ↑

Share Price Performance



KLCI 1,548.87
YTD KLCI chg -5.7%
YTD stock price chg 5.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	6,298.5
Shares Outstanding	1,290.7
52-week range (H)	5.30
52-week range (L)	3.10
3-mth avg. daily vol.	4,205,375
Free Float	26%
Beta	1.3

Major Shareholders

Sunway Holdings Sdn Bhd	54.5%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund	7.5%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Turnover	3521.7	4930.0	5250.0
EBIT	262.2	399.0	450.0
PBT	273.0	399.0	450.0
Net Profit	186.9	294.1	331.7
Core Net Profit	162.3	294.1	331.7
Consensus	-	276.5	296.8
Earnings Revision (%)	-	+8.0	+11.9
Core EPS (sen)	12.6	22.8	25.7
Core EPS Growth (%)	-4.7	81.3	12.8
NDPS (sen)	8.5	12.5	12.5
BVPS (RM)	0.68	0.80	0.94
NTA/share (RM)	0.68	0.80	0.94
PER (x)	36.8	21.4	19.0
PBV (x)	6.80	6.07	5.21
P/NTA (x)	6.80	6.08	5.22
Net Gearing (x)	N Cash	N Cash	N Cash
Net Div. Yield (%)	1.8	2.6	2.6



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Valuations. Post earnings revision, we upgrade our TP to RM5.94 from RM5.31, based on unchanged 22x FY26F PER which is in-line with our valuation for big cap construction companies, i.e., **GAMUDA (UP; TP: RM4.90)** and **IJM (OP; TP: RM3.00)**. Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by us (see Page 5).

Investment case. We like SUNCON for: (i) strong job prospects of the sector with the imminent roll-out of key public infrastructure projects, (ii) its strong earnings visibility underpinned by RM6.65b outstanding order book and recurring jobs from parent and sister companies, and (iii) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works. **OUTPERFORM** reaffirmed.

Risks to our recommendation include: (i) weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

Income Statement

FY Dec (RM m)	1Q FY25	4Q FY24	Q-o-Q Chg	1Q FY24	Y-o-Y Chg	1Q FY25	1Q FY24	Y-o-Y Chg
Turnover	1,400.5	1,400.3	0%	604.8	132%	1,400.5	604.8	132%
EBITDA	113.1	95.3	19%	57.6	96%	113.1	57.6	96%
Depreciation	-3.6	-3.7	-4%	-4.5	-21%	-3.6	-4.5	-21%
EBIT	109.5	91.6	20%	53.1	106%	109.5	53.1	106%
Interest and other incomes	14.3	33.2	-57%	4.7	201%	14.3	4.7	201%
Interest expense	-12.9	-14.6	-12%	-16.2	-20%	-12.9	-16.2	-20%
Associates	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
JV incomes	2.3	0.3	678%	0.0	N/A	2.3	0.0	N/A
Exceptional items	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Pretax profit	113.2	110.6	2%	41.6	172%	113.2	41.6	172%
Taxation	-27.5	-32.7	-16%	-8.9	208%	-27.5	-8.9	208%
Profit after tax	85.7	77.9	10%	32.7	162%	85.7	32.7	162%
Minority interest	-10.0	-8.7	15%	-0.3	3128%	-10.0	-0.3	3128%
Net profit	75.7	69.2	9%	32.4	134%	75.7	32.4	134%
Core net profit	82.2	63.8	29%	27.0	204%	82.2	27.0	204%
EPS (sen)	6.4	4.9	29%	2.1	204%	6.4	2.1	204%
DPS (sen)	5.00	2.50	100%	0.00	N/A	5.00	0.00	N/A
NTA/share (RM)	0.75	0.68	10%	0.67	12%	0.75	0.67	12%
EBITDA margin	8.1%	6.8%		9.5%		8.1%	9.5%	
EBIT margin	7.8%	6.5%		8.8%		7.8%	8.8%	
Pretax margin	8.1%	7.9%		6.9%		8.1%	6.9%	
Core net margin	5.9%	4.6%		4.5%		5.9%	4.5%	
Effective tax rate	24.3%	29.6%		21.5%		24.3%	21.5%	

Source: Company

Segmental Breakdown

FY Dec (RM m)	1Q FY25	4Q FY24	Q-o-Q Chg	1Q FY24	Y-o-Y Chg	1Q FY25	1Q FY24	Y-o-Y Chg
Turnover								
Construction	1,369.9	1,353.9	1%	543.6	152%	1,369.9	543.6	152%
Precast Concrete	30.6	46.4	-34%	61.2	-50%	30.6	61.2	-50%
Group Turnover	1,400.5	1,400.3	0%	604.8	132%	1,400.5	604.8	132%
Segment Results								
Construction	112.0	107.2	4%	37.9	196%	112.0	37.9	196%
Precast Concrete	1.2	3.4	-64%	3.8	-67%	1.2	3.8	-67%
Group PBT	113.2	110.6	2%	41.6	172%	113.2	41.6	172%
PBT Margin								
Construction	8.2%	7.9%		7.0%		8.2%	7.0%	8.2%
Precast Concrete	4.1%	7.4%		6.1%		4.1%	6.1%	4.1%
Group PBT Margin	8.1%	7.9%		6.9%		8.1%	6.9%	8.1%

Source: Company

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SUNCON's Outstanding Order Book		
Project		Outstanding Value (RM m)
Building		
Oxley Tower (MEP) + VO		11
Daiso		152
Data Centre		
JHB1X0 - Data Centre & TIW		1,542
JHB1X0 – TIW – ADD		167
ECI & Work Order – MNC		42
PSR – MNC		618
K2 Building 4		383
Infrastructure/Piling		
RTS Link Package 1B & Package 5		64
India		
Thorapalli-Jittandahalli (TJ)		197
Sustainable Energy		
CGPP - Green		28
Singapore		
Precast		624
New Order 2025 – External		73
Internal – Sunway Group		
Sunway Square – Superstructure + VO		339
Sunway Carnival Mall – Refurbishment		63
Sunway Flora		87
SMC Fit-Out		36
Sunway Ipoh Mall		641
SunMed PH3 Fit-Out		80
SunMed Ipoh PH2 Fit-Out		4
SunMed Damansara PH2 Fit-Out		5
RTS Transit Oriented Development Project		1,492
Total		6,648

Source: Company

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	4.52	4.90	8.4%	26,068.8	Y	07/2025	17.6	24.4	8.9%	38.7%	25.7	18.5	2.2	8.7%	10.0	2.2%
IJM	OP	2.38	3.00	26.1%	8,342.3	Y	03/2025	11.7	13.6	-17.1%	17.0%	20.4	17.4	0.9	4.2%	8.0	3.4%
KERJAYA	OP	2.10	2.10	0.0%	2,643.1	Y	12/2025	16.7	18.1	29.8%	8.0%	12.6	11.6	2.2	17.8%	12.0	5.7%
KIMLUN	OP	1.00	1.36	36.0%	353.4	Y	12/2025	7.7	11.8	56.8%	53.6%	13.1	8.5	0.4	3.4%	2.0	2.0%
SUNCON	OP	4.88	5.94	21.7%	6,298.5	Y	12/2025	22.8	25.7	81.6%	12.8%	21.4	19.0	6.1	30.7%	12.5	2.6%
WCT	OP	0.705	1.29	83.0%	1,099.0	Y	12/2025	5.0	5.6	67.4%	12.7%	14.1	12.5	0.3	2.1%	0.5	0.7%
Sector Aggregate					44,805.0					17.2%	26.5%	22.2	17.6	1.6	7.2%		2.8%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★	☆	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	☆	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my