

Sunway Construction Group

Earnings Beat, Overhang Removed

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SUNCON delivered yet another strong 2QFY25 performance, beating expectations on higher revenue contribution from accelerated data centre project progress. It also surprised with a second interim NDPS of 7.25 sen, lifting payout visibility. With robust data centre job prospects and the removal of the MACC overhang, we turn bullish. We raise FY25–26F earnings by 10–9% and lift our TP by 15% to RM6.50. Upgrade to **OUTPERFORM**.

1HFY25 result beat forecast with core profit of RM176.2m which made up 60% of our FY25 forecasts and 58% of consensus estimates. The variance against our forecast came largely from higher-than-expected revenue, mainly attributed to accelerated progress in data centre jobs that come with a higher margin. It declared a 2nd interim NDPS of 7.25 sen, (ex-date 10 Sep; payment date 25 Sep) which is another surprise, bringing 1HFY25 NDPS to 12.25 sen (vs. 3.5 sen paid in 1HFY24) against our FY25 projection of 12.5 sen.

Earnings momentum led by data centres. Revenue grew 5% QoQ in 2QFY25, while core profit rose a sharper 14% to RM94.0m, supported by higher-margin data centre jobs, lifting construction PBT margin to 8.5% (from 8.2%). YoY, 2QFY25 core profit surged 153% on the back of a 127% revenue jump, while 1HFY25 core profit leapt 174% alongside a 129% revenue increase. Data centres accounted for a higher revenue share, pushing 1HFY25 PBT margin to 8.2% (from 7.3% in 1HFY24).

Outlook. SUNCON maintains its FY25 job replenishment target of RM4.5–6.0b. YTD, it has secured RM3.81b new orders, lifting its outstanding order book to RM6.72b, with an active tender book of RM14.8b (including six data centre projects). Data centre contracts typically fetch higher-end PBT margins of 5–8%, supporting further margin expansion. Other pipeline projects include Penang LRT Packages 2 & 3 and in-house SUNWAY Group jobs.

Forecasts. We raise FY25F/FY26F earnings by 10%/9%, underpinned by higher revenue assumptions of RM5.2b/RM5.5b (from RM4.7b/RM5.0b) on accelerated data centre progress. FY26 job win assumptions are lifted to RM5.0b (from RM4.0b) on improved data centre visibility on tenders, while FY25 remains unchanged at RM6.0b. NDPS projections are also raised to 20.0 sen each for FY25F/FY26F (80%/71% payout) from 12.5 sen (55%/49%) previously.

Valuations. With the MACC clarifying that its probe pertains solely to an individual's personal conduct, the overhang is removed. We reinstate the ESG premium into our valuation. Post-earnings revision, TP is raised to RM6.50 (from RM5.66 – without 5% ESG premium), premised on 22x FY26F PER with a 5% ESG premium to reflect our 4-star ESG rating. The 22x PER is consistent with large-cap peers **GAMUDA (OP; TP: RM6.10)** and **IJM (OP; TP: RM3.40)**.

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 RM6.72b 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. Given the strong job win prospects and the removal of the MACC investigation overhang, we upgrade SUNCON to **OUTPERFORM** from MARKET PERFORM.

OUTPERFORM ↑

Price: **RM5.85**
Target Price: **RM6.50** ↑

Share Price Performance



KLCI 1,592.87
YTD KLCI chg -3.0%
YTD stock price chg 26.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	7,675.4
Shares Outstanding	1,292.9
52-week range (H)	6.27
52-week range (L)	3.26
3-mth avg. daily vol.	7,337,282
Free Float	27%
Beta	1.1

Major Shareholders

Sunway Holdings Sdn Bhd	53.6%
Sungei Way Corp Sdn Bhd	9.9%
Employees Provident Fund	4.3%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Turnover	3521.7	5430.0	5750.0
EBIT	262.2	439.0	492.5
PBT	273.0	439.0	492.5
Net Profit	186.9	323.6	363.1
Core Net Profit	162.3	323.6	363.1
Consensus		303.0	332.8
Earnings Revision (%)		+10.0	+9.4
Core EPS (sen)	12.6	25.1	28.2
Core EPS Growth (%)	-4.7	99.5	12.2
NDPS (sen)	8.5	20.0	20.0
BVPS (RM)	0.68	0.75	0.83
NTA/share (RM)	0.68	0.75	0.83
PER (x)	36.8	23.3	20.8
PBV (x)	6.80	7.78	7.02
P/NTA (x)	6.80	7.79	7.03
Net Gearing (x)	N Cash	N Cash	N Cash
Net Div. Yield (%)	1.8	3.4	3.4

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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)	2Q FY25	1Q FY25	Q-o-Q Chg	2Q FY24	Y-o-Y Chg	1H FY25	1H FY24	Y-o-Y Chg
Turnover	1,476.9	1,400.5	5%	651.2	127%	2,877.4	1,256.0	129%
EBITDA	118.1	113.1	4%	57.2	106%	231.2	114.8	101%
Depreciation	-3.5	-3.6	0%	-4.6	-23%	-7.1	-9.1	-22%
EBIT	114.6	109.5	5%	52.7	118%	224.1	105.7	112%
Interest and other incomes	18.0	14.3	26%	15.3	17%	32.2	20.1	61%
Interest expense	-12.8	-12.9	-1%	-17.8	-28%	-25.7	-34.0	-24%
Associates	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
JV incomes	2.9	2.3	24%	0.0	N/A	5.2	0.0	N/A
Exceptional items	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Pretax profit	122.6	113.2	8%	50.2	144%	235.8	91.9	157%
Taxation	-28.4	-27.5	3%	-12.4	128%	-55.9	-21.4	161%
Profit after tax	94.2	85.7	10%	37.8	150%	180.0	70.5	155%
Minority interest	-10.3	-10.0	3%	1.1	-1039%	-20.4	0.8	-2673%
Net profit	83.9	75.7	11%	38.9	116%	159.6	71.3	124%
Core net profit	94.0	82.2	14%	37.2	153%	176.2	64.2	174%
EPS (sen)	7.3	6.4	14%	2.9	153%	13.7	5.0	174%
DPS (sen)	7.25	5.00	45%	3.50	107%	12.25	3.50	250%
NTA/share (RM)	0.80	0.75	7%	0.67	19%	0.80	0.67	19%
EBITDA margin	8.0%	8.1%		8.8%		8.0%	9.1%	
EBIT margin	7.8%	7.8%		8.1%		7.8%	8.4%	
Pretax margin	8.3%	8.1%		7.7%		8.2%	7.3%	
Core net margin	6.4%	5.9%		5.7%		6.1%	5.1%	
Effective tax rate	23.1%	24.3%		24.8%		23.7%	23.3%	

Source: Company

Segmental Breakdown

FY Dec (RM m)	2Q FY25	1Q FY25	Q-o-Q Chg	2Q FY24	Y-o-Y Chg	1H FY25	1H FY24	Y-o-Y Chg
Turnover								
Construction	1,433.5	1,369.9	5%	597.6	140%	2,803.4	1,141.2	146%
Precast Concrete	43.4	30.6	42%	53.6	-19%	74.0	114.9	-36%
Group Turnover	1,476.9	1,400.5	5%	651.2	127%	2,877.4	1,256.0	129%
Segment Results								
Construction	121.4	112.0	8%	46.9	159%	233.4	84.7	175%
Precast Concrete	1.2	1.2	-2%	3.3	-64%	2.5	7.1	-65%
Group PBT	122.6	113.2	8%	50.2	144%	235.8	91.9	157%
PBT Margin								
Construction	8.5%	8.2%		7.8%		8.3%	7.4%	
Precast Concrete	2.8%	4.1%		6.2%		3.3%	6.2%	
Group PBT Margin	8.3%	8.1%		7.7%		8.2%	7.3%	

Source: Company

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SUNCON's Outstanding Order Book		
Project		Outstanding Value (RM m)
Building		
Oxley Tower (MEP) + VO		6
Daiso		108
Data Centre		
JHB1X0 - Data Centre & TIW		580
JHB1X0 – TIW – ADD		238
ECI & Work Order – MNC		5
General Contractor Works – MNC		1,150
Site Early Works – Shell 2 – MNC		89
PSR – MNC		548
K2 Building 4 + VO		398
Infrastructure/Piling		
RTS Link Package 1B & Package 5		48
India		
Thorapalli-Jittandahalli (TJ)		182
Sustainable Energy		
CGPP - Green		11
Singapore		
Precast		582
New Order 2025 – External		285
Internal – Sunway Group		
Sunway Square – Superstructure + VO		274
Sunway Flora		56
SMC Fit-Out		22
Sunway Ipoh Mall		608
SunMed PH3 Fit-Out		76
SunMed Damansara PH2 Fit-Out		2
RTS Transit Oriented Development Project		1,451
Total		6,718

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	5.70	6.10	7.0%	33,038.3	Y	07/2025	17.6	24.4	8.9%	38.7%	32.4	23.3	2.8	8.7%	10.0	1.8%
IJM	OP	2.91	3.40	16.8%	10,200.0	Y	03/2026	15.6	16.2	20.9%	4.0%	18.6	17.9	1.0	5.5%	8.0	2.7%
KERJAYA	OP	2.10	2.30	9.5%	2,640.4	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	1.27	1.53	20.5%	448.8	Y	12/2025	18.2	19.7	29.1%	8.4%	7.0	6.4	0.5	7.9%	2.0	1.6%
SUNCON	OP	5.85	6.50	11.1%	7,675.4	Y	12/2025	25.0	28.1	99.5%	12.2%	23.4	20.8	7.8	35.0%	20.0	3.4%
WCT	OP	0.840	1.25	48.8%	1,309.5	Y	12/2025	5.0	5.6	67.4%	12.7%	16.8	14.9	0.4	2.1%	0.5	0.6%
Sector Aggregate					55,312.4					30.1%	21.4%	24.8	20.4	2.0	7.9%		2.6%

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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