

22 July 2025

# Sunway Construction Group

## ESG Reality Check

By Teh Kian Yeong | [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

SUNCON tumbled by as much as 18% yesterday, before recouping half of that to close the day, following an announcement that one of its employees is under investigation by the Malaysian Anti-Corruption Commission (MACC). Given Sunway Group's strong reputation for compliance, we believe this is an isolated incident driven by individual misconduct, but it has brought attention to governance concern, especially on project management. Kenanga therefore examined in this note to find SUNCON has in place a comprehensive anti-bribery and corruption framework, i.e. guardrails to protect it against corporate liability. Still, pending the outcome of the investigation, we are removing the 5% ESG premium previously factored into our valuation for now. Consequently, we revise our target price to RM5.66 (from RM5.94) and maintain our MARKET PERFORM rating.

**Inquiry by the MACC.** Yesterday, SUNCON confirmed that MACC has initiated inquiry against one of its employees, specifically in relation to engagements with certain subcontractors. Below are the key takeaways from the briefing:

- SUNCON confirmed that only one employee is under investigation; neither the company nor any other individuals are involved. As the case is ongoing, the company is unable to comment further.
- The employee under investigation is a contract manager who has been with SUNCON for 10 years. He has been suspended, with termination being the next course of action.
- The two directors mentioned are subcontractors from two companies.
- SUNCON believes this to be an isolated act by an individual. The company holds the ABMS certification (Anti-Bribery Management System) for its processes and systems supporting tender activities. SUNCON has been conducting their tenders via e-bidding, with contracts awarded strictly to the lowest bidder, in line with its SoP.
- It affirms its unwavering commitment to the highest standards of integrity and transparency across SUNCON's operations. It maintains a zero-tolerance policy towards bribery, corruption, and any practices that compromise ethical conduct.

### Our ESG view:

The incident highlighted ongoing challenges in combating bribery and corruption in the business sector. In line with its zero-tolerance stance, SUNCON has implemented a comprehensive Anti-Bribery and Corruption (ABC) Policy that is compliant with the Malaysian Anti-Corruption Commission Act 2009, including its 2018 amendment, specifically Section 17A.

Briefly, Section 17A is worth highlighting as this section of the MACC Act has since 2018 been added to hold commercial organisations (Malaysian and foreign companies operating in Malaysia) accountable for bribery and corruption committed by their employee, agent or subcontractor. Companies are liable to a fine of at least 10 times the value of the bribe or RM1m, whichever is higher, while the convicted individual, director, management or partner could face imprisonment of up to 20 years, or both. However, an organisation can defend itself by demonstrating that it had in place adequate procedures designed to

# MARKET PERFORM ↔

**Price:** RM5.49  
**Target Price:** RM5.66 ↓

### Share Price Performance



KLCI 1,524.59  
YTD KLCI chg -7.2%  
YTD stock price chg 18.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	7,193.5
Shares Outstanding	1,294.4
52-week range (H)	6.27
52-week range (L)	3.26
3-mth avg. daily vol.	6,375,567
Free Float	26%
Beta	1.2

### Major Shareholders

Sunway Holdings Sdn	53.7%
Sungei Way Corp Sdn	9.9%
Employees Provident	4.3%

### 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
<b>Net Profit</b>	<b>186.9</b>	<b>294.1</b>	<b>331.7</b>
<b>Core Net Profit</b>	<b>162.3</b>	<b>294.1</b>	<b>331.7</b>
Consensus	-	303.4	329.9
Earnings Revision (%)	-	-	-
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	24.1	21.3
PBV (x)	6.80	6.83	5.87
P/NTA (x)	6.80	6.83	5.87
Net Gearing (x)	N Cash	N Cash	N Cash
Net Div. Yield (%)	1.8	2.1	2.1



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prevent persons associated with it from undertaking such conduct.

Measures included in SUNCON's ABC Policy include:

- A designated ABC Compliance Officer (since 2020) to monitor and mitigate bribery and corruption risks.
- SUNCON's FY2024 anti-corruption data was audited by Group Internal Audit Department (GIAD).
- Zero confirmed bribery and corruption incidents recorded since 2022 with 100% employees trained on compliance.
- A whistleblowing channel, and Anti-Money Laundering, Countering Financing of Terrorism and Countering Proliferation Policy (AML / CFT / CPF Policy)
- Further tightening of its ABC framework with the adoption of ISO 37001:2016 Anti-Bribery Management Systems (ABMS) since May 2025. The ISO 37001 certification is a globally recognised standard adopted in over 160 countries. It requires third-party auditors, independent verification of its anti-bribery system, hence enhances credibility to a company like SUNCON in attracting foreign investment. The ABMS emphasizes on prevention whereas the MACC Act is reactive.

Although only one employee is under investigation, the incident underscored the fact that comprehensive frameworks and policies alone may not be able to eliminate the potential for individual misconduct. We believe that with the ISO 37001:2016 certification, leveraging technology and the continuous fostering of a culture of integrity, SUNCON is demonstrating its firm resolution in mitigating corruption risks.

**Forecasts.** Maintained, with our job win assumption unchanged at RM6b/RM4b for FY25/FY26, respectively.

**Valuations.** While maintaining our targeted FY26 PER of 22x, we have removed the 5% ESG premium previously accorded to SUNCON's valuation in light of the ongoing MACC probe. As a result, we lower our target price to RM5.66 (from RM5.94). The targeted PER of 22x is in-line with our valuation for big cap construction companies, i.e. **GAMUDA (OP; TP: RM5.59)** and **IJM (OP; TP: RM3.40)**.

**Investment case.** We like SUNCON for: (i) strong job prospects of the sector as a whole with the roll-out of key public infrastructure projects, (ii) its strong earnings visibility underpinned by RM7.9b 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. However, we maintain our **MARKET PERFORM** rating as we believe the positives have been largely priced in.

**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)	2022A	2023A	2024A	2025F	2026F
Revenue	2155	2671	3522	4930	5250
EBITDA	210	245	279	418	469
Depreciation	-24	-21	-17	-19	-19
Operating Profit	187	224	262	399	450
Interest Incomes	14	26	76	47	65
Interest Expense	-18	-48	-65	-55	-43
Associate	4	1	0	0	0
Exceptional	0	0	0	0	0
PBT	184	189	273	399	450
Taxation	-45	-43	-76	-96	-108
Minority Interest	-4	-1	-10	-9	-10
Net Profit	135	145	187	294	332
Core Net Profit	144	170	162	294	332
Balance Sheet					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	108	98	85	88	85
Associates	0	0	0	0	0
JV	223	253	224	236	240
Intangibles	0	1	0	1	1
Other FA	268	492	364	382	390
Inventories	53	46	43	74	92
Receivables	813	1410	1843	2822	2993
Other CA	279	312	20	21	22
Cash	492	470	1016	1058	1111
Total Assets	2236	3083	3596	4681	4933
Payables	886	1193	1913	2764	2917
ST Borrowings	172	438	731	355	319
Other ST Liability	45	70	13	67	68
LT Borrowings	309	488	0	395	356
Other LT Liability	3	1	1	1	1
Minority Int.	84	72	61	64	65
Net Assets	737	820	878	1036	1207
Share Capital	259	259	259	259	259
Reserves	479	562	619	778	948
Equity	737	820	878	1036	1207
Cashflow Statement					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	-142	-294	730	306	310
Investing CF	580	-66	119	-20	-20
Financing CF	-41	338	-303	-245	-236
Change In Cash	397	-22	546	42	53
Free CF	438	-360	849	286	290

Source: Kenanga Research

### 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	5.26	5.59	6.3%	30,366.5	Y	07/2025	17.6	24.4	8.9%	38.7%	29.9	21.5	2.6	8.7%	10.0	1.9%
IJM	OP	2.89	3.40	17.6%	10,129.9	Y	03/2026	15.6	16.2	20.9%	4.0%	18.5	17.8	1.0	5.7%	8.0	2.8%
KERJAYA	OP	2.12	2.30	8.5%	2,668.1	Y	12/2025	16.7	18.1	29.8%	8.0%	12.7	11.7	2.2	17.8%	12.0	5.7%
KIMLUN	OP	1.36	1.39	2.2%	480.6	Y	12/2025	23.2	27.3	376.5%	17.6%	5.9	5.0	0.6	9.9%	2.0	1.5%
SUNCON	MP	5.49	5.66	3.1%	7,193.5	Y	12/2025	22.8	25.7	81.3%	12.8%	24.1	21.3	6.8	30.7%	12.5	2.3%
WCT	OP	0.790	1.25	58.2%	1,231.5	Y	12/2025	5.0	5.6	67.4%	12.7%	15.8	14.0	0.3	2.1%	0.5	0.6%
SECTOR AGGREGATE					52,070.2					32.0%	21.9%	23.5	19.3	1.9	7.9%		2.5%

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)