

Sunway Construction

Post-2Q26 briefing: Phase 2 marks the next earnings leg up

We remain of high conviction on SCGB, as Phase 2 sets the stage for an earnings acceleration that we believe the Street is still underappreciating. Three takeaways after the 2Q26 briefing with the CFO strengthen our conviction: **(1)** 63% of the Phase 2 DC orderbook remains early in the S-curve, and materially higher MEP content supports 10-12% PBT margins and earnings acceleration from 2027; **(2)** our proprietary Malaysia DC tracker points to RM20bn+ tenderbook potential vs. RM14.2bn currently, with a further ~RM6bn Singapore opportunity providing upside; and **(3)** potential CRESS delays could add another catalyst by releasing capital for special dividends toward ~10%. We raise FY26E/27E earnings 1%/6%, putting FY27E ~14% above consensus, and lift our Street-high PT to RM10.90 (from RM10.50), based on a 22x FY27E P/E. OW.

- **Phase 2 is still early-cycle and materially more MEP-intensive.** Around 63% of SCGB's Phase 2 DC orderbook remains at the early S-curve stage, implying significant revenue acceleration as projects mature from 2027. Phase 2 also carries materially higher MEP content (70% of construction costs vs. 50% previously) and larger contract values, playing directly into SCGB's strengths with its 70% DC orderbook mix and a track record of securing both core and shell and MEP works. This underpins management's higher FY26 new-order target of RM7bn-9bn (from RM6bn), but we still see this as conservative vs. YTD wins/tenderbook of RM6.9bn/RM14.2bn. Importantly, management remains comfortable with 10-12% PBT margins (vs. our 12%), supported by a higher MEP mix and execution efficiencies, suggesting stronger growth without sacrificing profitability.
- **Tenderbook set to surpass RM20bn, with Singapore providing further optionality.** SCGB's current RM14.2bn tenderbook spans six DC clients (five existing, one new), but our proprietary bottom-up DC tracker points to potentially RM20bn in the coming quarter, driven by an Australian hyperscaler pipeline alone. Beyond this, SCGB has been invited to participate in a [200MW](#) US hyperscaler-led expansion on Singapore's Jurong Island, with capacity split equally across Digital Realty, Equinix, Keppel DC and STT DC. At ~RM30m/MW, this represents ~RM6bn of potential construction value, providing meaningful upside to the tenderbook beyond our above-guidance RM20bn estimate. This further substantiates our above-consensus orderbook replenishment of RM9bn/8bn in FY27E/28E.
- **Potential CRESS delays could unlock up to 10% of special dividends?** We estimate a potential ~6% special dividend yield, supported by stronger profitability as SCGB's DC mix grows. However, this could be upsized to an attractive ~10% if CRESS opportunities are delayed further, freeing up ~RM2bn-3bn of capital otherwise earmarked for the project. With unresolved SAC charges and a shift in developer focus towards LSS6, CRESS implementation looks more likely toward end-2027/early-2028, lowering near-term capex needs and leaving more room for near-term capital returns.

Overweight

SCOG.KL, SCGB MK

Price (26 Aug 26):RM8.00

▲ Price Target (Jun-27):RM10.90

Prior (Jun-27):RM10.50

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Style Exposure

Quant Factors	Current	Hist %Rank (1=Top)			
	%Rank	6M	1Y	3Y	5Y
Value	65	53	55	37	39
Growth	19	15	33	51	39
Momentum	11	11	1	17	91
Quality	9	31	33	37	59
Low Vol	75	81	83	53	69

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	41.3%	4.6%	6.7%	30.1%
Rel	37.2%	1.8%	3.8%	19.5%

Company Data

Shares O/S (mn)	1,304
52-week range (RM)	8.40-5.02
Market cap (\$ mn)	2,581
Exchange rate	4.04
Free float (%)	38.1%
3M ADV (mn)	2.79
3M ADV (\$ mn)	5.3
Volatility (90 Day)	26
Index	FBMKLCI - FTSE BURSA MALAYSIA KLCI
BBG ANR (Buy Hold Sell)	14 4 0

Key Metrics (FYE Dec)

RM in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	5,339	5,199	8,125	11,373
Adj. EBITDA	470	585	840	1,009
Adj. EBIT	448	559	813	981
Adj. net income	361	437	591	713
Adj. EPS	0.28	0.33	0.45	0.54
BBG EPS	0.27	0.33	0.39	0.40
Cashflow from operations	1,617	1,190	1,303	1,388
FCFF	1,582	1,110	1,244	1,321
Margins and Growth				
Revenue Growth Y/Y (%)	51.6%	(2.6%)	56.3%	40.0%
EBITDA margin	8.8%	11.2%	10.3%	8.9%
EBITDA Growth Y/Y (%)	65.8%	24.4%	43.7%	20.1%
EBIT margin	8.4%	10.8%	10.0%	8.6%
Net margin	6.8%	8.4%	7.3%	6.3%
Adj. EPS growth	91.0%	20.6%	35.2%	20.6%
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%	29.8%	40.1%	43.7%
ROE	36.8%	38.8%	47.6%	50.7%
Valuation				
FCFF yield	15.2%	10.6%	11.9%	12.6%
Dividend yield	6.3%	3.4%	4.2%	5.0%
EV/Revenue	1.7	1.5	0.9	0.6
EV/EBITDA	18.8	13.8	8.7	6.5
Adj. P/E	28.9	24.0	17.7	14.7

Summary Investment Thesis and Valuation

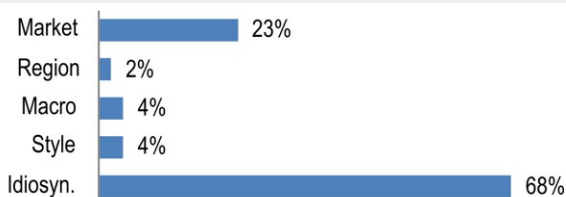
Investment Thesis

SCGB has built strong credibility as a DC contractor, and its tenderbook stood at RM14.2bn, of which >90% was DC-related. We expect it to win RM13bn. 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 Jun-27 PT of RM10.90 is based on 22x FY27E earnings, toward the upper end of its historical trading range, supported by improving earnings visibility.

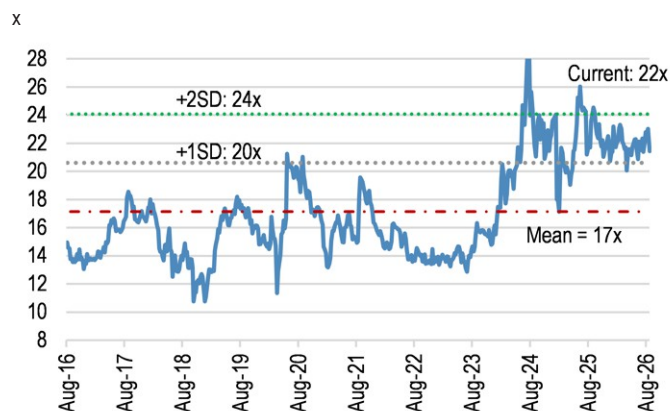
Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.65	0.43
Region: Malaysia	-0.20	-0.18
Macro:		
JP Morgan EMBI Global Spread	0.16	0.22
Emerging Economies CPI(YoY)	-0.34	-0.20
Emerging Central Bank Rate	0.38	0.19
Quant Styles:		
Value	-0.18	-0.23
DivYld	-0.25	-0.23
Growth	0.17	0.20

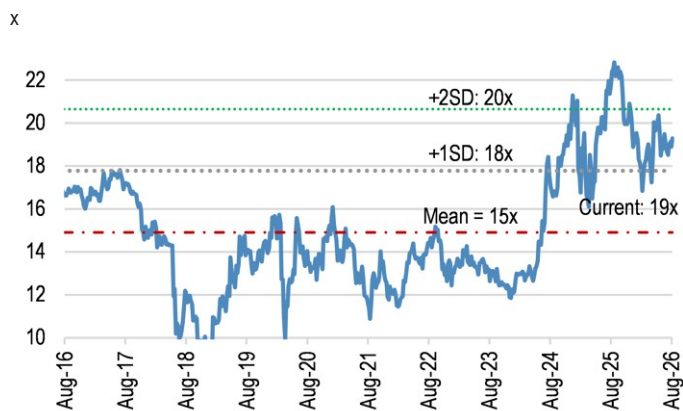
Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

Figure 1: SCGB's 12m forward P/E



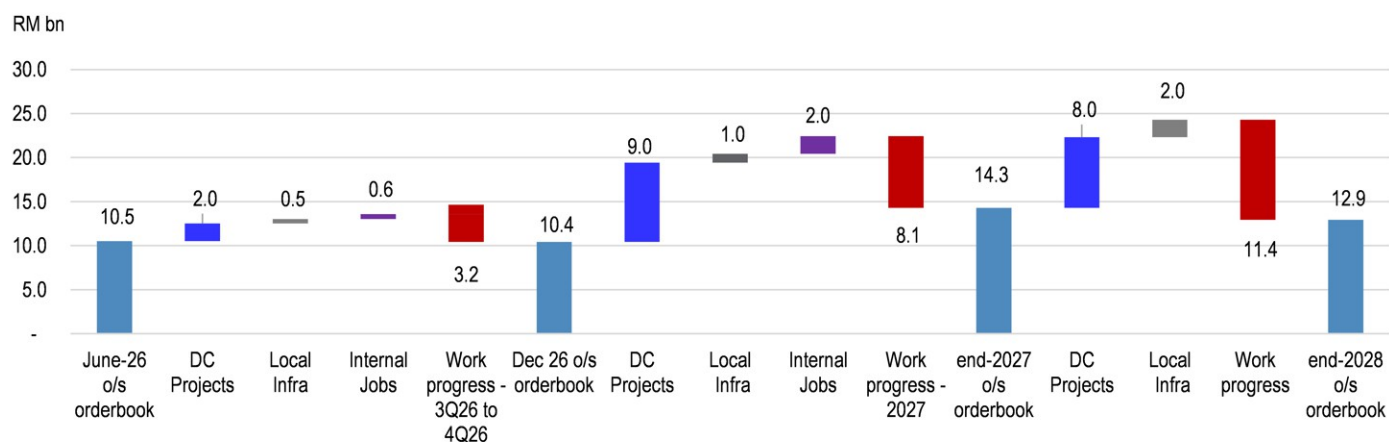
Source: Bloomberg Finance L.P.

Figure 2: GAM's 12m forward P/E



Source: Bloomberg Finance L.P.

Figure 3: SCGB orderbook - Clearer visibility, now including RM8bn FY28E replenishment



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	5,199	5,712	-9%	8,125	7,048	15%	11,373	7,510	51%
PBT	639	605	6%	865	735	18%	1,042	769	36%
% margin	12.3%	10.6%		10.6%	10.4%		9.2%	10.2%	
PATMI	437	433	1%	591	524	13%	713	545	31%
% margin	8.4%	7.6%		7.3%	7.4%		6.3%	7.3%	

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

Figure 5: Model revisions

				Current			Previous			% change		
Rating				OW			OW					
Price Target (RM)				10.90			10.50			4%		
Current share price (RM)				8.00								
% upside / (downside)				36%								
Earnings estimates				FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2026	FY2027	FY2028
Revenue - RM'm	2,671	3,522	5,339	5,199	8,125	11,373	6,031	8,171	10,729	-14%	-1%	6%
% yoy	24%	32%	52%	-3%	56%	40%	13%	57%	32%			
Orderbook - RM'm	5,325	5,830	5,673	10,471	14,626	13,532	9,713	13,822	13,373	8%	6%	1%
% yoy	0%	9%	-3%	85%	40%	-7%	71%	42%	-3%			
PBT- RM'm	189	273	525	639	865	1,042	639	859	982	0%	1%	6%
% margin	7.1%	7.8%	9.8%	12.3%	10.6%	9.2%	10.6%	10.5%	9.2%			
Core net profit - RM'm	145	187	361	437	591	713	437	587	672	0%	1%	6%
Core EPS - RM sen	11.25	14.50	27.58	33.39	45.16	54.44	33.39	44.85	51.30			
% Profit margin	5.4%	5.3%	6.8%	8.4%	7.3%	6.3%	7.2%	7.2%	6.3%			
% YoY	7%	29%	93%	21%	35%	21%	21%	34%	14%			

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Sunway Construction *(Overweight; Price Target: RM10.90)*

Investment Thesis

SCGB has built strong credibility as a DC contractor, and its tenderbook stood at RM14.2bn, of which >90% was DC-related. We expect it to win RM13bn. 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 Jun-27 PT of RM10.90 is based on 22x FY27E earnings, toward the upper end of its historical trading range, supported by improving earnings visibility.

Risks to Rating and Price Target

Downside risks 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/labor shortages.

Upside catalysts include: (1) higher-than-expected project wins; and (2) faster conversion of the tenderbook into the orderbook.

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	5,199	8,125	11,373	Cash flow from operating activities	716	1,617	1,190	1,303	1,388
COGS	(2,994)	(4,410)	(4,196)	(6,612)	(9,398)	o/w Depreciation & amortization	0	64	25	26	28
Gross profit	528	929	1,003	1,513	1,975	o/w Changes in working capital	535	1,133	679	619	568
SG&A	(302)	(466)	(444)	(699)	(994)	Cash flow from investing activities	138	(27)	(20)	(20)	(20)
Adj. EBITDA	284	470	585	840	1,009	o/w Capital expenditure	0	0	(20)	(20)	(20)
D&A	(21)	(22)	(25)	(26)	(28)	as % of sales	0.0%	0.0%	0.4%	0.2%	0.2%
Adj. EBIT	262	448	559	813	981	Cash flow from financing activities	(303)	(608)	(355)	(443)	(534)
Net Interest	11	62	80	51	61	o/w Dividends paid	(116)	(275)	(355)	(443)	(534)
Adj. PBT	273	525	639	865	1,042	o/w Shares issued/(repurchased)	0	0	0	0	0
Tax	(76)	(123)	(153)	(207)	(250)	o/w Net debt issued/(repaid)	0	0	0	0	0
Minority Interest	(10)	(40)	(49)	(66)	(80)	Net change in cash	552	977	815	839	833
Adj. Net Income	187	361	437	591	713	Adj. Free cash flow to firm	722	1,582	1,110	1,244	1,321
Reported EPS	0.14	0.28	0.33	0.45	0.54	y/y Growth	(357.4%)	119.3%	(29.9%)	12.1%	6.2%
Adj. EPS	0.14	0.28	0.33	0.45	0.54						
DPS	0.09	0.51	0.27	0.33	0.40						
Payout ratio	58.6%	182.4%	80.3%	74.0%	74.0%						
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	2,813	3,652	4,486	Gross margin	15.0%	17.4%	19.3%	18.6%	17.4%
Accounts receivable	1,501	1,311	1,485	2,321	3,250	EBITDA margin	8.1%	8.8%	11.2%	10.3%	8.9%
Inventories	43	60	70	110	157	EBIT margin	7.4%	8.4%	10.8%	10.0%	8.6%
Other current assets	1,859	1,646	1,830	2,707	3,681	Net profit margin	5.3%	6.8%	8.4%	7.3%	6.3%
Current assets	2,874	3,646	4,644	6,359	8,167	ROE	22.0%	36.8%	38.8%	47.6%	50.7%
PP&E	85	122	118	111	104	ROA	5.6%	9.0%	8.9%	9.4%	8.9%
LT investments	224	208	208	208	208	ROCE	11.3%	22.8%	29.8%	40.1%	43.7%
Other non current assets	637	656	656	656	656	SG&A/Sales	8.6%	8.7%	8.5%	8.6%	8.7%
Total assets	3,596	4,424	5,418	7,127	8,927	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	3,228	4,723	6,265	Sales/Assets (x)	1.1	1.3	1.1	1.3	1.4
Other short term liabilities	362	581	581	581	581	Assets/Equity (x)	3.9	4.1	4.4	5.0	5.7
Current liabilities	2,657	3,103	3,966	5,462	7,004	Interest cover (x)	NM	NM	NM	NM	NM
Long-term debt	0	143	143	143	143	Operating leverage	53.1%	137.0%	(952.5%)	80.8%	51.6%
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	4,119	5,614	7,157	Revenue y/y Growth	31.8%	51.6%	(2.6%)	56.3%	40.0%
Shareholders' equity	878	1,087	1,169	1,316	1,495	EBITDA y/y Growth	15.7%	65.8%	24.4%	43.7%	20.1%
Minority interests	61	81	130	196	276	EPS y/y Growth	28.8%	91.0%	20.6%	35.2%	20.6%
Total liabilities & equity	3,596	4,424	5,418	7,127	8,927	Valuation					
BVPS	0.68	0.83	0.88	0.99	1.13		FY24A	FY25A	FY26E	FY27E	FY28E
y/y Growth	7.0%	22.4%	5.7%	12.6%	13.5%	P/E (x)	55.2	28.9	24.0	17.7	14.7
Net debt/(cash)	(285)	(1,700)	(2,513)	(3,352)	(4,185)	P/BV (x)	11.7	9.6	9.1	8.1	7.1
						EV/EBITDA (x)	36.0	18.8	13.8	8.7	6.5
						Dividend Yield	1.1%	6.3%	3.4%	4.2%	5.0%

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



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**	83%	80%	73%
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IB clients**	95%	92%	87%

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