

Sunway Construction

At the forefront of the DC boom 2.0

Following our recent DC expert call ([link](#)), we believe that Malaysia's DC upcycle is entering a far more intense Phase 2 hyperscaler rollout, with SCGB emerging as a key beneficiary given its proven execution track record and entrenched status as a preferred delivery partner to MNC hyperscalers. With improving earnings visibility, we lift our FY27 year-end orderbook assumption to RM14bn (+90% vs prior), while continued ahead-of-schedule deliveries should unlock further execution-led cost savings and margin upside. We raise FY26-28E earnings by 15%-40% and increase our PT to a street-high RM9.50 (from RM7.50) based on 22x FY27E P/E. We are 26% above consensus FY27E estimates. Maintain OW on SCGB, now our highest-conviction pure-play DC execution proxy.

- **Raise FY27E orderbook by +90% to a record RM14bn.** Backed by (1) strong structural DC demand upcycle, and (2) geopolitical tensions reinforcing ASEAN's positioning as a neutral hyperscaler hub, we now see materially higher conversion potential from SCGB's RM15.3bn tenderbook (across six existing and one new client). Notably, we estimate RM8-9bn near-term tenderbook upside from a single hyperscaler, which could translate into FY27E orderbook, supporting FY28E revenue visibility.
- **Double-digit PBT margins sustainable.** 1Q26's still-elevated 15% PBT margin (-0.9ppt QoQ) reflects the lumpy recognition of execution-led cost savings, consistent with management's conservative early-cycle budgeting and buffer-building approach. With more ahead-of-schedule deliveries and improved budgeting precision ahead, including for the PSR MNC project, we see SCGB sustaining above-historical and peer-leading FY26-27E PBT margins of ~11%.
- **Potential 6-17% special dividend upside.** SCGB's YTD FY26 dividends of 22.8 sen imply a 3.2% yield (vs. GAM/IJM at ~1.8%/2.2%). We see room for another special dividend of 6-17%, backed by strong working capital and positive FCF, supporting further re-rating potential.

Overweight

SCOG.KL, SCGB MK
Price (19 May 26):RM7.30

▲ **Price Target (Dec-26):RM9.50**
Prior (Dec-26):RM7.50

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (RM)	0.28	0.32	14.2%
Adj. EPS - 27E (RM)	0.34	0.44	28.7%

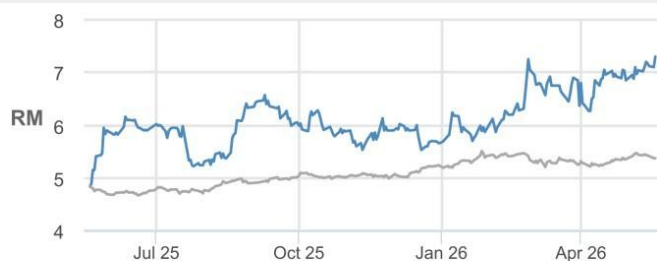
Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top)			
		6M	1Y	3Y	5Y
Value	52	60	39	33	45
Growth	33	25	56	52	48
Momentum	3	5	5	17	74
Quality	13	31	41	48	35
Low Vol	80	82	86	54	68

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

Price Performance



	YTD	1m	3m	12m
Abs	29.0%	4.9%	13.9%	50.8%
Rel	26.2%	3.0%	15.3%	39.8%

Company Data

Shares O/S (mn)	1,289
52-week range (RM)	7.46-4.64
Market cap (\$ mn)	2,368
Exchange rate	3.97
Free float (%)	36.1%
3M ADV (mn)	3.27
3M ADV (\$ mn)	5.6
Volatility (90 Day)	37
Index	FBMKLCI - FTSE BURSA MALAYSIA KLCI
BBG ANR (Buy Hold Sell)	14 2 0

Key Metrics (FYE Dec)

RM in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	5,339	5,838	7,953	7,607
Adj. EBITDA	470	564	810	602
Adj. EBIT	448	538	784	574
Adj. net income	361	423	571	435
Adj. EPS	0.28	0.32	0.44	0.33
BBG EPS	0.27	0.32	0.34	0.34
Cashflow from operations	1,617	151	874	550
FCFF	1,582	70	815	483
Margins and Growth				
Revenue Growth Y/Y (%)	51.6%	9.4%	36.2%	(4.4%)
EBITDA margin	8.8%	9.7%	10.2%	7.9%
EBITDA Growth Y/Y (%)	65.8%	19.9%	43.8%	(25.7%)
EBIT margin	8.4%	9.2%	9.9%	7.6%
Net margin	6.8%	7.2%	7.2%	5.7%
Adj. EPS growth	91.0%	16.6%	35.1%	(23.9%)
Ratios				
Adj. tax rate	23.5%	24.0%	24.0%	24.0%
Interest cover	NM	NM	NM	NM
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM
ROCE	22.8%	28.9%	39.4%	26.6%
ROE	36.8%	37.9%	47.1%	32.5%
Valuation				
FCFF yield	16.6%	0.7%	8.5%	5.1%
Dividend yield	6.9%	3.8%	0.0%	0.0%
EV/Revenue	1.5	1.4	1.0	1.0
EV/EBITDA	16.6	14.3	9.5	12.6
Adj. P/E	26.4	22.6	16.7	22.0

Summary Investment Thesis and Valuation

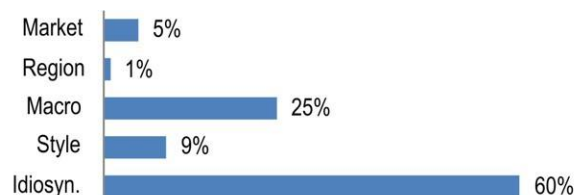
Investment Thesis

SCGB has built strong credibility as a DC contractor, and its tenderbook stood at RM15.3bn of which >90% was DC-related. We expect it to win RM8bn (from existing MNC clients or co-location players). Beyond DC, we expect opportunities in both local/overseas infrastructure and internal jobs (e.g. hospitals) in the medium term. SCGB's improved balance sheet, with a net cash position, provides financial flexibility and may support participation in future infrastructure cycles.

Valuation

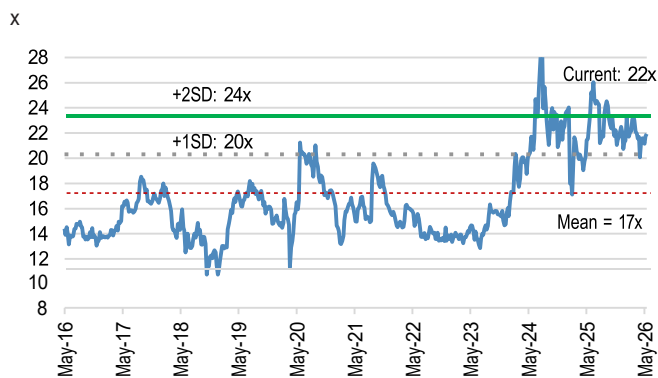
Our Dec-26 PT of RM9.50 is based on 22x FY27E earnings, towards the upper end of its historical trading range, supported by improving earnings visibility.

Performance Drivers



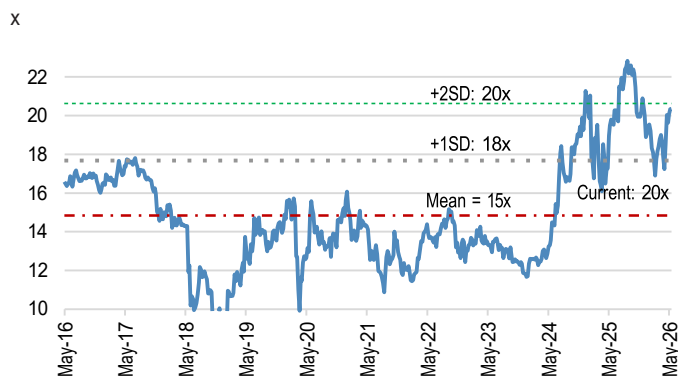
Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.33	0.26
Region: Malaysia	-0.43	-0.13
Macro:		
Generic 1st 'CO' Future	0.32	0.32
Citi Economic Surprise - EM	0.21	0.31
JPM Global Equity Sentiment	0.13	0.28
Quant Styles:		
Quality	0.25	0.27
Momentum	0.34	0.25
Growth	0.17	0.21

Figure 1: SCGB's 12m forward PE



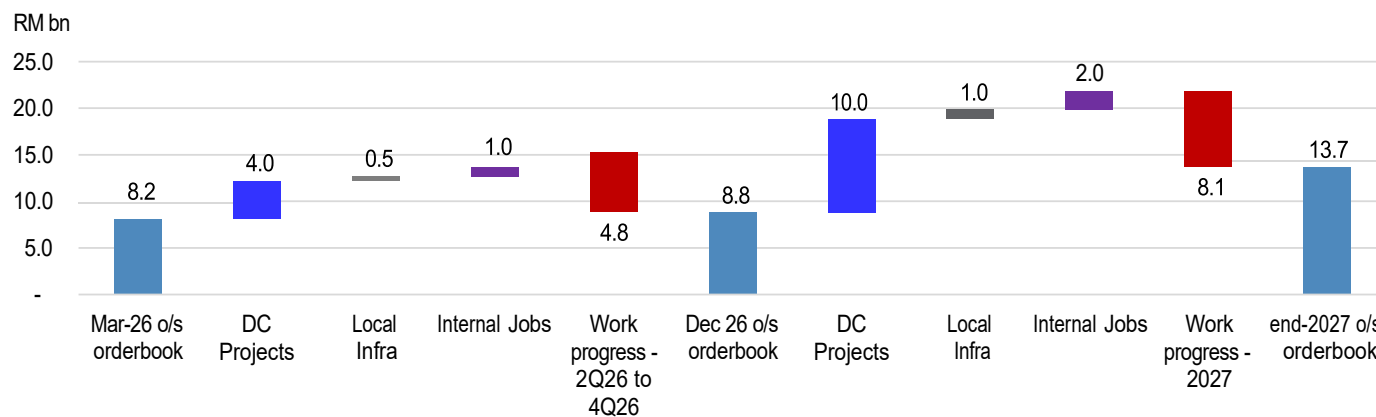
Source: Bloomberg Finance L.P.

Figure 2: GAM's 12m forward PE



Source: J.P. Morgan estimates.

Figure 3: SCGB order book - we forecast DC project wins of RM14 bn (out of its RM17.5bn tender book) for FY26/27E



Source: Company data, J.P. Morgan estimates.

Figure 4: JPMe vs Street

	FYE Dec-2026			FYE Dec-2027			FYE Dec-2028		
	JPM	Consensus	% variance	JPM	Consensus	% variance	JPM	Consensus	% variance
Revenue	5,838	5,704	2%	7,953	6,378	25%	7,607	6,386	19%
PBT	618	576	7%	835	627	33%	636	632	1%
% margin	10.6%	10.1%		10.5%	9.8%		8.4%	9.9%	
PATMI	423	420	1%	571	453	26%	435	459	-5%
% margin	7.2%	7.4%		7.2%	7.1%		5.7%	7.2%	

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

Figure 5: Model Revisions

RM m

	Current						Previous			% change		
Rating	OW						OW					
Price Target (RM)	9.50						7.50			27%		
Current share price (RM)	7.30											
% upside / (downside)	30%											
Earnings estimates	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2026	FY2027	FY2028	FY2026	FY2027	FY2028
Revenue - RM'm	2,671	3,522	5,339	5,838	7,953	7,607	6,274	7,650	5,453	-7%	4%	40%
% yoy	24%	32%	52%	171%	36%	-4%	18%	22%	-29%			
Orderbook - RM'm	5,325	5,830	5,673	9,040	14,367	7,040	8,179	7,809	2,636	11%	84%	167%
% yoy	0%	9%	-3%	70%	59%	-51%	44%	-5%	-66%			
PBT - RM'm	189	273	525	618	835	636	539	646	454	15%	29%	40%
% margin	7.1%	7.8%	9.8%	10.6%	10.5%	8.4%	8.6%	8.4%	8.3%			
Core net profit - RM'm	145	187	361	423	571	435	369	442	310	15%	29%	40%
Core EPS - RM sen	11.25	14.50	27.58	32.29	43.62	33.20	28.16	33.76	23.69			
% Profit margin	5.4%	5.3%	6.8%	7.2%	7.2%	5.7%	5.9%	5.8%	5.7%			
% YoY	7%	29%	93%	213%	35%	-24%	-15%	20%	-30%			

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Sunway Construction *(Overweight; Price Target: RM9.50)*

Investment Thesis

SCGB has built strong credibility as a DC contractor, and its tenderbook stood at RM15.3bn of which >90% was DC-related. We expect it to win RM8bn (from existing MNC clients or co-location players). Beyond DC, we expect opportunities in both local/overseas infrastructure and internal jobs (e.g. hospitals) in the medium term. SCGB's improved balance sheet, with a net cash position, provides financial flexibility and may support participation in future infrastructure cycles.

Valuation

Our Dec-26 PT of RM9.50 is based on 22x FY27E earnings, towards the upper end of its historical trading range, supported by improving earnings visibility.

Risks to Rating and Price Target

Downside risks to our OW rating and price target include: (1) the late delivery of projects, which could deter revenue recognition, limit the ability to take on new projects and negatively impact the company's credibility; (2) margin compression due to intensifying competition and/or higher input costs; (3) delays in project awards for public infrastructure projects; (4) slower-than-expected award timing; (5) faster margin normalization; (6) competitive pricing pressure; and (7) engineer/labour shortages.

Further catalysts include: (1) higher-than-expected project wins; and (2) faster conversion of the tender book into the order book.

Sunway Construction: Summary of Financials

Income Statement						Cash Flow Statement					
	FY24A	FY25A	FY26E	FY27E	FY28E	FY24A	FY25A	FY26E	FY27E	FY28E	
Revenue	3,522	5,339	5,838	7,953	7,607	Cash flow from operating activities	716	1,617	151	874	550
COGS	(2,994)	(4,410)	(4,793)	(6,484)	(6,360)	o/w Depreciation & amortization	0	64	25	26	28
Gross profit	528	929	1,045	1,470	1,247	o/w Changes in working capital	535	1,133	(344)	213	39
SG&A	(302)	(466)	(507)	(686)	(673)	Cash flow from investing activities	138	(27)	(20)	(20)	(20)
Adj. EBITDA	284	470	564	810	602	o/w Capital expenditure	0	0	(20)	(20)	(20)
D&A	(21)	(22)	(25)	(26)	(28)	as % of sales	0.0%	0.0%	0.3%	0.3%	0.3%
Adj. EBIT	262	448	538	784	574	Cash flow from financing activities	(303)	(608)	(369)	(428)	(326)
Net Interest	11	62	80	51	61	o/w Dividends paid	(116)	(275)	(369)	(428)	(326)
Adj. PBT	273	525	618	835	636	o/w Shares issued/(repurchased)	0	0	0	0	0
Tax	(76)	(123)	(148)	(200)	(153)	o/w Net debt issued/(repaid)	0	0	0	0	0
Minority Interest	(10)	(40)	(47)	(64)	(48)	Net change in cash	552	977	(238)	426	204
Adj. Net Income	187	361	423	571	435	Adj. Free cash flow to firm	722	1,582	70	815	483
Reported EPS	0.14	0.28	0.32	0.44	0.33	y/y Growth	(357.4%)	119.3%	(95.6%)	1063.4%	(40.7%)
Adj. EPS	0.14	0.28	0.32	0.44	0.33						
DPS	0.09	0.51	0.28	0.00	0.00						
Payout ratio	58.6%	182.4%	86.1%	0.0%	0.0%						
Shares outstanding	1,289	1,304	1,309	1,309	1,309						
Balance Sheet						Ratio Analysis					
	FY24A	FY25A	FY26E	FY27E	FY28E	FY24A	FY25A	FY26E	FY27E	FY28E	
Cash and cash equivalents	1,016	2,000	1,760	2,186	2,390	Gross margin	15.0%	17.4%	17.9%	18.5%	16.4%
Accounts receivable	1,501	1,311	1,668	2,272	2,173	EBITDA margin	8.1%	8.8%	9.7%	10.2%	7.9%
Inventories	43	60	80	108	106	EBIT margin	7.4%	8.4%	9.2%	9.9%	7.6%
Other current assets	1,859	1,646	2,023	2,656	2,554	Net profit margin	5.3%	6.8%	7.2%	7.2%	5.7%
Current assets	2,874	3,646	3,783	4,842	4,944	ROE	22.0%	36.8%	37.9%	47.1%	32.5%
PP&E	85	122	118	111	104	ROA	5.6%	9.0%	9.4%	11.2%	7.7%
LT investments	224	208	208	208	208	ROCE	11.3%	22.8%	28.9%	39.4%	26.6%
Other non current assets	637	656	656	656	656	SG&A/Sales	8.6%	8.7%	8.7%	8.6%	8.8%
Total assets	3,596	4,424	4,558	5,609	5,704	Net debt/Equity	NM	NM	NM	NM	NM
Short term borrowings	731	158	158	158	158	Net debt/EBITDA	NM	NM	NM	NM	NM
Payables	1,564	2,364	2,397	3,242	3,180	Sales/Assets (x)	1.1	1.3	1.3	1.6	1.3
Other short term liabilities	362	581	581	581	581	Assets/Equity (x)	3.9	4.1	4.0	4.2	4.2
Current liabilities	2,657	3,103	3,135	3,981	3,919	Interest cover (x)	NM	NM	NM	NM	NM
Long-term debt	0	143	143	143	143	Operating leverage	53.1%	17.0%	26.5%	16.0%	62.9%
Other long term liabilities	1	153	152	152	152	Tax rate	27.8%	23.5%	24.0%	24.0%	24.0%
Total liabilities	2,658	3,256	3,288	4,133	4,071	Revenue y/y Growth	31.8%	51.6%	9.4%	36.2%	(4.4%)
Shareholders' equity	878	1,087	1,141	1,284	1,392	EBITDA y/y Growth	15.7%	65.8%	19.9%	43.8%	(25.7%)
Minority interests	61	81	129	192	241	EPS y/y Growth	28.8%	91.0%	16.6%	35.1%	(23.9%)
Total liabilities & equity	3,596	4,424	4,557	5,609	5,704						
BVPS	0.68	0.83	0.86	0.97	1.05	Valuation					
y/y Growth	7.0%	22.4%	3.2%	12.5%	8.5%	FY24A	FY25A	FY26E	FY27E	FY28E	
Net debt/(cash)	(285)	(1,700)	(1,460)	(1,886)	(2,090)	P/E (x)	50.4	26.4	22.6	16.7	22.0
						P/BV (x)	10.7	8.8	8.5	7.5	7.0
						EV/EBITDA (x)	32.4	16.6	14.3	9.5	12.6
						Dividend Yield	1.2%	6.9%	3.8%	0.0%	0.0%

Source: Company reports and J.P. Morgan estimates.

Note: RM in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

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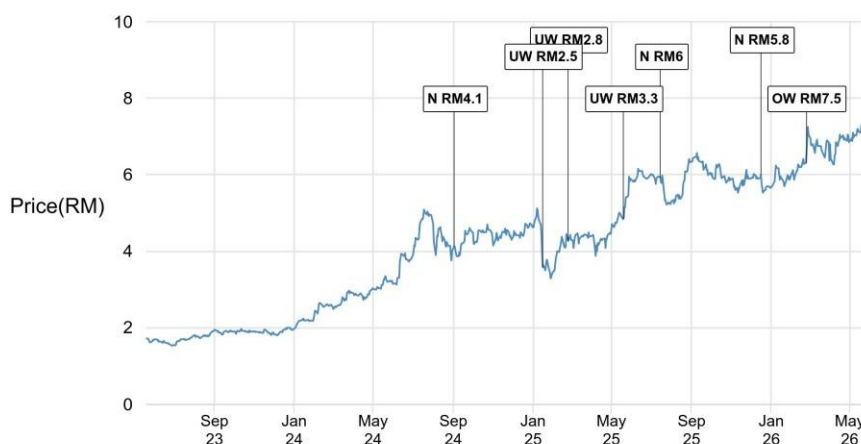
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Sunway Construction (SCOG.KL, SCGB MK) Price Chart



Date	Rating	Price (RM)	Price Target (RM)
03-Sep-24	N	4.13	4.1
17-Jan-25	UW	3.58	2.5
25-Feb-25	UW	4.27	2.8
20-May-25	UW	4.84	3.3
16-Jul-25	N	5.92	6
17-Dec-25	N	6.00	5.8
24-Feb-26	OW	6.31	7.5

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 03, 2024. All share prices are as of market close on the previous business day.

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IB clients**	94%	93%	85%

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