

COMPANY RESULTS

Sunway Construction (SCGB MK)

1Q25: Full Throttle On DC Frontier

Suncon delivered impressive 1Q25 earnings within expectations, reflecting the construction segment's improved progress billing, particularly from the higher-margin data centre projects. The group also announced another RM393m data centre project from K2 yesterday. With robust orderbook replenishment and rosy prospects for 2025-26, we remain optimistic that Suncon can still deliver palatable capital returns for investors. Maintain BUY with a higher target price of RM5.46.

1Q25 RESULTS

Year to 31 Dec (RMm)	1Q25	qoq % chg	yoy % chg	Comments
Revenue	1,400.5	0.0	131.6	Improved progress billings
- Construction	1,369.9	1.2	152.0	Accelerated progress in Sedenak DC project
- Precast Concrete	30.6	(34.0)	(50.0)	
Operating profit	109.5	19.5	106.3	
- Construction	109.0	25.9	134.9	
- Precast Concrete	0.5	(89.3)	(91.9)	
Pre-tax Profit	113.2	2.4	171.8	Better recognition from higher margin DC projects
PATAMI	75.7	9.5	133.7	
Core PATAMI	82.2	29.6	154.4	About 25% and 30% of ours and street's 2025 estimates
Margins	%	+/-ppt	+/-ppt	
EBIT:	7.8	1.3	-1.0	
- Construction	8.0	1.6	-0.6	
- Precast Concrete	1.8	-9.1	-9.2	
PBT	8.1	0.2	1.2	
Core PATMI	5.9	1.3	0.5	

Source: Sunway Construction, UOB Kay Hian

RESULTS

- Impressive 1Q25, within our expectations and above consensus.** Sunway Construction's (Suncon) 1Q25 core net profit came in at RM82.2m (+30% qoq, +154% yoy), backed by a higher revenue of RM1.4b (+0% qoq, +132% yoy). Notably, 1Q25 is the softest quarter historically. 1Q25 earnings made up 25% and 30% of our and consensus full-year estimates.
- Declared surprise 5 sen first interim dividend (1Q24: nil).** This implies a payout ratio of 78% and yield of 1%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2,671	3,522	5,221	5,590	6,120
EBITDA	245	279	440	471	499
Operating profit	224	262	420	450	478
Net profit (rep./act.)	145	187	310	335	360
Net profit (adj.)	170	167	310	335	360
EPS (sen)	13.2	13.0	24.1	26.0	27.9
PE (x)	31.2	31.8	20.3	18.8	17.5
P/B (x)	6.5	6.1	6.3	5.5	4.9
EV/EBITDA (x)	20.4	17.9	13.5	12.6	11.9
Dividend yield (%)	1.5	2.1	2.9	3.2	3.4
Net margin (%)	5.4	5.3	5.9	6.0	5.9
Net debt/(cash) to equity (%)	66.1	(32.5)	(40.1)	(54.4)	(67.8)
Interest cover (x)	11.4	n.a.	27.1	32.8	54.4
ROE (%)	18.6	22.0	33.0	31.3	29.7
Consensus net profit	-	-	286.4	278.2	286.5
UOBKH/Consensus (x)	-	-	1.08	1.21	1.26

Source: Sunway Construction, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.88
Target Price	RM5.46
Upside	+11.9%
(Previous TP)	RM5.05)

COMPANY DESCRIPTION

A leading construction company in Malaysia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,290.7
Market cap (RMm):	6,298.5
Market cap (US\$m):	1,465.4
3-mth avg daily t'over (US\$m):	4.2

Price Performance (%)

52-week high/low RM5.30/RM3.10

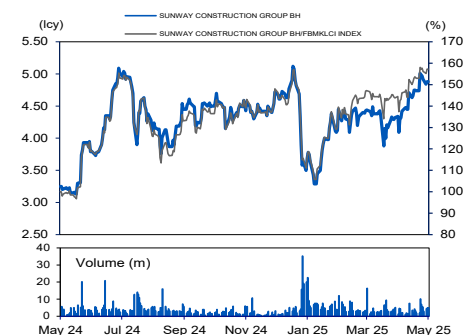
1mth	3mth	6mth	1yr	YTD
13.0	16.7	8.2	50.6	5.4

Major Shareholders

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

FY25 NAV/Share (RM)	0.78
FY25 Net Debt/Share (RM)	0.31

PRICE CHART



Source: Bloomberg

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- **Construction segment: Significant earnings improvement as DC progress billing accelerates.** The construction division's operating profit (EBIT) surged to RM109m (+26% qoq, +135% yoy) on the back of higher revenue of RM1.37b (+1% qoq, +152% yoy) in 1Q25. Stellar revenue and EBIT growth (despite 1Q being the seasonally softest quarter due to festivities) were largely driven by accelerated progress for data centre (DC) projects (Sedenak DC progress billing achieved 59% on upsized RM3.8b contract value; 4Q24:34%). Meanwhile, the EBIT was also lifted by overall higher business volume and margin expansion from more lucrative DC works (+1.6ppt qoq).

STOCK IMPACT

- **Multi-year earnings growth anchored on consistent orderbook replenishment.** Suncon reported solid new job wins of RM2.21b ytd after securing: a) a RM1.5b contract for Rapid Transit System Transport Oriented Development (RTS TOD) at Bukit Chagar in March, and b) a RM393m data centre contract for K2 Strategic Infrastructure (K2) yesterday. The outstanding orderbook of c.RM6.65b (1.4x revenue cover) and tenderbook of RM15.9b will continue to drive the group into a record-high earnings level throughout 2025-26F. We also remain optimistic about management's orderbook target of RM4.5-6b in 2025F, which is highly attainable in our opinion.
- **Another DC contract secured from K2 yesterday.** Suncon secured a Phase 2 DC contract worth RM392.7m with target completion in 1Q26 from K2 yesterday. Suncon had previously completed the Phase 1 DC contract from K2 (c.RM289m) in 4Q24. Assuming a similar PBT margin range of 7-9% for this new K2 Phase 2 DC contract, earnings accretion is c.4.0-6.0% and c.2.0-3.0% of our 2025-26F forecasts.
- **Entering the era of DC-powered growth.** To note, DC works made up 41% of Suncon's existing orderbook and will continue to be its key earnings growth driver. Of the current RM15.9b tenderbook, 75-80% are DC-related. Overall, we assess that Suncon is in good position to win several DC bids within 2025, including the conversion of an early contractor involvement (ECI) DC project in Klang Valley. This will lift the group's overall margins given the DC's shorter construction period and better profit margins. More importantly, Suncon also guided that all existing DC projects are progressing without delays, allaying earlier concerns on withdrawal of DC tenders and potential halts of existing DC projects following the US' AI chip restrictions.
- **No visible impacts from the US' reciprocal tariffs.** On 2 April, US President Trump introduced reciprocal tariffs on all trading partners including a 24% tariff on Malaysia. Nevertheless, we see mild to no direct earnings impact on construction companies such as Suncon. This is mainly due to Suncon's domestic-centric and non-export-oriented business nature.

EARNINGS REVISION/RISK

- **Raised our 2026-27 earnings by 3%** to factor in better progress billing from existing DC projects.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of RM5.46 (from RM5.05),** as we roll over our valuations to 2026F. Our target price implies 21x 2025F PE (+1SD above five-year mean of 17x), which we deem fair given Suncon's record-high orderbook and tenderbook which anchors multi-year growth ahead.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

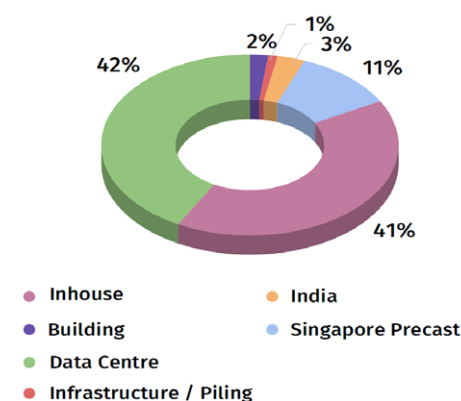
Environmental
- Mitigate emissions, biodiversity impact, waste disposal and pollution.
Social
- Work with local authorities and communities to ensure projects' success.
Governance
- Independent directors (four out of seven) comprise the majority of the board.

OUTSTANDING ORDERBOOK AS OF END-1Q25

Projects	(RMm)
JHB1X0 Data Centre	1,709
K2 Phase 2 Data Centre	383
RTS Link Package 1B & 5	64
Daiso Warehouse	152
PSR - MNC	618
ECI & Work Order - MNC	42
India Highways	197
Solar Projects	28
Others	11
Total External (A)	3,204
RTS TOD	1,492
Sunway Square Superstructure+VO	339
SW Flora	87
Sunway Carnival Mall Refurbishment	63
SW Ipoh Mall	641
Others	125
Total Internal (B)	2,747
Precast Concrete (C)	697
Grand Total (A+B+C)	6,648

Source: Suncon

ORDERBOOK BREAKDOWN



Source: Suncon

SEGMENTAL FORECASTS

(RMm)	2024F	2025F	2026F
Revenue	3,522	5,221	5,590
- Construction	3,327	4,542	4,866
- Precast Concrete	195	679	724
Operating profit	262	420	450
- Construction	240	345	371
- Precast Concrete	22	75	80
Orderbook replenishment assumptions			
- Construction	4,200	5,000	5,000
- Precast Concrete	400	400	500

Source: Suncon, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	3,522	5,221	5,590	6,120
EBITDA	279	440	471	499
Deprec. & amort.	17	20	21	22
EBIT	262	420	450	478
Associate contributions	0	0	0	0
Net interest income/(expense)	11	(16)	(14)	(9)
Pre-tax profit	273	404	436	469
Tax	(76)	(89)	(96)	(103)
Minorities	(10)	(5)	(5)	(5)
Net profit	187	310	335	360
Net profit (adj.)	167	310	335	360

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	717	408	445	496
Pre-tax profit	273	404	436	469
Tax	(76)	(89)	(96)	(103)
Deprec. & amort.	17	20	21	22
Associates	(0)	(0)	(0)	(0)
Working capital changes	535	73	84	109
Other operating cashflows	31	0	(0)	0
Investing	139	(26)	(28)	(31)
Capex (growth)	(9)	(26)	(28)	(31)
Proceeds from sale of assets	0	0	0	0
Others	(90)	(225)	(225)	(226)
Financing	(303)	(235)	(250)	(264)
Dividend payments	(116)	(185)	(200)	(214)
Proceeds from borrowings	(167)	(50)	(50)	(50)
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	552	147	168	201
Beginning cash & cash equivalent	384	936	1,083	1,250
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	936	1,083	1,250	1,451

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	85	104	112	121
Other LT assets	588	589	589	590
Cash/ST investment	1,016	1,083	1,250	1,451
Other current assets	1,907	2,742	2,857	3,044
Total assets	3,596	4,518	4,808	5,205
ST debt	731	681	631	581
Other current liabilities	1,926	2,834	3,033	3,329
LT debt	0	0	0	0
Other LT liabilities	1	1	1	1
Shareholders' equity	878	1,003	1,139	1,285
Minority interest	61	65	70	76
Total liabilities & equity	3,596	4,584	4,874	5,272

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	7.9	8.4	8.4	8.2
Pre-tax margin	7.8	7.7	7.8	7.7
Net margin	5.3	5.9	6.0	5.9
ROA	5.6	7.6	7.2	7.2
ROE	22.0	33.0	31.3	29.7
Growth				
Turnover	31.8	48.3	7.1	9.5
EBITDA	13.9	57.5	7.1	5.9
Pre-tax profit	44.7	47.9	8.1	7.4
Net profit	28.8	66.0	8.1	7.4
Net profit (adj.)	(1.7)	85.5	8.1	7.4
EPS	(1.7)	85.5	8.1	7.4
Leverage				
Debt to total capital	43.8	38.9	34.3	29.9
Debt to equity	83.2	67.8	55.4	45.2
Net debt/(cash) to equity	(32.5)	(40.1)	(54.4)	(67.8)
Interest cover (x)	n.a.	27.1	32.8	54.4

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