Sunway Construction

Repeat DC expansions improve earnings visibility; upgrade to OW

▲Overweight
Previous: Neutral

SCOG.KL, SCGB MK
Price (24 Feb 26):RM6.59

▲**Price Target (Dec-26):RM7.50**
Prior (Dec-26):RM5.80

Malaysia Research

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The DC cycle is shifting from initial builds into follow-on expansions, and SCGB's execution track record positions it to capture repeat orders with stronger earnings visibility. We upgrade SCGB to OW after hosting management post-4Q25 results, as risk-reward improves on: (1) clearer replenishment visibility, and (2) execution-led margin support. Management's tone was confident of achieving RM6bn new orders for FY26, supported by a RM17.5bn tenderbook with >80% DC-related across eight clients. 4QFY25 PBT margin of 16% was supernormal versus FY25's 10%, but management expects full year margins to remain supported as ahead-of-schedule completions continue to drive earnings. We increase our FY26E/27E earnings by +9%/31% to reflect earlier completion timelines and introduce FY27 orderbook assumptions. We raise our PT to RM7.50 (from RM5.80), based on 22x FY27E PE, towards the upper end of its historical trading range and reflecting near-term earnings visibility, and upgrade to OW (from Neutral).

- **DC developments are entering Phase 2** with SCGB's existing clients progressing into the next wave of expansions, as seen in recent wins. Its RM17.5bn tenderbook spans eight clients (five existing and three new), with meaningful wins expected in the near term. For existing clients, we conservatively assume Phase 2 contract sizes similar to Phase 1, supporting orderbook replenishment in FY26. Management also sees upside to its RM6bn FY26 replenishment target. Our sensitivity analysis indicates that every RM1bn change in DC replenishment would affect FY26/27E earnings by ~10%.
- **Strong execution supports margins:** Its 4Q25 PBT margin reached 16% (+7.2 ppt QoQ), lifting FY25 to 10%, driven by the lumpy recognition of cost savings as management adopts a conservative early-cycle approach and builds in buffers for potential uncertainties. Management expects full year margins to remain supported, as several DC projects (JHB1X0, US MNC and K2) are nearing completion and are ahead of schedule. We view ~8.5% PBT margins as a more sustainable level amid competitive tender conditions.
- **Valuation/key risks:** We value SCGB at 22x FY27E PE, towards the upper end of its historical trading range, supported by improving earnings visibility; and upgrade to OW with a PT of RM7.50 (14% upside potentiall). The market is increasingly rewarding delivery certainty over pipeline optionality in the DC build cycle. Hence, we view the current positioning as an opportunity to add ahead of visible replenishment catalysts. Key risks include slower-than-expected award timing, faster margin normalization, competitive pricing pressure and engineer/labour shortages.

Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (RM)	0.26	0.28	7.4%
Adj. EPS - 27E (RM)	0.26	0.34	29.4%

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	57	63	36	34	38
Growth	28	34	9	11	30
Momentum	11	3	46	34	80
Quality	30	34	44	32	40
Low Vol	80	84	88	53	69

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

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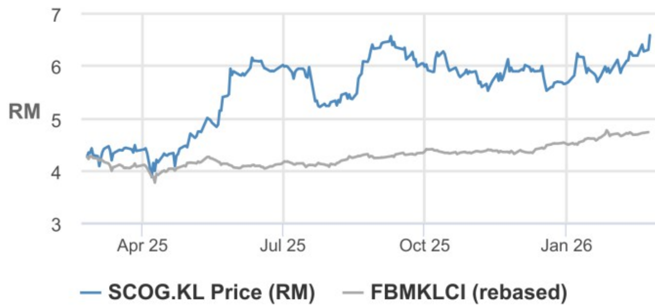
Price Performance



	YTD	1m	3m	12m
Abs	16.4%	13.6%	7.5%	54.3%
Rel	11.8%	11.4%	-1.1%	43.4%

Company Data

Shares O/S (mn)	1,289
52-week range (RM)	6.62-3.58
Market cap ($ mn)	2,184
Exchange rate	3.89
Free float (%)	34.7%
3M ADV (mn)	2.92
3M ADV ($ mn)	4.4
Volatility (90 Day)	29
Index	FBMKLCI - FTSE BURSA MALAYSIA KLCI
BBG ANR (Buy | Hold | Sell)	11|4|0

Key Metrics (FYE Dec)

RM in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	5,339	6,274	7,650	5,453
Adj. EBITDA	470	484	622	420
Adj. EBIT	448	459	595	392
Adj. net income	361	369	442	310
Adj. EPS	0.28	0.28	0.34	0.24
BBG EPS	0.27	0.27	0.28	0.15
Cashflow from operations	1,617	(107)	601	233
FCFF	1,582	(188)	542	166
Margins and Growth				
Revenue Growth Y/Y (%)	51.6%	17.5%	21.9%	(28.7%)
EBITDA margin	8.8%	7.7%	8.1%	7.7%
EBITDA Growth Y/Y (%)	65.8%	3.1%	28.3%	(32.4%)
EBIT margin	8.4%	7.3%	7.8%	7.2%
Net margin	6.8%	5.9%	5.8%	5.7%
Adj. EPS growth	91.0%	2.1%	19.9%	(29.8%)
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%	24.3%	29.5%	18.3%
ROE	36.8%	32.5%	35.8%	23.3%
Valuation				
FCFF yield	18.4%	(2.2%)	6.3%	1.9%
Dividend yield	7.7%	3.2%	3.9%	2.7%
EV/Revenue	1.3	1.2	0.9	1.3
EV/EBITDA	14.6	15.1	11.5	17.1
Adj. P/E	23.8	23.3	19.4	27.7

Summary Investment Thesis and Valuation

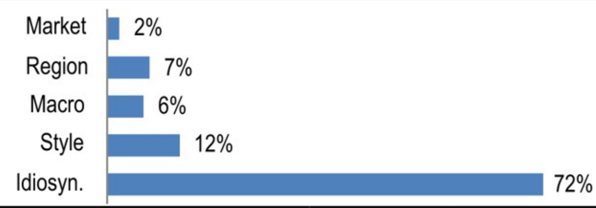
Investment Thesis

SCGB has built strong credibility as a DC contractor, and its tenderbook has expanded to RM17.5bn of which 80% is DC-related. We expect it to win RM11bn (1-2 work packages from a major hyperscaler, and the remainder 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 RM7.50 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	-0.10	0.17
Region: Malaysia	-0.04	0.29
Macro:		
Citi Economic Surprise - EM	0.25	0.20
JPM Global Equity Sentiment	0.42	0.13
JPM EM Currency(EMCI) Fixing	-0.09	0.13
Quant Styles:		
Size	0.09	0.31
Momentum	0.14	0.30
Growth	0.17	0.24

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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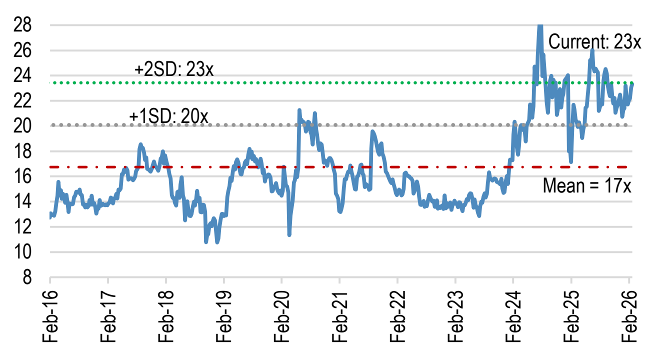
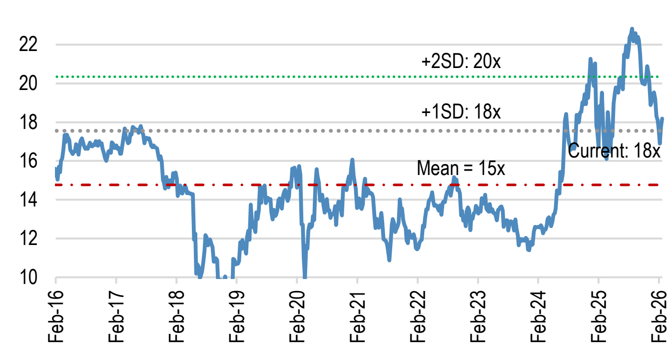
Figure 1: SCGB's 12m forward PE



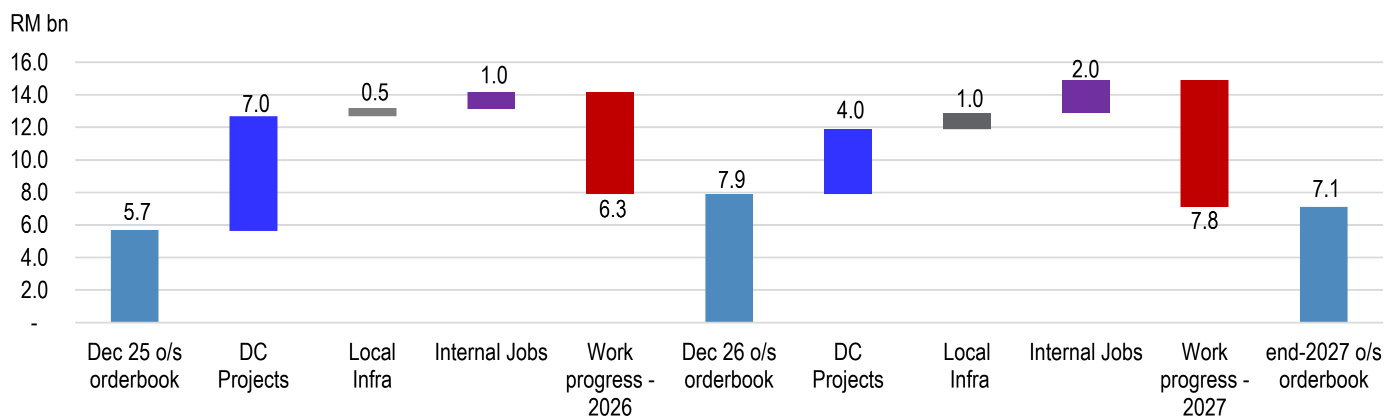
Source: Bloomberg Finance L.P.

Figure 2: GAM's 12m forward PE



Source: J.P. Morgan estimates.

Figure 3: SCGB order book - we forecast DC project wins of RM11 bn (out of its RM17.5bn tender book) for FY26/27E



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

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Figure 4: Model Revisions

RM m

				Current			Previous		% change	
Rating				OW			Neutral			
Price Target (RM)				7.50			5.80		29%	
Current share price (RM)				6.59						
% upside / (downside)				*14%*						
Earnings estimates	**FY2023**	**FY2024**	**FY2025**	**FY2026**	**FY2027**	**FY2028**	**FY2026**	**FY2027**	**FY2026**	**FY2027**
Revenue - RM'm	**2,671**	**3,522**	**5,339**	**6,274**	**7,650**	**5,453**	**5,675**	**5,962**	11%	28%
% yoy	*24%*	*32%*	*52%*	*18%*	*22%*	*-29%*	*1%*	*5%*		
Orderbook - RM'm	**5,325**	**5,830**	**5,673**	**8,179**	**7,809**	**2,636**	**10,183**	**4,501**		
% yoy	*0%*	*9%*	*-3%*	*44%*	*-5%*	*-66%*	*25%*	*-56%*		
Construction	2,381	3,244	5,065	5,714	7,090	4,946	5,115	5,402	12%	31%
% yoy	*21%*	*36%*	*56%*	*13%*	*24%*	*-30%*	*-3%*	*6%*		
Precast	290	278	274	560	560	507	560	560	0%	0%
% yoy	*60%*	*-4%*	*-1%*	*104%*	*0%*	*-9%*	*74%*	*0%*		
PBT- RM'm	**189**	**273**	**525**	**539**	**646**	**454**	**471**	**469**	14%	38%
% margin	*7.1%*	*7.8%*	*9.8%*	*8.6%*	*8.4%*	*8.3%*	*8.3%*	*7.9%*		
Construction	170	260	512	503	610	420	435	432	16%	41%
% margin	*7.1%*	*8.0%*	*10.1%*	*8.8%*	*8.6%*	*8.5%*	*8.5%*	*8.0%*		
Precast	19	13	14	36	37	33	36	37	0%	0%
% margin	*6.5%*	*4.5%*	*5.0%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*		
Core net profit - RM'm	**145**	**187**	**361**	**369**	**442**	**310**	**340**	**338**	9%	31%
Core EPS - RM sen	11.25	14.50	27.58	28.16	33.76	23.69	26.33	26.20		
% Profit margin	*5.4%*	*5.3%*	*6.8%*	*5.9%*	*5.8%*	*5.7%*	*6.0%*	*5.7%*		
% YoY	*7%*	*29%*	*93%*	*2%*	*20%*	*-30%*	*2%*	*-1%*		

Source: J.P. Morgan estimates. EPS changes differ from core net profit changes due to changes in reported weighted average shares post 4Q25 results.

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Investment Thesis, Valuation and Risks

Sunway Construction *(Overweight; Price Target: RM7.50)*

Investment Thesis

SCGB has built strong credibility as a DC contractor, and its tenderbook has expanded to RM17.5bn of which 80% is DC-related. We expect it to win RM11bn (1-2 work packages from a major hyperscaler, and the remainder 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 RM7.50 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.

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Sunway Construction: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**3,522**	**5,339**	**6,274**	**7,650**	**5,453**
COGS	(2,994)	(4,410)	(5,258)	(6,380)	(4,576)
Gross profit	**528**	**929**	**1,015**	**1,270**	**876**
SG&A	(302)	(466)	(556)	(675)	(484)
Adj. EBITDA	**284**	**470**	**484**	**622**	**420**
D&A	(21)	(22)	(25)	(26)	(28)
Adj. EBIT	**262**	**448**	**459**	**595**	**392**
Net Interest	11	62	80	51	61
Adj. PBT	**273**	**525**	**539**	**646**	**454**
Tax	(76)	(123)	(129)	(155)	(109)
Minority Interest	(10)	(40)	(41)	(49)	(35)
Adj. Net Income	**187**	**361**	**369**	**442**	**310**
Reported EPS	0.14	0.28	0.28	0.34	0.24
Adj. EPS	**0.14**	**0.28**	**0.28**	**0.34**	**0.24**
DPS	**0.09**	**0.51**	**0.21**	**0.25**	**0.18**
Payout ratio	58.6%	182.4%	75.0%	75.0%	75.0%
Shares outstanding	1,289	1,304	1,304	1,304	1,304

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	1,016	2,000	1,594	1,844	1,824
Accounts receivable	1,501	1,311	2,091	2,550	1,818
Inventories	43	60	88	106	76
Other current assets	1,859	1,646	2,454	2,931	2,169
Current assets	**2,874**	**3,646**	**4,048**	**4,775**	**3,993**
PP&E	85	122	118	111	104
LT investments	224	208	208	208	208
Other non current assets	637	656	656	656	656
Total assets	**3,596**	**4,424**	**4,822**	**5,543**	**4,753**
Short term borrowings	731	158	158	158	158
Payables	1,564	2,364	2,629	3,190	2,288
Other short term liabilities	362	581	581	581	581
Current liabilities	**2,657**	**3,103**	**3,368**	**3,929**	**3,027**
Long-term debt	0	143	143	143	143
Other long term liabilities	1	153	152	152	152
Total liabilities	**2,658**	**3,256**	**3,520**	**4,081**	**3,179**
Shareholders' equity	878	1,087	1,179	1,290	1,367
Minority interests	61	81	123	172	206
Total liabilities & equity	**3,596**	**4,424**	**4,822**	**5,543**	**4,753**
BVPS	**0.68**	**0.83**	**0.90**	**0.99**	**1.05**
y/y Growth	*7.0%*	*22.4%*	*8.5%*	*9.4%*	*6.0%*
Net debt/(cash)	(285)	(1,700)	(1,294)	(1,543)	(1,524)

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**716**	**1,617**	**(107)**	**601**	**233**
o/w Depreciation & amortization	0	64	25	26	28
o/w Changes in working capital	535	1,133	(543)	83	(139)
Cash flow from investing activities	**138**	**(27)**	**(20)**	**(20)**	**(20)**
o/w Capital expenditure	0	0	(20)	(20)	(20)
as % of sales	*0.0%*	*0.0%*	*0.3%*	*0.3%*	*0.4%*
Cash flow from financing activities	**(303)**	**(608)**	**(276)**	**(331)**	**(233)**
o/w Dividends paid	(116)	(275)	(276)	(331)	(233)
o/w Shares issued/(repurchased)	0	0	0	0	0
o/w Net debt issued/(repaid)	0	0	0	0	0
Net change in cash	**552**	**977**	**(404)**	**250**	**(20)**
Adj. Free cash flow to firm	**722**	**1,582**	**(188)**	**542**	**166**
y/y Growth	*(357.4%)*	*119.3%*	*(111.9%)*	*(387.9%)*	*(69.3%)*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	15.0%	17.4%	16.2%	16.6%	16.1%
EBITDA margin	8.1%	8.8%	7.7%	8.1%	7.7%
EBIT margin	7.4%	8.4%	7.3%	7.8%	7.2%
Net profit margin	5.3%	6.8%	5.9%	5.8%	5.7%
ROE	22.0%	36.8%	32.5%	35.8%	23.3%
ROA	5.6%	9.0%	8.0%	8.5%	6.0%
ROCE	11.3%	22.8%	24.3%	29.5%	18.3%
SG&A/Sales	8.6%	8.7%	8.9%	8.8%	8.9%
Net debt/Equity	NM	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM	NM
Sales/Assets (x)	1.1	1.3	1.4	1.5	1.1
Assets/Equity (x)	3.9	4.1	4.1	4.2	3.9
Interest cover (x)	NM	NM	NM	NM	NM
Operating leverage	53.1%	137.0%	14.9%	135.0%	118.6%
Tax rate	27.8%	23.5%	24.0%	24.0%	24.0%
Revenue y/y Growth	31.8%	51.6%	17.5%	21.9%	(28.7%)
EBITDA y/y Growth	15.7%	65.8%	3.1%	28.3%	(32.4%)
EPS y/y Growth	28.8%	91.0%	2.1%	19.9%	(29.8%)

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	45.5	23.8	23.3	19.4	27.7
P/BV (x)	9.7	7.9	7.3	6.7	6.3
EV/EBITDA (x)	29.2	14.6	15.1	11.5	17.1
Dividend Yield	1.3%	7.7%	3.2%	3.9%	2.7%

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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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

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.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period. J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage*	51%	37%	12%
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