Sunway Construction (SCGB MK)

3Q25: Within Expectations; Positive Dividend Surprise

HOLD (Maintained)	
Share Price	RM5.73
Target Price	RM6.27
Upside	9.4%

Highlights

- 3Q25 earnings in-line with our expectations but surpassed consensus', making up 76% and 85% of ours and consensus' full-year estimates.
- Positive surprise on special dividends, bringing 3Q25 dividends to 29.25sen and 9M25 dividends to 41.5sen, which implies lush dividend yield of 7.2%.
- Maintain HOLD and target price of RM6.27, which implies 22x 2026F PE (+1SD above five-year mean of 18x).

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3Q25 Results

Year to 31 Dec (RMm)	3Q25	qoq % chg	yoy % chg	9M25	yoy % chg	Comments
Revenue	1,445.2	***(2.1)***	***67.0***	4,322.6	***103.8***	Improved progress billings
- Construction	1,387.4	*(3.2)*	*66.8*	4,190.8	*112.4*	
- Precast Concrete	57.8	*33.0*	*72.4*	131.8	*(11.2)*	Low base in 2Q24
Operating profit	95.7	***(16.5)***	***47.7***	319.7	***87.5***	
- Construction	96.7	*(16.0)*	*60.7*	320.8	*109.5*	
- Precast Concrete	(1.0)	*(85.1)*	*(122.2)*	(1.0)	*(105.9)*	
Pre-tax Profit	127.1	*3.6*	*80.2*	362.9	*123.5*	Revenue & margin improved
PATAMI	83.8	***(0.1)***	***80.3***	243.4	***106.7***	
Core PATAMI	94.6	***0.6***	***176.4***	270.9	***161.2***	
Margins	%	+/-ppt	+/-ppt	%	+/-ppt	
EBIT:	*7.8*	*-1.1*	*-0.9*	*7.4*	*-0.6*	
- Construction	*8.0*	*-1.1*	*-0.3*	*7.7*	*-0.1*	Accelerated newer projects
- Precast Concrete	*(1.3)*	*-0.5*	*-15.5*	*(0.8)*	*-12.5*	Slower replenishment
PBT	*8.3*	*0.5*	*0.6*	*8.4*	*0.7*	
Core PATMI	*6.4*	*0.2*	*2.6*	*6.3*	*1.4*	

Source: Sunway Construction Group, UOB Kay Hian

Stock Data

GICS Sector	Industrials
Bloomberg ticker	SCGB MK
Shares issued (m)	1,320.1
Market cap (RMm)	7,564.5
Market cap (US$m)	1,787.8
3-mth avg daily t'over (US$m)	5.8

Price Performance (%)

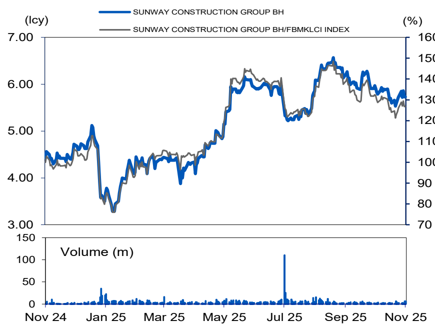
52-week high/low: RM6.58/RM3.26

1mth	3mth	6mth	1yr	YTD
(4.0)	(1.5)	17.4	27.3	23.8

Major Shareholders

	%
Sunway Holdings Sdn Bhd	53.3
Sungei Way Corp Sdn Bhd	7.1
Employees Provident Fund Board	4.2
FY25 NAV/Share (RM)	0.79
FY25 Net Debt/Share (RM)	0.33

Price Chart



Source: Bloomberg

Company Description

A leading construction company in Malaysia.

Analysis

- **Resilient 3Q25 results, meeting our expectations but exceeding consensus'.** Sunway Construction's (Suncon) 3Q25 core net profit came in at RM94.6m (+1% qoq, +176% yoy), backed by revenue of RM1.45b (-2% qoq, +67% yoy). 9M25 earnings made up 76% and 85% of our and consensus full-year estimates.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2,671.2	3,521.7	5,847.3	5,836.7	6,207.2
EBITDA	245.3	279.4	500.2	514.5	534.6
Operating profit	224.3	262.2	479.8	493.0	512.1
Net profit (rep./act.)	145.1	186.9	356.4	368.0	386.7
Net profit (adj.)	170.2	167.2	356.4	368.0	386.7
EPS	13.2	13.0	27.6	28.5	30.0
PE	43.4	44.2	20.7	20.1	19.1
P/B	9.0	8.4	10.2	8.5	7.2
EV/EBITDA	32.6	25.6	14.6	13.8	12.9
Dividend yield	1.0	1.5	7.2	3.0	3.2
Net margin	5.4	5.3	6.1	6.3	6.2
Net debt/(cash) to equity	66.1	(32.5)	(17.6)	(39.3)	(58.0)
Interest cover	11.4	n.a	30.8	35.8	58.3
ROE	19.9	24.7	52.4	48.9	46.7
Consensus net profit	n.a	n.a	311.2	342.4	378.6
UOBKH/Consensus (x)	n.a	n.a	1.2	1.1	1.0

Source: Sunway Construction Group, Bloomberg, UOB Kay Hian

- **Rewarding shareholders with positive dividends surprise of 29.25 sen.** Notably, Suncon declared a 6.25 sen interim dividend and 23 sen special dividend. This is much higher than 3Q24's 2.5 sen. 9M25 dividend of 41.5 sen (9M24: 6 sen) implies a payout ratio of 222% and a yield of 7.2%.
- **Construction segment: Earnings improvement premised on accelerating progress billings.** The construction division's operating profit (EBIT) surged yoy to RM97m (+61% yoy, -16% qoq) on a higher revenue of RM1.39b (+67% yoy, -3% qoq) in 2Q25. Stellar revenue and EBIT growth were largely driven by accelerated progress for data centre (DC) projects. Meanwhile, EBIT was also lifted by an overall higher business volume which offset a slight margin compression (-0.3ppt yoy).
- **Multi-year earnings growth anchored on consistent orderbook replenishment.** Suncon reported solid new job wins of RM3.93b ytd after securing: a) two DC packages from a US client (conversion of early contractor involvement (ECI) DC packages in Klang Valley), b) a RM1.5b contract for Rapid Transit System Transport Oriented Development (RTS TOD) at Bukit Chagar in March, and c) a RM393m DC contract for K2 Strategic Infrastructure (K2). The current outstanding orderbook of around RM5.4b and tenderbook of RM18.2b will continue to drive the group to record-high earnings in 2025-26.
- **Entering era of DC-powered growth.** DC works make up 37% of Suncon's existing orderbook and will continue to be a key earnings growth driver. Of the current RM18.2b tenderbook, 70-75% are DC-related. Overall, we assess that Suncon is in a good position to win several DC bids within 2026. This will lift the group's overall margins given DCs' shorter construction period and better profit margins.
- **Manageable impact from various input cost accelerations.** To recap, Suncon earlier highlighted that the higher sales and service tax (from 6% to 8%) and the implementation of diesel subsidy rationalisation (from 2Q24 onwards) may result in marginally higher building material prices and negatively impact the group's earnings margins in 2025-26. Meanwhile, the recent monthly minimum wage revision to RM1,700 (from RM1,500) beginning Feb 25 and foreign workers' 2% EPF contribution will also lift opex, but Suncon is likely able to pass through this labour cost increase for new projects secured. Overall, we assess that the negative earnings impact is within 3-5%.

Valuation/Recommendation

- **Maintain HOLD with an unchanged target price of RM6.27.** Our target price implies 22x 2026F PE (+1SD above five-year mean of 18x), which we deem fair given Suncon's record-high orderbook and tenderbook which anchor multi-year growth.
- Risk-reward appears neutral with moderate capital upside, given share price has performed well since 2024.

Earnings Revision/Risk

- None.

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

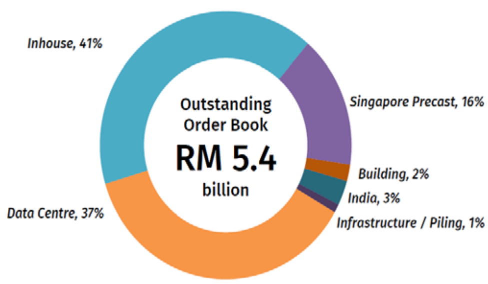
- Independent directors (four out of seven) comprise the majority of the board.

Outstanding Orderbook As Of End-3Q25

Projects	(RMm)
JHB1X0 Data Centre	156
K2 Phase 2 Data Centre	335
RTS Link Package 1B & 5	33
Daiso Warehouse	79
PSR -MNC	359
ECI & Work Order - MNC	5
General DC Contractor Work - MNC	1,110
India Highways	182
Others	148
Total External (A)	2,307
RTS TOD	1,373
Sunway Square Superstructure+VO	207
SW Flora	29
SW Ipoh Mall	565
Others	72
Total Internal (B)	2,246
Precast Concrete (C)	888
Grand Total (A+B+C)	5,442

Source: Suncon

Orderbook



Source: Bloomberg

Segmental Forecasts

(RMm)	2024	2025F	2026F
Revenue	3,522	5,847	5,837
- Construction	3,327	5,488	5,513
- Precast Concrete	195	359	324
Operating profit	262	480	493
- Construction	240	440	457
- Precast Concrete	22	40	36
Orderbook replenishment assumptions			
- Construction	4,200	5,000	6,000
- Precast Concrete	200	300	300

Source: Bloomberg

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	3,522	5,847	5,837	6,207
EBITDA	279	500	515	535
Deprec. & amort.	17	20	22	22
EBIT	262	480	493	512
Associate contributions	0	0	0	0
Net interest income/(expense)	10	(16)	(14)	(9)
Pre-tax profit	273	464	479	503
Tax	(76)	(102)	(105)	(111)
Minorities	(10)	(5)	(6)	(6)
Net profit	187	356	368	387
Net profit (adj.)	167	356	368	387

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	85	108	115	124
Other LT assets	588	589	589	590
Cash/ST investment	1,016	808	971	1,171
Other current assets	1,907	3,068	2,982	3,086
Total assets	3,596	4,938	5,027	5,347
ST debt	731	681	631	581
Other current liabilities	1,926	3,168	3,153	3,360
LT debt	0	0	0	0
Other LT liabilities	1	1	1	1
Shareholders' equity	878	724	868	1,019
Minority interest	61	66	72	78
Total liabilities & equity	3,596	4,639	4,724	5,038

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	717	462	467	517
Pre-tax profit	273	464	479	503
Tax	(100)	(102)	(105)	(111)
Deprec. & amort.	17	20	22	22
Associates	0	0	0	0
Working capital changes	535	80	72	102
Other operating cashflows	(8)	0	0	0
Investing	139	(29)	(29)	(31)
Capex (growth)	(9)	(29)	(29)	(31)
Proceeds from sale of assets	13	0	0	0
Others	135	0	0	0
Financing	(303)	(561)	(274)	(286)
Dividend payments	(116)	(511)	(224)	(236)
Proceeds from borrowings	(167)	(50)	(50)	(50)
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	552	(128)	163	200
Beginning cash & cash equivalent	384	936	808	971
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	936	808	971	1,171

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	7.9	8.6	8.8	8.6
Pre-tax margin	7.8	7.9	8.2	8.1
Net margin	5.3	6.1	6.3	6.2
ROA	5.6	8.4	7.5	7.6
ROE	22.0	37.5	33.6	31.0
Growth				
Turnover	31.8	66.0	(0.2)	6.3
EBITDA	13.9	79.0	2.9	3.9
Pre-tax profit	44.7	70.0	3.2	5.1
Net profit	28.8	90.7	3.2	5.1
Net profit (adj.)	(1.7)	113.1	3.2	5.1
EPS	(1.7)	113.1	3.2	5.1
Leverage				
Debt to total capital	43.8	38.5	33.7	29.2
Debt to equity	83.2	66.6	53.8	43.7
Net debt/(cash) to equity	(32.5)	(41.7)	(55.0)	(67.7)
Interest cover (x)	n.a.	30.8	35.8	58.3

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