

COMPANY RESULTS

Sunway Construction (SCGB MK)

2Q25: Earnings Beat Expectations, But Fairly Priced In

Suncon's 2Q25 performance beats consensus expectation, lifted by better construction progress billing and higher-margin data centre projects. The group's improving net cash of RM1.24b also yields higher interest income and lower financial costs. Overall, Suncon's robust orderbook pipeline continues to support record-high earnings in 2025-27, but capital returns for investors are modest after resilient share price (+26% ytd). Maintain HOLD with a higher target price of RM6.27.

2Q25 RESULTS

Year to 31 Dec (RMm)	2Q25	qoq % chg	yoy % chg	1H25	yoy % chg	Comments
Revenue	1,476.9	5.5	126.8	2,877.4	129.1	Improved progress billing
- Construction	1,433.5	4.6	139.9	2,803.4	145.7	
- Precast Concrete	43.4	41.9	(19.0)	74.0	(35.5)	High base in 2Q24
Operating profit	114.6	4.6	117.6	224.1	111.9	
- Construction	115.1	5.6	147.2	224.1	141.1	
- Precast Concrete	(0.6)	(201.7)	(109.0)	(0.0)	(100.1)	
Pre-tax Profit	122.6	8.3	144.2	235.8	156.7	Revenue & margin improved
PATAMI	83.9	10.8	115.8	159.6	123.9	
Core PATAMI	94.1	14.4	153.0	176.3	153.6	
Margins	%	+/-ppt	+/-ppt	%	+/-ppt	
EBIT:	7.8	-0.1	-0.3	7.8	-0.6	
- Construction	8.0	0.1	0.2	8.0	-0.2	Accelerated newer projects
- Precast Concrete	(1.3)	-3.0	-12.6	(0.0)	-11.2	Slower replenishment
PBT	8.3	0.2	0.6	8.2	0.9	
Core PATMI	6.4	0.5	0.7	6.1	0.6	

Source: Sunway Construction, UOB Kay Hian

RESULTS

- **Impressive 2Q25, beats our and consensus expectations.** Sunway Construction's (Suncon) 2Q25 core net profit came in at RM94.1m (+14% qoq, +153% yoy), backed by a higher revenue of RM1.48b (+6% qoq, +127% yoy). 1H25 earnings made up 57% and 58% of our and consensus full-year estimates.
- **Declared 7.25 sen second interim dividend.** Notably, this is much higher than 2Q24's 3.5 sen. 1H25 dividend of 12.5 sen (1H24: 3.5 sen) implies a payout ratio of 91% and a yield of 2.1%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2,671	3,522	5,847	5,837	6,207
EBITDA	245	279	500	515	535
Operating profit	224	262	480	493	512
Net profit (rep./act.)	145	187	356	368	387
Net profit (adj.)	170	167	356	368	387
EPS (sen)	13.2	13.0	27.6	28.5	30.0
PE (x)	31.2	31.8	21.2	20.5	19.5
P/B (x)	6.5	6.1	7.4	6.4	5.7
EV/EBITDA (x)	20.4	17.9	14.6	14.2	13.7
Dividend yield (%)	1.5	2.1	3.9	4.1	4.2
Net margin (%)	5.4	5.3	6.1	6.3	6.2
Net debt/(cash) to equity (%)	66.1	(32.5)	(41.7)	(55.0)	(67.7)
Interest cover (x)	11.4	n.a.	30.8	35.8	58.3
ROE (%)	18.6	22.0	37.5	33.6	31.0
Consensus net profit	-	-	308.2	323.4	368.0
UOBKH/Consensus (x)	-	-	1.16	1.14	1.05

Source: Sunway Construction, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM5.85
Target Price	RM6.27
Upside	+7.2%
(Previous TP)	RM5.55)

COMPANY DESCRIPTION

A leading construction company in Malaysia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,312.0
Market cap (RMm):	7,675.4
Market cap (US\$m):	1,816.4
3-mth avg daily t'over (US\$m):	9.6

Price Performance (%)

52-week high/low RM6.27/RM3.26

1mth	3mth	6mth	1yr	YTD
6.6	13.6	42.3	41.0	26.3

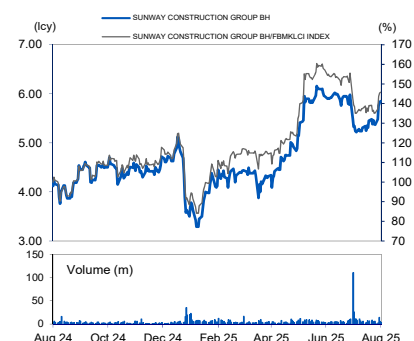
Major Shareholders

	%
Sunway Holdings Sdn Bhd	53.6
Sungei Way Corp Sdn Bhd	9.9
Employees Provident Fund Board	4.3

FY25 NAV/Share (RM) 0.79

FY25 Net Debt/Share (RM) 0.33

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 RM115m (+6% qoq, +147% yoy) on a higher revenue of RM1.43b (+5% qoq, +140% yoy) in 2Q25. Stellar revenue and EBIT growth were largely driven by accelerated progress for data centre (DC) projects (Sedenak DC progress billing achieved 80% on upsized RM4b contract value; 1Q25: 59%). Meanwhile, EBIT was also lifted by an overall higher business volume and a slight margin expansion from more lucrative DC works (+0.1ppt qoq).

STOCK IMPACT

- **MACC issue closing chapters.** In July, one of Suncon's project managers was detained by the Malaysian Anti-Corruption Commission (MACC) for alleged corruption in the handling of a data centre project. Nevertheless, Suncon received an official written confirmation on 18 August from MACC that its investigations focus solely on the project manager, and there will be no corporate liability to Suncon and its subsidiaries. This allays earlier concerns that Suncon is directly liable for the MACC investigations.
- **Multi-year earnings growth anchored on consistent orderbook replenishment.** Suncon reported solid new job wins of RM3.8b 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 data centre contract for K2 Strategic Infrastructure (K2). The current outstanding orderbook of around RM6.7b and tenderbook of RM14.8b will continue to drive the group to record-high earnings levels throughout 2025-26.
- **Entering era of DC-powered growth.** DC works make up 45% of Suncon's existing orderbook and will continue to be a key earnings growth driver. Of the current RM14.8b tenderbook, 75-80% are DC-related. Overall, we assess that Suncon is in a good position to win several DC bids within 2025. This will lift the group's overall margins given a 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 the withdrawal of DC tenders and potential halts of existing DC projects following the US' AI chip restrictions.
- **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 margin 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%.

EARNINGS REVISION/RISK

- **Raised our 2025-27 earnings forecasts by 10-12%** to factor in the higher margins and progress billings from existing construction projects.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM6.27 (from RM5.55).** 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.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

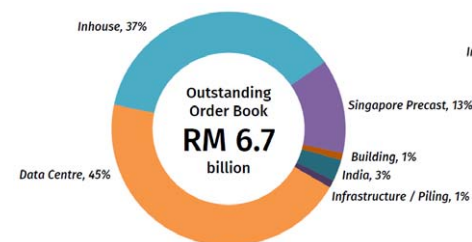
• Environmental
- Mitigate emissions, biodiversity impact, waste disposal and pollution.
• Social
- Work with local authorities and communities to ensure projects' success.
• Governance
- Independent directors (four out of seven) comprise the majority of the board.

OUTSTANDING ORDERBOOK AS OF END-2025

Projects	(RMm)
JHB1X0 Data Centre	818
K2 Phase 2 Data Centre	398
RTS Link Package 1B & 5	48
Daiso Warehouse	108
PSR -MNC	548
ECI & Work Order - MNC	5
General DC Contractor Work - MNC	1,150
India Highways	182
Solar Projects	21
Others	84
Total External (A)	3,362
RTS TOD	1,451
Sunway Square Superstructure+VO	274
SW Flora	56
SW Ipoh Mall	608
Others	100
Total Internal (B)	2,489
Precast Concrete (C)	867
Grand Total (A+B+C)	6,718

Source: Suncon

ORDERBOOK



Source: Suncon

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	6,000	6,000
- Precast Concrete	200	300	300

Source: Suncon, UOB Kay Hian

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)	11	(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	1,107	1,275	1,480
Other current assets	1,907	3,068	2,982	3,086
Total assets	3,596	4,871	4,961	5,280
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	1,022	1,171	1,328
Minority interest	61	66	72	78
Total liabilities & equity	3,596	4,938	5,027	5,347

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	717	462	467	517
Pre-tax profit	273	464	479	503
Tax	(76)	(102)	(105)	(111)
Deprec. & amort.	17	20	22	22
Associates	(0)	(0)	(0)	(0)
Working capital changes	535	80	72	102
Other operating cashflows	31	0	0	0
Investing	139	(29)	(29)	(31)
Capex (growth)	(9)	(29)	(29)	(31)
Proceeds from sale of assets	0	225	225	226
Others	(90)	(225)	(225)	(226)
Financing	(303)	(262)	(269)	(280)
Dividend payments	(116)	(212)	(219)	(230)
Proceeds from borrowings	(167)	(50)	(50)	(50)
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	552	170	168	205
Beginning cash & cash equivalent	384	936	1,107	1,275
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	936	1,107	1,275	1,480

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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