Sunway Construction (SCGB MK)

A case of one bad apple

MALAYSIA | CONSTRUCTION | UPDATE

- SunCon clarified that the MACC investigation remains isolated from the group
- Our replenishment assumption remains achievable even with just 1 DC project win in 2H25, while the group is actively bidding for 4-5 DC projects totalling RM14bn
- Upgrade our rating to HOLD rating (from SELL) with an unchanged TP at RM5.35

MACC investigation remains isolated from the group

Sunway Construction (SunCon) hosted an analyst briefing on 21st July to address concerns regarding the ongoing investigation by the Malaysian Anti-Corruption Commission (MACC) linked to alleged bribery involving procurement tenders for a RM180m data centre (DC) project in Johor. In a statement, SunCon confirmed that MACC has initiated an inquiry against one of the group's employees, specifically regarding the individual's engagements with certain subcontractors. SunCon clarifies that this is an isolated matter and does not involve the group's contract award process or how it secures projects from clients. Management reaffirmed that the group is fully cooperating with authorities and remains committed to supporting a thorough and transparent investigation.

Our new win assumption remains achievable

At the time of writing, the investigation remains isolated from the group-level operation. SunCon reaffirms its commitment to the highest standards of compliance framework, which is Anti-Bribery Management System (ABMS) certified. Nevertheless, we view that the ongoing investigation may indirectly affect the group's tender success rate in securing new tenders, particularly DC projects, as foreign MNC clients increasingly prioritise ESG and compliance standards. The group is eyeing 4-5 DC projects, which account for 90% of the group's RM15bn tender book. With the group's YTD new wins totalling RM3.5bn, the group remains on track to meet its internal target of RM4.5-6bn and our replenishment assumption of RM5bn even with just 1 DC project win (c.RM1bn) in 2H25.

Upgrade to HOLD with unchanged TP of RM5.35

We upgrade our rating to HOLD from SELL with an unchanged target price of RM5.35, based on 22x PE multiple on 2026E EPS. Following the sharp price correction of -8% after the news, the stock is now trading at 23x forward PE(+1.5SD of its 5-year mean). We view the current valuation as fair, justified by its strong earnings growth prospect (+75% YoY). Key risks include slower-than-expected recognition of the order book and margin pressures.

Key Financials

Y/E Dec	2023	2024	2025E	2026E	2027E
Revenue (RMm)	2,671.2	3,521.7	4,971.0	5,132.3	5,021.5
EBITDA (RMm)	274.8	279.4	435.3	457.6	452.8
Pretax profit (RMm)	188.6	273.0	404.2	426.7	432.0
Net profit (RMm)	145.1	186.9	297.1	314.1	318.2
EPS (sen)	11.2	14.5	23.0	24.3	24.7
PER (x)	48.8	37.9	23.8	22.6	22.3
Core net profit (RMm)	174.7	169.5	297.1	314.1	318.2
Core EPS (sen)	13.5	13.1	23.0	24.3	24.7
Core EPS growth (%)	21.5	(2.9)	75.2	5.7	1.3
Core PER (x)	40.6	41.8	23.8	22.6	22.3
Net DPS (sen)	6.0	8.5	10.0	11.0	12.0
Dividend Yield (%)	1.1	1.5	1.8	2.0	2.2
EV/EBITDA (x)	27.1	24.4	15.9	14.7	14.5
Chg in EPS (%)			-	-	-
Phillip/Consensus (%)			1.0	1.0	0.9

Sources: Company, Bloomberg, Phillip Research forecasts

22 July 2025

HOLD (upgrade)

LAST CLOSE PRICE	RM5.49
TARGET PRICE	RM5.35
TOTAL RETURN	-2.6%

COMPANY DATA

BLOOMBERG TICKER	SCGB MK EQUITY
O/S SHARES (MN) :	1,310
MARKET CAP (USD mn / RM mn) :	1682 / 7128
52 - WK HI/LO (RM) :	6.27 / 3.26
3M Average Daily T/O (mn) :	4.67
NET CASH/(DEBT) (RMm)	835.00

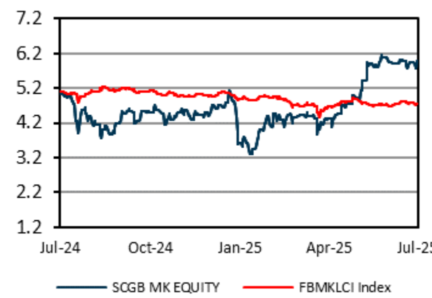
MAJOR SHAREHOLDERS (%)

Sunway Holdings	53.7%
Sungei Way Corp	9.9%
EPF	4.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.7)	39.6	31.0
FBMKLCI RETURN	1.0	2.1	(5.1)

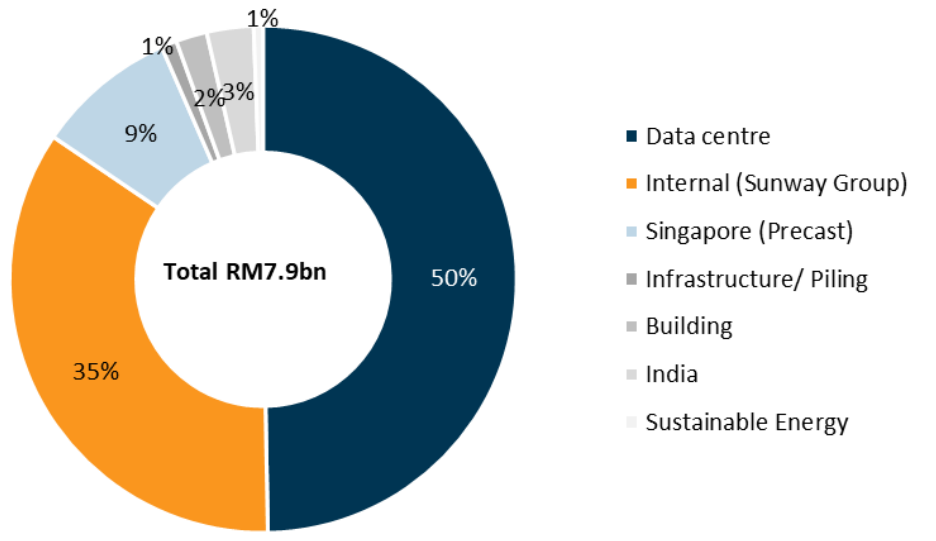
PRICE VS. FBMKLCI



Source: Bloomberg

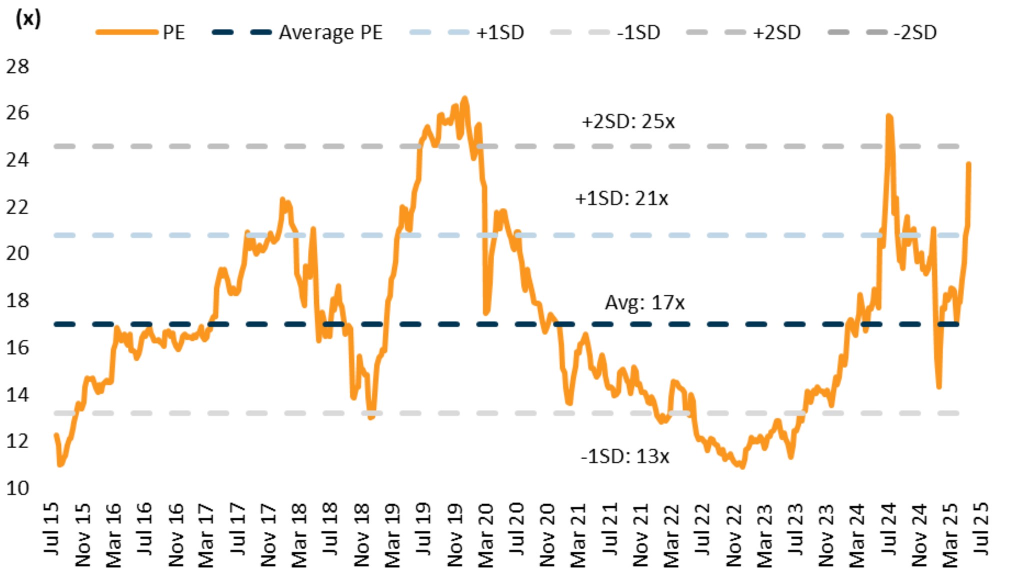
Kei Jun THONG
thong.keijun@phillipcapital.com.my

Table 1: Order book breakdown



Source: Company

Table 2: SunCon's 5-year PE



Source: Bloomberg, Phillip Research forecasts

FINANCIALS

Income Statement

Y/E Dec (RMm)	2023	2024	2025E	2026E	2027E
Revenue	**2,671.2**	**3,521.7**	**4,971.0**	**5,132.3**	**5,021.5**
Operating expenses	(2,396.4)	(3,242.3)	(4,535.7)	(4,674.7)	(4,568.8)
EBITDA	**274.8**	**279.4**	**435.3**	**457.6**	**452.8**
Depreciation	(21.0)	(17.3)	(17.8)	(18.3)	(18.8)
EBIT	**253.8**	**262.2**	**417.6**	**439.4**	**434.0**
Net int income/(expense)	(21.5)	(6.9)	(13.7)	(13.0)	(2.3)
Associates' contribution	(14.1)	0.3	0.3	0.3	0.3
Forex gain/(loss)	(1.7)	0.0	0.0	0.0	0.0
Exceptional gain/(loss)	(27.9)	17.4	0.0	0.0	0.0
Pretax profit	**188.6**	**273.0**	**404.2**	**426.7**	**432.0**
Tax	(42.8)	(75.9)	(97.0)	(102.4)	(103.7)
Minority interest	(0.7)	(10.1)	(10.1)	(10.1)	(10.1)
Net profit	**145.1**	**186.9**	**297.1**	**314.1**	**318.2**
Core net profit	**174.7**	**169.5**	**297.1**	**314.1**	**318.2**

Balance Sheet

Y/E Dec (RMm)	2023	2024	2025E	2026E	2027E
Fixed assets	98.0	85.4	77.6	69.4	60.6
Other long term assets	745.6	588.4	588.7	588.9	589.1
Total non-current assets	**843.6**	**673.9**	**666.3**	**658.2**	**649.7**
Cash and equivalents	582.2	1,015.8	914.4	1,087.3	1,272.6
Stocks	46.4	43.3	63.3	65.3	63.9
Debtors	1,410.2	1,843.1	2,296.1	2,370.6	2,319.5
Other current assets	200.3	20.3	103.3	105.7	99.9
Total current assets	**2,239.2**	**2,922.4**	**3,377.1**	**3,629.0**	**3,755.8**
Creditors	1,193.3	1,912.7	2,192.1	2,263.3	2,214.4
Short term borrowings	441.1	730.6	730.6	730.6	730.6
Other current liabilities	67.4	13.2	13.2	13.2	13.2
Total current liabilities	**1,701.8**	**2,656.6**	**2,935.9**	**3,007.1**	**2,958.2**
Long term borrowings	488.7	1.1	1.1	1.1	1.1
Other long term liabilities	0.3	0.0	0.0	0.1	1.8
Total long term liabilities	**489.1**	**1.2**	**1.2**	**1.2**	**2.9**
Shareholders' Funds	**820.2**	**877.9**	**1,045.7**	**1,217.6**	**1,380.6**
Minority interests	**71.8**	**60.6**	**60.6**	**60.6**	**60.6**

Cash Flow Statement

Y/E Dec (RMm)	2023	2024	2025E	2026E	2027E
EBIT	253.8	262.2	417.6	439.4	434.0
Depreciation & amortisation	21.0	17.3	17.8	18.3	18.8
Working capital changes	(166.7)	534.9	(193.7)	(5.4)	3.7
Cash tax paid	(42.8)	(75.9)	(97.0)	(102.4)	(103.7)
Others	(86.6)	(21.6)	(27.0)	(25.7)	(4.4)
Cashflow from operation	**(21.3)**	**716.7**	**117.6**	**324.1**	**348.4**
Capex	(77.0)	115.3	(10.0)	(10.0)	(10.0)
Disposal/(purchases)	(59.0)	23.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	**(136.0)**	**138.6**	**(10.0)**	**(10.0)**	**(10.0)**
Debt raised/(repaid)	448.1	(198.2)	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	1.0	2.0
Net interest income/(exp)	0.0	(167.2)	0.0	0.0	0.0
Dividends paid	(77.6)	(116.0)	(129.3)	(142.2)	(155.1)
Others	0.0	(20.0)	0.0	0.0	0.0
Cash flow from financing	**370.5**	**(501.4)**	**(129.3)**	**(141.2)**	**(153.1)**
Free Cash Flow	**(98.3)**	**832.0**	**107.6**	**314.1**	**338.4**

Source: Company, Phillip Research forecasts

Financial Ratios and Margins

Y/E Dec (RMm)	2023	2024	2025E	2026E	2027E
Growth					
Revenue (%)	23.9	31.8	41.2	3.2	(2.2)
EBITDA (%)	25.6	1.7	55.8	5.1	(1.1)
Core net profit (%)	21.5	(2.9)	75.2	5.7	1.3
Profitability					
EBITDA margin (%)	10.3	7.9	8.8	8.9	9.0
PBT margin (%)	7.1	7.8	8.1	8.3	8.6
Core net profit margin (%)	6.5	4.8	6.0	6.1	6.3
Effective tax rate (%)	24.0	27.8	24.0	24.0	24.0
ROA (%)	2.4	2.5	3.6	3.5	3.4
Core ROE (%)	22.4	20.0	30.9	27.8	24.5
ROCE (%)	27.4	29.8	57.4	51.0	51.1
Dividend payout ratio (%)	53.5	58.8	43.5	45.3	48.8
Liquidity					
Current ratio (x)	1.3	1.1	1.2	1.2	1.3
Op. cash flow (RMm)	(21.3)	716.7	117.6	324.1	348.4
Free cashflow (RMm)	(98.3)	832.0	107.6	314.1	338.4
FCF/share (sen)	(7.6)	64.4	8.3	24.3	26.2
Asset management					
Debtors turnover (days)	192.7	191.0	168.6	168.6	168.6
Stock turnover (days)	6.3	4.5	4.6	4.6	4.6
Creditors turnover (days)	163.1	198.2	161.0	161.0	161.0
Capital structure					
Net gearing (%)	42.3	(32.5)	(17.6)	(29.3)	(39.3)
Interest cover (x)	12.8	40.6	31.9	35.2	193.1

Quarterly Profit & Loss

Y/E Dec (RMm)	1Q24	2Q24	3Q24	4Q24	1Q25
Revenue	**604.8**	**651.2**	**865.3**	**1,400.3**	**1,400.5**
Operating expenses	(545.9)	(595.2)	(808.1)	(1,310.4)	(1,284.0)
EBITDA	**58.9**	**56.1**	**57.2**	**89.9**	**116.5**
Depreciation	(5.2)	(4.5)	(4.6)	(4.5)	(3.7)
EBIT	**54.4**	**51.5**	**52.7**	**86.2**	**112.9**
Net int income/(expense)	(11.4)	(2.4)	5.7	18.7	1.4
Associates' contribution	0.0	0.0	0.0	0.3	2.3
Forex gain/(loss)	0.0	0.0	0.0	0.0	0.0
Exceptional items	(1.3)	1.1	12.1	5.5	(3.4)
Pretax profit	**41.6**	**50.2**	**70.5**	**110.6**	**113.2**
Tax	(8.9)	(12.4)	(21.9)	(32.7)	(27.5)
Minority interest	(0.3)	1.1	(2.2)	(8.7)	(10.0)
Net profit	**32.4**	**38.9**	**46.5**	**69.2**	**75.7**
Core net profit	**33.7**	**37.7**	**34.4**	**63.7**	**79.1**
Margins (%)					
EBITDA	9.7	8.6	6.6	6.4	8.3
PBT	6.9	7.7	8.2	7.9	8.1
Core net profit	5.6	5.8	4.0	4.6	5.7

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Sdn Bhd
B-18-6 Block B Level 18 Unit 6 Megan Avenue II,
No .12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur
Tel +603 2783 0300
Fax +603 2166 5099
Website: www.phillip.com.my

HONG KONG
Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA
Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA
Phillip Bank Plc
Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA
PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel:+91-22-2300 2999/Fax:+91-22-2300 2969
Website: www.phillipcapital.in

TURKEY
PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI
Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Contact Information (Phillip Malaysia Investor Centres)

MALAYSIA
Phillip Investor Centre – Alor Setar (Kedah)
Lot T-30 2nd Floor,
Wisma PKNK, Jalan Sultan Badlisha,
05000 Alor Setar, Kedah
Tel: +604 731 7088 / Fax: 604 731 8428
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Johor Bahru (Johor)
15-01A, Jalan Molek 1/29,
Taman Molek, 81100 Johor Bahru,
Johor Darul Takzim, Malaysia
Tel: +607 352 1808 / Fax: 607 352 4808
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Skudai (Johor)
9A, Jalan Sutera Tanjung 8/2,
Taman Sutera Utama,
81300 Skudai, Johor, Malaysia.
Tel: +607 557 2188 / Fax: 607 557 8788
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Kluang (Johor)
No. 73, 1st Floor,
Jalan Rambutan, 86000 Kluang.
Tel: +607 771 7922 / Fax: 607 771 7909
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Kota Damansara (Petaling Jaya)
12A, Jalan PJU 5/8,
Dataran Sunway, Kota Damansara,
47810 Petaling Jaya, Selangor, Malaysia.
Tel: +603 9212 2818 / Fax: 603 6140 7133
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Kota Kinabalu (Sabah)
Lot No. G-4, Ground Floor,
Menara MAA, No 6, Lorong Api-Api 1,
88000 Kota Kinabalu, Sabah.
Tel: +6088 335 346 / Fax: -
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Kuantan (Pahang)
1st Floor, B400,
Jalan Beserah, 25300 Kuantan.
Tel: +609 566 0800 / Fax: 609 566 0801
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Melaka
No. 542A, Jalan Merdeka,
Taman Melaka Raya,
75000 Melaka, Malaysia
Tel: +606 292 0018 / Fax: 606 292 4511
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Penang
No. 29A Ground Floor Suite 2, Beach Street,
10300 Penang, Malaysia.
Tel: +604 202 0039 / Fax: 607 261 3822
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Kuching (Sarawak)
Lot 2650 1st Floor, Suite A, Block 10 KCLD
Central Park Commercial Centre,
3rd Mile, Jalan Rock, 93200, Kuching,
Sarawak, Malaysia.
Tel: +6082 247 633 / Fax: 6082 245 644
Website: www.phillip.com.my

MALAYSIA
Phillip Investor Centre – Sibu (Sarawak)
No. 6B Jalan Bako,
96000 Sibu, Sarawak.
Tel: +6084 377 933 / Fax: -
Website: www.phillip.com.my

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Equity:

BUY: Total stock return expected to exceed +10% over 12-month period
HOLD: Total stock return to be between -10% and +10% over a 12-month period
SELL: Total stock return is expected to below 10% over a 12-month period

Sector:

OVERWEIGHT: The sector is expected to outperform the overall FBMKLCI over the next 12 months
NEUTRAL: The sector is to perform in line with the overall FBMKLCI market over the next 12 months
UNDERWEIGHT: The sector is expected to underperform the overall FBMKLCI market over the next 12 months

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