

Sunway Construction (SCGB MK)

Earnings beat on margin surprise

MALAYSIA | CONSTRUCTION | RESULT

- SunCon's 1Q26 earnings of RM114m beat our previous forecasts due to better-than-expected margins
- Sequential earnings declined due to a weaker project mix, resulting in a 4.6ppt QoQ contraction in EBITDA margin
- We raise our 2026-27E EPS forecasts by 31-36% after factoring in higher order book replenishment assumption and increase our TP to RM7.83. Upgrade BUY

Above expectations

1Q26 revenue declined 27% YoY to RM1bn on the back of lower progress billings as major projects such as Project Service Request DC and K2 near completion. Both projects are c.80% completed and collectively contributed 18% of quarterly revenue. After adjusting for EIs (reversal for receivable impairment of RM20.4m, forex loss of RM15m, and ESOS expenses of RM1.3m), 1Q26 core net profit increased 44.6% YoY to RM114m. The results were ahead of our expectations, but in line with consensus, accounting for 35% and 27% of our and street's estimates. The earnings beat against our forecasts was due to better-than-expected margins. EBITDA margins expanded by 4.9ppts YoY to 13.3%, driven by stronger construction and precast segments. SunCon declared a total dividend of 22.8sen (including 15.2sen special dividend). *This report marks a transfer of coverage to Muhammad Nabil.*

Expect margins to normalise further in quarters ahead

Sequentially, 1Q26 revenue inched up by 1% QoQ but core earnings slipped by 26% QoQ on the back of 5ppts contraction in EBITDA margin, which we attribute to unfavourable project mix. SunCon's outstanding order book stands at RM8.2bn, with DC-related projects accounting for 64% of the total mix. We expect replenishment opportunities to remain largely anchored by DC projects, which constitute 90% of the group's RM15bn tender book. With YTD new wins amounting to RM3.6bn, SunCon is on track to achieve its 2026 replenishment guidance of RM6bn.

Upgrade to BUY with higher TP of RM7.83

We raise our 2026–27E earnings forecasts by 31–36% after pencilling in higher order book assumption of RM6bn (from RM4.7bn/RM5.5bn). We introduce our 2028 EPS of 35.2sen (-1% YoY) with assumed annual job wins of RM6bn. In tandem, we raise our target price to RM7.83 (from RM5.50) after rolling forward our valuation horizon to 2027E, based on unchanged PER valuation of 22x. Key risks to our BUY call include: delays in project execution, slower-than-expected contract wins, potential cost overruns.

Key Financials

Y/E Dec	2024	2025	2026E	2027E	2028E
Revenue (RMm)	3,521.7	5,338.7	5,824.6	6,653.5	7,045.5
EBITDA (RMm)	279.4	524.2	517.3	586.1	601.8
Pretax profit (RMm)	273.0	525.5	555.8	604.4	597.2
Net profit (RMm)	186.9	361.8	422.4	459.4	453.8
EPS (sen)	14.5	28.0	32.7	36.0	35.2
PER (x)	49.0	25.3	21.7	19.9	20.2
Core net profit (RMm)	169.5	420.6	422.4	459.4	453.8
Core EPS (sen)	13.1	32.6	32.7	36.0	35.2
Core EPS growth (%)	(2.9)	148.1	0.4	8.7	(1.2)
Core PER (x)	54.1	21.8	21.7	19.9	20.2
Net DPS (sen)	8.5	50.5	32.7	36.0	35.2
Dividend Yield (%)	1.2	7.1	4.6	5.0	5.0
EV/EBITDA (x)	31.8	14.3	14.9	13.6	13.6
Chg in EPS (%)			+31.0	+36.0	New
Phillip/Consensus (%)			1.0	1.0	1.0

Sources: Company, Bloomberg, Phillip Research forecasts

19 May 2026

BUY (upgrade)

LAST CLOSE PRICE	RM7.10
TARGET PRICE	RM7.83
TOTAL RETURN	10.3%
(Previous TP)	RM5.50

COMPANY DATA

BLOOMBERG TICKER	SCGB MK EQUITY
O/S SHARES (MN) :	1,329
MARKET CAP (USD mn / RM mn) :	2377 / 9437
52 - WK HI/LO (RM) :	7.4 / 4.64
3M Average Daily T/O (mn) :	3.24
NET CASH/(DEBT) (RMm)	1,219.60

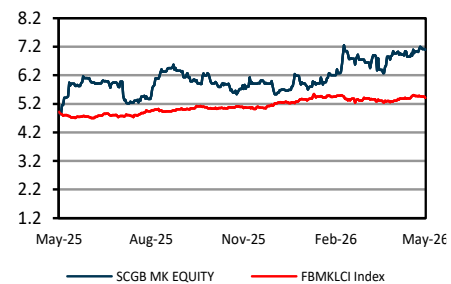
MAJOR SHAREHOLDERS (%)

Sunway Holdings	52.9%
Sungei Way Corp	7.1%
EPF	4.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.3	16.4	27.5
FBMKLCI RETURN	3.5	1.8	5.5

PRICE VS. FBMKLCI



Source: Bloomberg

Muhammad Nabil

nabil.affendy@phillipcapi.com.my

Results at a glance

Y/E Dec (RMm)	1Q25	4Q25	1Q26	QoQ % chg	YoY % chg	Comment
Revenue	1,400.5	1,016.1	1,022.7	0.6	(27.0)	Lower YoY mainly weighed down by weaker construction progress billings (-30.6%), offset by stronger contributions from the precast
Op costs	(1,284.0)	(834.3)	(887.1)	6.3	(30.9)	
EBITDA	116.5	181.8	135.6	(25.4)	16.4	
<i>EBITDA margin (%)</i>	<i>8.3</i>	<i>17.9</i>	<i>13.3</i>	<i>(4.6ppt)</i>	<i>4.9ppt</i>	Higher YoY, mainly driven by a stronger contribution mix from the both segment.
Depn and amort	(3.6)	(6.4)	(4.9)	(23.9)	37.4	
EBIT	112.9	175.4	130.7	(25.5)	15.7	
<i>EBIT margin (%)</i>	<i>8.1</i>	<i>17.3</i>	<i>12.8</i>	<i>(4.5ppt)</i>	<i>4.7ppt</i>	
Int and other inc	14.3	37.0	22.5	(39.2)	57.5	
Int expense	(12.9)	(12.8)	(4.4)	(65.5)	(65.8)	
EI	(3.4)	(35.7)	4.0	<i>nm</i>	<i>nm</i>	RM20.4m reversal for receivable impairment, RM15m unrealised forex loss, RM1.3m ESOS expenses
Pretax profit	113.2	162.6	154.7	(4.9)	36.6	
Core Pretax	116.6	198.3	150.7	(24.0)	29.2	
Tax	(27.5)	(36.9)	(37.7)	2.0	37.0	
<i>Tax rate (%)</i>	<i>24.3</i>	<i>22.7</i>	<i>24.3</i>	<i>1.6ppt</i>	<i>0.1ppt</i>	
MI	(10.0)	(7.3)	1.4	<i>nm</i>	<i>nm</i>	
Net profit	75.7	118.4	118.4	0.0	56.4	
EPS (sen)	5.9	9.2	9.2	0.0	56.4	
Core net profit	79.1	154.1	114.4	(25.7)	44.6	Above our expectations

Sources: Company, Phillip Research

Segmental revenue breakdown

Y/E Dec (RMm)	1Q25	4Q25	1Q26	QoQ % chg	YoY % chg
Construction	1,369.9	940.8	950.6	1.0	(30.6)
Precast concrete	30.6	75.3	72.1	(4.2)	135.5
Total	1,400.5	1,016.1	1,022.7	0.7	(27.0)

Segmental PBT breakdown

Y/E Dec (RMm)	1Q25	4Q25	1Q26	QoQ % chg	YoY % chg
Construction	112.0	155.3	148.7	(4.2)	32.8
Precast concrete	1.2	7.3	6.0	(17.8)	382.3
Total	113.2	162.6	154.7	(4.9)	36.6

Segmental PBT margin

Y/E Dec (%)	1Q25	4Q25	1Q26	QoQ ppt chg	YoY ppt chg
Construction	8.2	16.5	15.6	(0.9ppt)	7.5ppt
Precast concrete	4.1	9.7	8.3	(1.4ppt)	4.3ppt
Total	8.1	16.0	15.1	(0.9ppt)	7.0ppt

Sources: Company, Phillip Research

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel:+91-22-2300 2999/Fax:+91-22-2300 2969
Website: www.phillipcapital.in

MALAYSIA

Phillip Capital Sdn Bhd
B-18-6 Block B Level 18 Unit 6 Megan Avenue II,
No .12, Jalan Yap Kwan Seng, 50450 Kuala
Lumpur
Tel +603 2783 0300
Fax +603 2166 5099
Website: www.phillip.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCC)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Contact Information (Phillip Malaysia Investor Centres)
MALAYSIA**Phillip Investor Centre – Alor Setar (Kedah)**

Lot T-30 2nd Floor,
Wisma PKNK, Jalan Sultan Badlisha,
05000 Alor Setar, Kedah
Tel: +604 731 7088 / Fax: 604 731 8428
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Johor Bahru (Johor)**

15-01A, Jalan Molek 1/29,
Taman Molek, 81100 Johor Bahru,
Johor Darul Takzim, Malaysia
Tel: +607 352 1808 / Fax: 607 352 4808
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Skudai (Johor)**

9A, Jalan Sutera Tanjung 8/2,
Taman Sutera Utama,
81300 Skudai, Johor, Malaysia.
Tel: +607 557 2188 / Fax: 607 557 8788
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Kluang (Johor)**

No. 73, 1st Floor,
Jalan Rambutan, 86000 Kluang.
Tel: +607 771 7922 / Fax: 607 771 7909
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Kota Damansara (Petaling Jaya)**

12A, Jalan PJU 5/8,
Dataran Sunway, Kota Damansara,
47810 Petaling Jaya, Selangor, Malaysia.
Tel: +603 9212 2818 / Fax: 603 6140 7133
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Kota Kinabalu (Sabah)**

Lot No. G-4, Ground Floor,
Menara MAA, No 6, Lorong Api-Api 1,
88000 Kota Kinabalu, Sabah.
Tel: +6088 335 346 / Fax: -
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Kuantan (Pahang)**

1st Floor, B400,
Jalan Beserah, 25300 Kuantan.
Tel: +609 566 0800 / Fax: 609 566 0801
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Melaka**

No. 542A, Jalan Merdeka,
Taman Melaka Raya,
75000 Melaka, Malaysia
Tel: +606 292 0018 / Fax: 606 292 4511
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Penang**

No. 29A Ground Floor Suite 2, Beach Street,
10300 Penang, Malaysia.
Tel: +604 202 0039 / Fax: 607 261 3822
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Kuching (Sarawak)**

Lot 2650 1st Floor, Suite A, Block 10 KCLD
Central Park Commercial Centre,
3rd Mile, Jalan Rock, 93200, Kuching,
Sarawak, Malaysia.
Tel: +6082 247 633 / Fax: 6082 245 644
Website: www.phillip.com.my

MALAYSIA**Phillip Investor Centre – Sibü (Sarawak)**

No. 6B Jalan Bako,
96000 Sibü, Sarawak.
Tel: +6084 377 933 / Fax: -
Website: www.phillip.com.my

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