

# Sunway Construction Group Berhad

**TP: RM5.59 (+1.8%)**
*One Rotten Apple Soured Sentiment*

Last Traded: RM5.49

**Sell (ESG: ★★★)**

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## Background

SUNCON conducted an analyst briefing yesterday, following the Malaysian Anti-Corruption Commission's (MACC) investigation into alleged graft involving a RM180mn procurement contract related to a tender for the data centre project in Johor. A company contract manager was recently detained for suspected bribery in the tender process. MACC also seized RM7.5mn in cash, luxury watches, gold coins, and jewellery from the manager's residence. To note, there are two unnamed companies under scrutiny for allegedly securing contracts through illicit payments.

## Briefing Highlights

The group firmly asserted that the alleged bribery case is isolated to a specific individual and certain external subcontractors, with no direct implication on SUNCON itself. Management reiterated its zero-tolerance policy towards corruption and affirmed its strict adherence to compliance protocols designed to uphold business integrity.

SUNCON highlighted that its internal compliance framework—certified by reputable third-party auditors with top-tier assessments over the past year—includes mandatory e-bidding procedures, under which contracts are awarded solely to the lowest bidder. The group expressed confidence that these mechanisms are robust and consistently enforced under all circumstances, bolstered by its established ABMS audit process and strong corporate governance.

Following an internal review, the company has terminated the contract manager involved—an employee of over a decade—and is now reassessing all past projects linked to him. Concurrently, SUNCON is proactively engaging with current clients and potential prospects to mitigate any reputational or operational risks that may affect ongoing contracts or future tender prospects. Management remains optimistic that existing projects will proceed uninterrupted and current subcontractor capacity remains sufficient to meet operational requirements.

Additionally, SUNCON is consulting legal advisors to determine the appropriate course of action against implicated subcontractors and external parties.

## Our View

We are undoubtedly surprised by the development, particularly given SUNCON's strong reputation for corporate governance and its established suite of compliance policies. That said, we are somewhat reassured by the fact that the case appears to involve misconduct in a personal capacity, rather than systemic failure, and we believe it is unlikely to compromise SUNCON's relationships with existing clients.

## Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,310.3
Market Cap (RMmn)	7193.5
52-wk Hi/Lo (RM)	6.27/3.26
12-mth Avg Daily Vol ('000 shrs)	4332.7
Estimated Free Float (%)	27.3
Beta	1.2

## Major Shareholders (%)

Sunholdings - 53.7
Sungei Way Corp Sdn Bhd - 9.9
Employee Provident Fund - 4.3
Amanah Saham Nasional Bhd - 3.3

## Forecast Revision

	FY25	FY26
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	300.3	325.7
Consensus	303.9	330.5
TA's / Consensus (%)	98.8	98.5
Previous Rating	Sell (Maintained)	
Consensus Target Price	6.12	

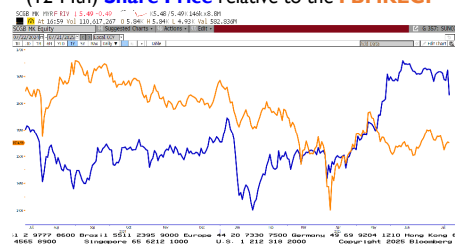
## Financial Indicators

	FY25	FY26
Net Debt / Equity (%)	(69.7)	(85.9)
CFPS (sen)	29.1	16.5
Price / CFPS (x)	18.9	33.2
ROA (%)	7.1	6.5
NTA/Share (sen)	73.9	79.3
Price/NTA (x)	7.4	6.9

## Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(7.7)	1.5
3 mth	26.5	1.7
6 mth	48.8	(3.5)
12 mth	9.4	(6.8)

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

That said, the reputational damage inflicted on the group is not quantifiable at this juncture, and the negative news flow may weigh on its near-term ability to secure new contracts. In our view, this uncertainty is likely to persist until the investigation is concluded. Furthermore, we do not rule out the possibility that new clients may impose more stringent due diligence or require additional assurance on project execution standards—potentially leading to delays in new project awards. Against this backdrop, we remain cautious on the Group’s near-term job replenishment prospects.

### Impact

While there are no changes to our earnings forecasts, we have revised our ESG rating for SUNCON from 4 stars to 3 stars. This reflects the governance shortfall uncovered in the current investigation. Despite the incident being isolated, it exposes vulnerabilities at the operational level that warrant closer scrutiny and justify a more prudent ESG stance going forward.

### Valuation

Excluding the 3% ESG premium, we lower our target price to **RM5.59** (from RM5.76 previously), based on an unchanged target PER of 22x CY26 earnings. In light of the ongoing investigation, we anticipate heightened investor caution, which may prompt near-term profit-taking. As such, we maintain our **Sell** recommendation on the stock and advise investors to capitalise on any strength in share price as an opportunity to pare down exposure.

**Figure 1: YTD Job Wins for FY25**

Projects	Client	Expected Completion Date	Contract Sum (RM mn)
RTS Transport Oriented Development @ Bukit Chagar, Johor	Sunway Integrated Properties Sdn Bhd	Dec-27	1,500.0
General Works for 2 Data Centres	US based Multinational Technology Company	Feb-27	1,155.0
K2 Data Centre Expansion	K2 Strategic Infrastructure Malaysia Sdn Bhd	Mar-25	392.7
Others	Various	Various	452.3
<b>Total</b>			<b>3,500.0</b>

Source: Company

## Earnings Summary

### Profit & Loss (RMmn)

YE Dec 31	2023	2024	2025F	2026F	2027F
Revenue	2,671.2	3,521.7	5,141.5	5,337.8	5,789.0
EBITDA	245.5	279.4	360.2	365.6	380.6
Dep. & amortisation	(21.0)	(17.3)	(17.4)	(18.4)	(19.4)
Net finance cost	(21.7)	10.5	65.0	95.0	108.1
PBT	188.6	273.0	407.8	442.2	469.4
Taxation	(42.8)	(75.9)	(106.0)	(115.0)	(122.0)
MI	(0.7)	(10.1)	(1.4)	(1.5)	(1.6)
Net profit	145.1	186.9	300.3	325.7	345.7
Core net profit	176.8	166.6	300.3	325.7	345.7
GDPS (sen)	6.0	8.5	18.0	20.0	21.0
Div Yield (%)	1.1%	1.5%	3.3%	3.6%	3.8%

### Cash Flow (RMmn)

YE Dec 31	2023	2024	2025F	2026F	2027F
<b>PBT</b>	<b>188.6</b>	<b>273.0</b>	<b>407.8</b>	<b>442.2</b>	<b>469.4</b>
Adjustments	42.7	6.8	(47.6)	(76.6)	(88.7)
Changes in WC	(516.7)	534.9	307.9	145.7	(31.5)
Others	28.8	(21.9)	(1.4)	(1.5)	(1.6)
<b>Operational cash flow</b>	<b>(299.4)</b>	<b>716.7</b>	<b>560.6</b>	<b>394.8</b>	<b>225.5</b>
Capex	(18.5)	(9.2)	(20.0)	(20.0)	(20.0)
Others	442.2	(53.7)	158.6	0.0	0.0
<b>Investment cash flow</b>	<b>423.8</b>	<b>(62.9)</b>	<b>138.6</b>	<b>(20.0)</b>	<b>(20.0)</b>
Debt raised/(repaid)	420.9	(167.0)	0.0	0.0	0.0
Dividend	(70.9)	(116.0)	(230.8)	(256.5)	(269.3)
Others	(12.5)	(20.2)	65.0	95.0	108.1
<b>Financial cash flow</b>	<b>337.4</b>	<b>(303.2)</b>	<b>(165.8)</b>	<b>(161.5)</b>	<b>(161.2)</b>
Forex effect	1.1	0.2	0.0	0.0	0.0
Deposit	(86.4)	(79.5)	(79.5)	(79.5)	(79.5)
<b>Net cash flow</b>	<b>(24.8)</b>	<b>552.1</b>	<b>374.8</b>	<b>213.3</b>	<b>44.3</b>
<b>Beginning cash</b>	<b>407.7</b>	<b>384.0</b>	<b>936.3</b>	<b>1311.1</b>	<b>1524.4</b>
<b>Ending cash</b>	<b>384.0</b>	<b>936.3</b>	<b>1311.1</b>	<b>1524.4</b>	<b>1568.7</b>
Adjustments	0.0	0.0	0.0	0.0	(0.0)
<b>Cash</b>	<b>384.0</b>	<b>936.3</b>	<b>1311.1</b>	<b>1524.4</b>	<b>1568.7</b>

YE Dec 31	2023	2024	2025F	2026F	2027F
Order book replenishment	#REF!	4,221	5,500	5,000	4,500

### Balance Sheet (RMmn)

YE Dec 31	2023	2024	2025F	2026F	2027F
Fixed assets	253.1	224.6	224.6	224.6	224.6
Others	590.5	449.2	451.8	453.4	454.0
<b>NCA</b>	<b>843.6</b>	<b>673.9</b>	<b>676.4</b>	<b>678.0</b>	<b>678.7</b>
Cash and cash equivalent	384.0	936.3	1,311.1	1,524.4	1,568.7
Others	1,855.2	1,986.1	2,865.5	2,965.0	3,210.5
<b>CA</b>	<b>2,239.2</b>	<b>2,922.4</b>	<b>4,176.6</b>	<b>4,489.4</b>	<b>4,779.2</b>
<b>Total assets</b>	<b>3,082.8</b>	<b>3,596.2</b>	<b>4,853.0</b>	<b>5,167.4</b>	<b>5,457.8</b>
ST borrowings	438.2	730.6	730.6	730.6	730.6
Other liabilities	1,263.6	1,925.9	3,113.3	3,358.4	3,572.4
<b>CL</b>	<b>1,701.8</b>	<b>2,656.6</b>	<b>3,843.9</b>	<b>4,089.0</b>	<b>4,303.0</b>
<b>Shareholders' funds</b>	<b>820.2</b>	<b>877.9</b>	<b>947.4</b>	<b>1,016.6</b>	<b>1,093.0</b>
MI	71.8	60.6	60.6	60.6	60.6
LT borrowings	487.7	0.0	0.0	0.0	0.0
Other LT liabilities	1.3	1.2	1.2	1.2	1.2
<b>Total capital</b>	<b>3,082.8</b>	<b>3,596.2</b>	<b>4,853.0</b>	<b>5,167.4</b>	<b>5,457.8</b>

### Ratio

YE Dec 31	2023	2024	2025F	2026F	2027F
EBITDA Margins (%)	9.2	7.9	7.0	6.8	6.6
Core EPS (sen)	13.8	13.0	23.4	25.4	27.0
EPS Growth (%)	20.2	(5.8)	80.3	8.5	6.1
PER (x)	39.8	42.3	23.4	21.6	20.4
GDPS (sen)	6.0	8.5	18.0	20.0	21.0
Div Yield (%)	1.1	1.5	3.3	3.6	3.8
Net cash (RMmn)	(455.6)	285.1	660.0	873.3	917.5
Net gearing (%)	55.5	(32.5)	(69.7)	(85.9)	(83.9)
ROE (%)	18.6	22.0	32.9	33.2	32.8
ROA (%)	5.5	5.6	7.1	6.5	6.5
NTA/share (sen)	64.0	68.5	73.9	79.3	85.2
P/NTA(x)	8.6	8.0	7.4	6.9	6.4

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## Sector Recommendation Guideline

**OVERWEIGHT:** The total return of the sector, as per our coverage universe, exceeds 12%.

**NEUTRAL:** The total return of the sector, as per our coverage universe, is within the range of 7% to 12%.

**UNDERWEIGHT:** The total return of the sector, as per our coverage universe, is lower than 7%.

## Stock Recommendation Guideline

**BUY :** Total return of the stock exceeds 12%.

**HOLD :** Total return of the stock is within the range of 7% to 12%.

**SELL :** Total return of the stock is lower than 7%.

**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return of the stock** includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Total Return of the sector** is market capitalisation weighted average of total return of the stocks in the sector.

## ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★★	★★★	★★★	★★★
<b>Remark</b>	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build A Home which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	

★★★★★ (≥80%)	: Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.	+5% premium to target price
★★★★ (60-79%)	: Above adequate integration of ESG factors into most aspects of operations, management and future directions.	+3% premium to target price
★★★ (40-59%)	: Adequate integration of ESG factors into operations, management and future directions.	No changes to target price
★★ (20-39%)	: Have some integration of ESG factors in operations and management but are insufficient.	-3% discount to target price
★ (<20%)	: Minimal or no integration of ESG factors in operations and management.	-5% discount to target price

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As of Tuesday, July 22, 2025, the analyst, Raymond Ng Ing Yeow, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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