

Sunway Construction (SCGB MK)

1Q26: Stellar Quarter Matching Expectations

Highlights

- 1Q26 earnings were within expectations, making up 26% and 27% of our and consensus full-year estimates, respectively. Yoy growth mainly lifted by accelerated progress for DC projects which lifted blended margins.
- Positive surprise from interim and special dividends totalling 22.8 sen (1Q25: 5 sen), implying a payout ratio of 254% and 3.2% yield. 2026F yield is about 6.8%.
- **Maintain BUY with higher target price of RM7.88**, which implies 22x 2027F PE (+1SD above five-year mean of 18x) on revised higher earnings.

1Q26 Results

Year to 31 Dec (RMm)	1Q26	qoq % chg	yoy % chg	Comments
Revenue	1,022.7	0.6	(27.0)	Lower progress billing yoy as RTS Link project completed last year
- Construction	950.6	1.0	(30.6)	
- Precast Concrete	72.1	(4.3)	135.6	Higher contributions from ICPH and new projects
Operating profit	134.7	4.6	23.0	
- Construction	130.6	3.8	19.8	
- Precast Concrete	4.1	30.9	654.6	
Pre-tax Profit	154.7	(5.1)	36.6	Higher construction margin and precast earnings
PATAMI	118.4	0.0	56.4	
Core PATAMI	114.3	(34.9)	39.0	
Margins	%	+/-ppt	+/-ppt	
EBIT:	13.2	0.5	5.3	
- Construction	13.7	0.4	5.8	Higher DC margins
- Precast Concrete	5.7	1.9	3.9	Improved contract replenishment
PBT	15.1	-0.9	7.0	
Core PATMI	11.2	-4.0	5.3	

Source: Sunway Construction Group, UOB Kay Hian

Analysis

- **Stellar 1Q26 matching expectations.** Sunway Construction's (Suncon) 1Q26 core net profit came in at RM114.3m (-35% qoq, +39% yoy), despite lower revenue of RM1.02b (+1% qoq, -27% yoy). 1Q26 earnings made up 26% and 27% of our and consensus full-year estimates.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,521.7	5,338.7	5,336.7	5,672.2	5,675.0
EBITDA	279.4	469.2	483.0	504.0	522.2
Operating profit	262.2	448.2	453.9	478.3	498.9
Net profit (rep./act.)	186.9	361.8	434.7	461.6	485.9
Net profit (adj.)	167.2	425.1	434.7	461.6	485.9
EPS	13.0	33.0	33.7	35.8	37.7
PE (x)	48.6	21.5	21.1	19.8	18.8
P/B (x)	9.3	8.4	10.3	10.4	10.4
EV/EBITDA (x)	28.3	16.0	16.1	15.2	14.6
Dividend yield (%)	1.4	7.1	6.9	5.1	5.4
Net margin (%)	5.3	6.8	8.2	8.1	8.6
Net debt/(cash) to equity (%)	(32.5)	(156.4)	(163.3)	(178.4)	(182.2)
Interest cover (x)	n.a	n.a	n.a	n.a	n.a
ROE (%)	24.7	42.0	56.9	60.7	64.2
Consensus net profit	n.a	n.a	417.3	447.8	450.1
UOBKH/Consensus (x)	n.a	n.a	1.0	1.0	1.1

Source: Sunway Construction Group, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM7.10
Target Price	RM7.88
Upside	11.0%
Previous TP	RM7.65

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Stock Data

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,328.8
Market cap (RM\$m):	9,141.8
Market cap (US\$m):	2,307.1
3-mth avg daily t'over (US\$m):	5.6

Price Performance (%)

52-week high/low					RM7.2/RM4.5
1mth	3mth	6mth	1yr	YTD	
7.7	17.2	26.2	54.5	21.6	

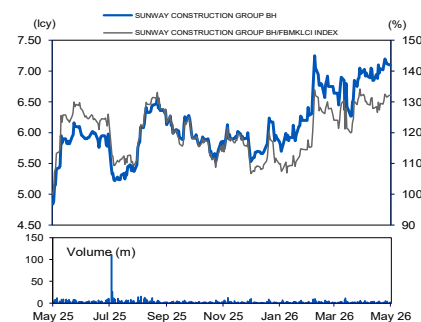
Major Shareholders

	%
Sunway Holdings Sdn Bhd	52.9
Sungei Way Corp Sdn Bhd	7.1
Employees Provident Fund Board	4.2

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.7
FY26 Net Debt/Share (RM)	(1.1)

Price Chart



Source: Bloomberg

Company Description

A leading construction company in Malaysia.

- **Positive dividends surprise of 22.8 sen.** Notably, Suncon declared a 7.6 sen interim dividend and 15.2 sen special dividend, bringing 1Q26 dividend to 22.8 sen (1Q25: 5 sen). This implies a payout ratio of 254% and 3.2% yield.
- **Construction segment: Earnings improvement premised on meaningful margin uptick.** The construction division's operating profit (EBIT) surged to RM131m (+20% yoy, +4% qoq) despite a lower revenue of RM1.02b (-27% yoy, +1% qoq) in 1Q26. While revenue declined yoy due to lower progress billing from the RTS Link and several DC projects, the impressive EBIT growth mainly reflects a significant margin expansion (+5.8ppt yoy) due to various cost savings in certain DC projects following the ramp-up into latter stages.
- **Precast segment: Recovering from low base.** In 1Q26, the precast segment delivered a higher yoy revenue of RM72.1m (+136% yoy, -4% qoq) which presumably reflects improving contributions from Integrated Construction & Prefabrication Hub (ICPH) and newly secured projects. EBIT surged to RM4.1m (+655% yoy, +31% qoq) with much better margins (+3.9ppt yoy). We anticipate a similarly strong quarter for the precast segment through 2026, supported by an existing orderbook of about RM725m.
- **2026-28F earnings growth well supported by outstanding orderbook and tenderbook pipelines.** Suncon's current outstanding orderbook stands tall at about RM8.2b (>1x orderbook cover), with over RM15.3b tenderbook pipeline. The group secured RM3.6b contracts ytd, with plenty of low-hanging contract opportunities including: a) multiple data centres contracts (RM4b-6b), b) internal project flows from parent company Sunway Berhad (Sunway) (RM1b), and c) public infrastructure projects such as Penang LRT and MRT 3 civil packages (landbank acquisition completing in end-26).
- **DC-powered growth narratives remain exciting.** Note that Suncon secured three DC contracts worth RM2.94b in 2025, and another approximately RM3.56b in DC contracts ytd in 2026. The group currently has three completed and 10 ongoing DC projects with combined 450MW IT load, with DC works making up 64% of total outstanding orderbook. Of the current tenderbook of about RM15.3b, above 90% are DC-related. Suncon is also still bidding for a few DC projects with a combined IT load of over 800MW (estimated value of RM14b-15b) that may be awarded within 2026-27. Overall, we assess that Suncon is in a good position to win several DC bids within 2026-27. This will lift the group's overall margins as a DC has a shorter construction period and better profit margins.
- **Valuations remain reasonable with attractive yield and capital management upside.** Suncon is in a net cash position of about RM1.2b currently, reflecting an improving trend over the last two years following better earnings and improved cash flow conversion. Adjacent with the yoy earnings growth, we forecast a 100-143% dividend payout ratio in 2026-28, implying a lush prospective yield of 5.1-6.8%. We also do not rule out further special dividends as the group has sufficient room for better capital management.

Valuation/Recommendation

- **Maintain BUY with a higher target price of RM7.88 (from RM7.65),** which is pegged to 22x 2027F PE (+1SD above five-year mean of 18x). We deem this valuation as fair given Suncon's record-high orderbook and tenderbook which anchor multi-year growth ahead.

Earnings Revision/Risk

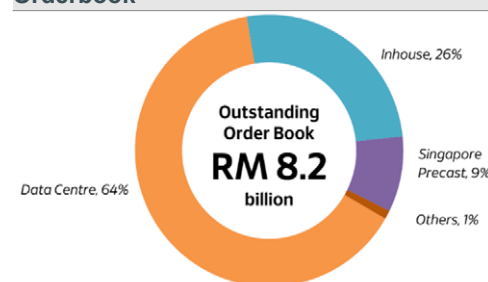
- **We raised our 2027-28F earnings by 3% and 1% respectively** to reflect higher orderbook replenishment in 2027-28, besides better-than-expected DC contracts' profitability margin.

Outstanding Orderbook As Of End-1Q26

Projects	(RMm)
JHB1X0 Data Centre	653
K2 Phase 2 Data Centre	53
RTS Link Package 1B & 5	28
Daiso Warehouse	25
PSR - MNC	124
PSR - MNC - JB01	153
PSR - MNC - JB02	88
General DC Contractor Work - Shell 1 - MNC	1,039
General DC Contractor Work - Shell 2 - MNC	1,362
Serendah DC	1,750
India Highways	63
Others	7
Total External (A)	5,345
RTS TOD	1,185
Sunway Square Superstructure+VO	124
SW Ipoh Mall	764
Sunmed PH3 fit-out	15
Total Internal (B)	2,088
Precast Concrete (C)	724
Grand Total (A+B+C)	8,157

Source: Suncon

Orderbook



Source: Suncon

Segmental Forecasts

(RMm)	2025	2026F	2027F
Revenue	5,339	5,337	5,672
- Construction	5,132	5,013	5,501
- Precast Concrete	207	324	171
Operating profit	448	454	478
- Construction	446	418	460
- Precast Concrete	2	36	19

Orderbook replenishment assumptions

- Construction	5,200	6,000	6,000
- Precast Concrete	300	300	300

Source: UOB Kay Hian

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.

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	5,339	5,337	5,672	5,675
EBITDA	469	483	504	522
Deprec. & amort.	21	29	26	23
EBIT	448	454	478	499
Associate contributions	15	17	19	20
Net interest income/(expense)	62	95	104	113
Pre-tax profit	526	566	601	632
Tax	(123)	(124)	(132)	(139)
Minorities	(40)	(7)	(7)	(7)
Net profit	362	435	462	486
Net profit (adj.)	425	435	462	486

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	1,617	490	609	532
Pre-tax profit	526	566	601	632
Tax	(107)	(124)	(132)	(139)
Deprec. & amort.	21	29	26	23
Associates	(15)	(17)	(19)	(20)
Working capital changes	1,133	37	134	36
Other operating cashflows	60	0	0	0
Investing	(27)	(18)	(19)	(19)
Capex (growth)	(44)	(18)	(19)	(19)
Proceeds from sale of assets	24	0	0	0
Others	(7)	0	0	0
Financing	(608)	(681)	(519)	(543)
Dividend payments	(305)	(631)	(469)	(493)
Proceeds from borrowings	(422)	(50)	(50)	(50)
Others/interest paid	119	0	0	0
Net cash inflow (outflow)	982	(209)	72	(30)
Beginning cash & cash equivalent	936	1,914	1,705	1,777
Changes due to forex impact	(5)	0	0	0
Ending cash & cash equivalent	2,000	1,895	1,917	1,912

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	122	111	104	99
Other LT assets	656	759	778	797
Cash/ST investment	2,000	1,705	1,777	1,747
Other current assets	1,646	1,600	1,653	1,609
Total assets	4,424	4,365	4,395	4,391
ST debt	158	131	105	79
Other current liabilities	2,945	2,936	3,122	3,113
LT debt	143	119	95	71
Other LT liabilities	10	10	10	10
Shareholders' equity	1,087	891	884	876
Minority interest	81	88	95	102
Total liabilities & equity	4,424	4,365	4,395	4,391

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	8.8	9.0	8.9	9.2
Pre-tax margin	9.8	10.6	10.6	11.1
Net margin	6.8	8.2	8.1	8.6
ROA	11.4	13.9	14.6	15.4
ROE	42.0	56.9	60.7	64.2
Growth				
Net profit (adj.)	154.2	2.2	6.2	5.3
Leverage				
Debt to total capital	25.7	25.6	20.5	15.4
Debt to equity	27.6	28.1	22.7	17.2
Net debt/(cash) to equity	(156.4)	(163.3)	(178.4)	(182.2)

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