SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

BUY

(MAINTAINED)

Price: RM7.50

Target Price (% return): RM11.00 (+52%)

52-week High/Low: RM8.58/RM5.36

Construction

Rationale for report: Company Result

Margin Resilience Shines Through

Sunway Construction's 9MFY26 core net profit of RM316.6mil (+26.4% YoY) was in line with expectations, as stronger construction margins offset lower-than-expected revenue. We now assume a more gradual pace of revenue recognition, shifting part of the revenue previously forecast for FY26F and FY27F into FY28F. Higher margin assumptions keep FY26F and FY27F earnings broadly steady, while the shift in revenue recognition supports a 22.9% upgrade to FY28F earnings. Maintain BUY with an unchanged TP of RM11.00.

- **Keep BUY with TP of RM11.00.** We apply a 22.4x P/E, 1SD above the five-year historical average, to FY27F EPS of 49.1 sen. The premium reflects earnings visibility from SunCon's record RM12.5bil outstanding orderbook, RM1.4bil net cash position and industry-leading margin profile.
- **Margins support earnings.** 3QFY26 reported PATAMI rose 25.4% YoY and 1.4% QoQ to RM105.1mil despite a 25.8% YoY decline in revenue to RM1.1bil. Favourable projects mix lifted construction PBT margin to 13.1% from 8.9%. After factoring in non-recurring income totalling RM4.3mil this quarter, 9MFY26 core earnings rose 26.4% to RM316.6mil, accounting for 75% and 72% of ours and consensus forecasts, respectively.
- **Tender book expands after Serendah win.** The tender book grew 39% in two weeks to RM15.7bil (80% DC) from RM11.3bil (65% DC). With FY26 YTD wins at RM9.8bil, of which 93% are data centre contracts, we retain our RM10bil replenishment assumption. We expect no direct impact from the latest US chip curbs on SunCon's secured and future data centre projects, which we believe are all for US clients. Qualifying shipments to these clients are expected to be excluded from the new licensing requirement.
- **Raised FY28F earnings and FY26F dividends.** We assume a more gradual pace of revenue recognition, cutting FY26F/FY27F revenue by 29.2%/11.8% and shifting part of that revenue into FY28F, lifting FY28F revenue by 9.0%. Higher margin assumptions keep FY26F/FY27F earnings broadly constant and, together with revised revenue timing, lift FY28F earnings by 22.9%. The 7.9 sen third interim dividend brings 9MFY26 DPS to 34.7 sen, representing a payout ratio of 146% based on 9MFY26 core EPS of 23.8 sen. We raise our FY26F payout assumption to 135% from 100%, lifting FY26F DPS to 42.8 sen from 31.7 sen, implying a 5.7% yield at current levels.

YE to Dec	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	5,338.7	4,280.0	8,031.4	9,215.0
Core net profit (RM mil)	361.8	421.0	652.8	751.0
FD Core EPS (sen)	27.2	31.7	49.1	56.5
FD Core EPS growth (%)	93.7	16.4	55.0	15.1
Consensus Net Profit (RM mil)	-	436.9	521.8	573.8
DPS (sen)	50.5	42.8	39.3	39.6
PE (x)	27.5	23.7	15.3	13.3
EV/EBITDA (x)	17.7	16.7	10.3	8.6
Div yield (%)	6.7	5.7	5.2	5.3
ROE (%)	43.5	52.5	64.6	51.5
Net Gearing (%)	nm	nm	nm	nm

Source: Sunway Construction, AmInvestment Bank Bhd.

Analyst (s)

Tan Wai Wern
tan.wai-wern@ambankgroup.com
+603 2036 2301

Key Changes

Target Price:	⇔
EPS:	⇔

Stock and Financial Data

Shares Outstanding (million)	1,328.1
Market Cap (RMmil)	9,960.9
Book Value (RM/Share)	0.65
P/BV (x)	11.5
ROE (%)	43.5
Net Gearing (%)	-
Free Float	36.0
Avg Daily Value (RMmil)	30.2

Major Shareholders

Sunway Holdings Sdn Bhd	(52.8%)
Employees Provident Fund Board	(7.1%)
Sungei Way Corp Sdn Bhd	(5.5%)

Price performance	3mth	6mth	12mth
Absolute(%)	(7.3)	5.0	36.0
Relative(%)	2.5	15.8	41.0

Source: Sunway Construction, AmInvestment Bank Bhd.

Price Chart

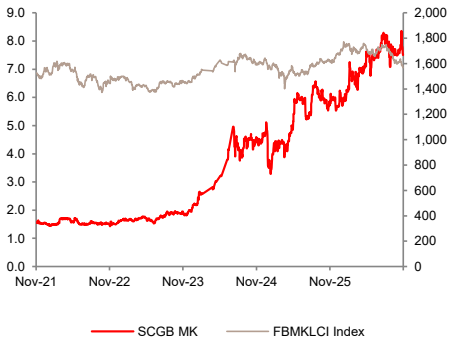


EXHIBIT 1. 9MFY26 Earnings Summary

FYE Dec (RM 'mil)	3QFY26	3QFY25	YoY %	2QFY26	QoQ %	9MFY26	9MFY25	YoY %
Revenue	1,072.7	1,445.2	-25.8	1,017.7	5.4	3,113.1	4,322.6	-28.0
EBIT	113.6	95.7	18.8	111.3	2.1	359.6	294.2	22.2
PBT	**135.2**	**127.1**	**6.4**	**131.3**	**3.0**	**421.2**	**362.9**	**16.1**
Taxation	-28.5	-30.7	-7.0	-25.5	11.7	-91.7	-86.5	6.0
Minority interest	-1.6	-12.6	-87.0	-2.2	-24.8	-2.4	-33.0	-92.6
PATAMI	**105.1**	**83.8**	**25.4**	**103.6**	**1.4**	**327.1**	**243.4**	**34.4**
Core Net Profit	**100.8**	**90.0**	**12.0**	**103.4**	**-2.5**	**316.6**	**250.5**	**26.4**
EPS (sen)	**7.6**	**6.8**	**12.0**	**7.8**	**-2.5**	**23.8**	**18.9**	**26.4**
DPS (sen)	**7.9**	**29.3**	**-73.0**	**4.0**	**97.5**	**34.7**	**41.5**	**-16.4**
Payout ratio	**104.1**	**431.6**		**51.4**		**145.6**	**220.1**	
Margins (%)			**+/-ppt**		**+/-ppt**			**+/-ppt**
EBIT Margin %	10.6	6.6	4.0	10.9	-0.3	11.6	6.8	4.7
PBT Margin %	12.6	8.8	3.8	12.9	-0.3	13.5	8.4	5.1
Effective Tax Rate %	21.1	24.1	-3.0	19.4	1.6	21.8	23.8	-2.1
Core Net Profit Margin %	9.4	6.2	3.2	10.2	-0.8	10.2	5.8	4.4

Source: Company, AmInvestment Bank Bhd.

EXHIBIT 2. 9MFY26 Segmental Revenue

FYE Dec (RM 'mil)	3QFY26	3QFY25	YoY %	2QFY26	QoQ %	9MFY26	9MFY25	YoY %
Construction	995.2	1,387.4	-28.3	941.6	5.7	2,887.3	4,190.8	-31.1
Precast Concrete	77.6	57.8	34.2	76.1	2.0	225.8	131.8	71.3
Total	1,072.7	1,445.2	-25.8	1,017.7	5.4	3,113.1	4,322.6	-28.0

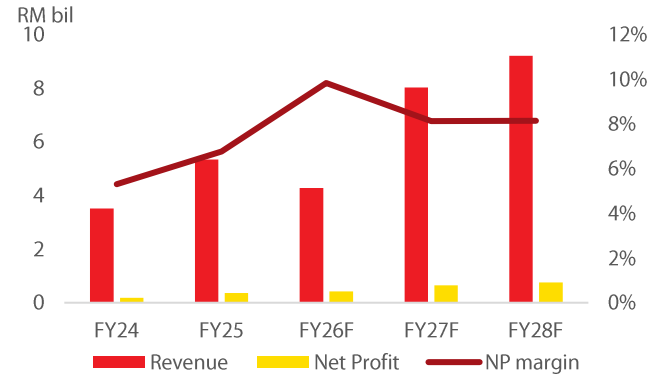
Source: Company, AmInvestment Bank Bhd.

EXHIBIT 3. 9MFY26 Segmental PAT

FYE Dec (RM 'mil)	3QFY26	3QFY25	YoY %	2QFY26	QoQ %	9MFY26	9MFY25	YoY %
Construction	103.0	93.4	10.2	100.8	2.2	315.6	271.3	16.3
Precast Concrete	3.7	2.9	24.7	5.0	-26.2	13.9	5.0	176.7
Total	106.7	96.4	10.7	105.8	0.9	329.5	276.4	19.2

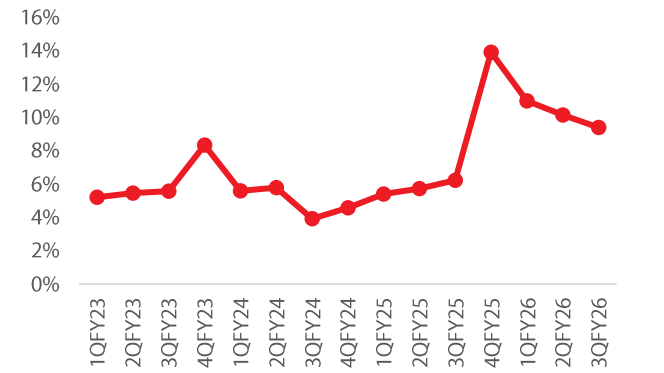
Source: Company, AmInvestment Bank Bhd.

EXHIBIT 4. Revenue, Net Profit and NP Margin Forecasts



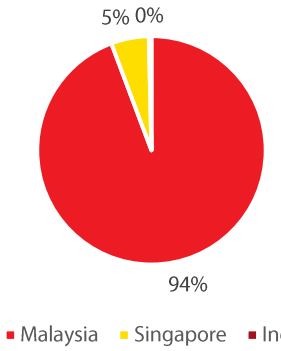
Source: Company, AmInvestment Bank Bhd.

EXHIBIT 5. Historical Core PATAMI Margins



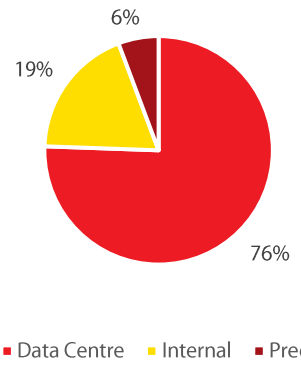
Source: Company, AmInvestment Bank Bhd.

EXHIBIT 6. RM12.5bil Outstanding Orderbook by Country



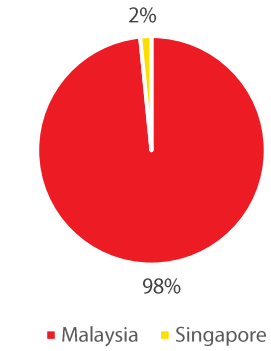
Source: Company, AmInvestment Bank Bhd.

EXHIBIT 7. RM12.5bil Outstanding Orderbook by Sector



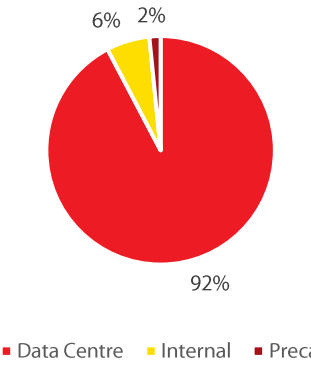
Source: Company, AmInvestment Bank Bhd.

EXHIBIT 8. RM9.8bil YTD Orderbook Replenishment by Country



Source: Company, AmInvestment Bank Bhd.

EXHIBIT 9. RM9.8bil YTD Orderbook Replenishment by Sector



Source: Company, AmInvestment Bank Bhd.

EXHIBIT 10. Changes to Earnings

	FY26			FY27			FY28		
RM mil	Old	New	%	Old	New	%	Old	New	%
Revenue	6,044.8	4,280.0	-29.2%	9,108.6	8,031.4	-11.8%	8,456.1	9,215.0	9.0%
EBIT	496.6	531.7	7.1%	748.3	770.7	3.0%	684.8	869.8	27.0%
PATAMI	421.1	421.0	0.0%	655.0	652.8	-0.3%	611.0	751.0	22.9%
EPS	31.7	31.7	0.0%	49.3	49.1	-0.3%	46.0	56.5	22.9%
DPS	31.7	42.8	35.0%	39.5	39.3	-0.5%	32.2	39.6	22.9%

Source: Company, AmInvestment Bank Bhd.

EXHIBIT 11. Changes to Assumptions

	FY26			FY27			FY28		
	Old	New	%	Old	New	%	Old	New	%
PAT Margin	7.3%	10.4%	3.0%	7.6%	8.6%	1.0%	7.6%	8.6%	0.9%
Dividend Payout Ratio	100%	135%	35.0%	80%	80%	0.0%	70%	70%	0.0%

Source: Company, AmInvestment Bank Bhd.

EXHIBIT 8. Valuation

Target PE (x)	22.4
FY27F EPS (sen)	49.1
ESG Premium	0%
Target Price (RM)	11.00

Source: AmInvestment Bank Bhd.

Company Profile

Integrated construction and engineering group with strong recurring internal projects

Sunway Construction Group Berhad is an integrated construction and engineering group with capabilities spanning building construction, civil infrastructure, mechanical and electrical works, and precast manufacturing. The Group has established a strong execution track record across technically complex projects and has emerged as one of Malaysia's leading contractors for hyperscale data centres.

SunCon benefits from two complementary sources of contract replenishment. External data centre awards provide strong growth and margin potential, while recurring internal projects from the broader Sunway ecosystem offer a visible pipeline across healthcare, property and other developments. Its RM12.5bil unbilled order book currently comprises 76% data centre projects, 19% internal jobs and 5% other projects.

Investment Thesis and Catalyst

DC-led expansion underway.

We maintain a positive view on SunCon, supported by its record order book, strong data centre exposure and recurring internal project pipeline. The RM12.5bil order book represents a book-to-bill ratio of 2.0x and provides strong medium-term earnings visibility. With FY26 YTD contract wins of RM9.8bil and an outstanding tender book of RM15.7bil, of which 80% is data centre-related, we expect annual order book replenishment of RM8bil to RM10bil over FY26F to FY28F.

Potential catalysts include further hyperscale data centre awards and stronger-than-expected margins as higher-margin data centre projects form a larger share of revenue. Management's commitment to enhanced shareholder returns is another rerating catalyst, with prospective dividend yield of 5% supported by robust FCF generation and RM1.4bil net cash position.

Valuation Methodology

Maintain BUY at unchanged TP of RM11.00.

We maintain BUY with an unchanged target price of RM11.00, based on 22.4x P/E (+1SD above five-year historical average), applied to FY27F EPS of 49.1 sen. The premium valuation reflects its stronger earnings growth, high data centre exposure, robust cash generation and attractive dividend outlook.

Risk Factors

Moderation in data centre investment. Data centre projects account for 76% of SunCon's current order book and 80% of outstanding tender pipeline. A slowdown in hyperscaler capital expenditure, tighter regulatory approvals or constraints relating to power and water availability could delay project awards and result in weaker-than-expected order book replenishment.

Project execution and margin risk. Our earnings forecasts assume timely project execution and a net profit margin of 8.6%, supported by the growing contribution from data centre projects. Construction delays, cost overruns, subcontractor issues or unexpected increases in labour and material costs could affect project progress and prevent anticipated margin expansion from materialising.

Lower-than-expected capital returns. Our investment thesis assumes dividend payout ratios of 130%, 80% and 70% for upcoming FYs. A deterioration in cash conversion or higher working capital requirements could result in weaker dividends and weaken justification for SunCon's premium valuation.

Financial Summary

Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue	3,521.6	5,338.7	4,280.0	8,031.4	9,215.0
EBITDA	279.3	465.4	544.6	794.8	897.5
Depreciation/Amortisation	(17.3)	(17.2)	(12.8)	(24.1)	(27.6)
Operating income (EBIT)	262.1	448.2	531.7	770.7	869.8
Other income & associates	0.3	15.3	15.3	15.3	15.3
Net interest	10.5	61.9	36.1	118.1	155.1
Exceptional items	-	-	-	-	-
Pretax profit	**272.9**	**525.5**	**583.1**	**904.1**	**1,040.2**
Taxation	(75.9)	(123.5)	(139.9)	(217.0)	(249.7)
Minorities/pref dividends	(10.1)	(40.3)	(22.2)	(34.4)	(39.5)
Net profit	**186.8**	**361.8**	**421.0**	**652.8**	**751.0**
Core net profit	186.8	361.8	421.0	652.8	751.0

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	85.4	122.1	152.0	208.3	272.8
Intangible assets	-	-	-	-	-
Other long-term assets	636.4	656.0	721.6	859.7	1,019.0
Total non-current assets	**721.8**	**778.0**	**873.6**	**1,068.0**	**1,291.8**
Cash & equivalent	1,015.8	2,000.1	1,148.6	1,973.4	2,375.3
Stock	43.3	60.1	51.7	100.5	115.5
Trade debtors	1,578.9	1,386.7	1,138.2	2,488.8	2,914.8
Other current assets	236.5	199.1	199.1	199.1	199.1
Total current assets	**2,874.4**	**3,646.0**	**2,537.7**	**4,761.8**	**5,604.7**
Trade creditors	1,910.1	3,175.9	2,196.7	4,276.6	4,917.6
Short-term borrowings	730.6	157.7	130.0	100.0	70.0
Other current liabilities	15.9	72.1	37.4	72.4	83.2
Total current liabilities	**2,656.6**	**3,405.7**	**2,364.0**	**4,449.0**	**5,070.8**
Long-term borrowings	-	142.5	136.1	88.6	19.9
Other long-term liabilities	1.2	10.5	10.5	10.5	10.5
Total long-term liabilities	**1.2**	**153.0**	**146.6**	**99.0**	**30.3**
Shareholders' funds	**877.9**	**783.9**	**819.3**	**1,200.4**	**1,713.9**
Minority interests	60.6	81.4	81.4	81.4	81.4
BV/share (RM)	0.71	0.65	0.68	0.97	1.35

Cash Flow (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	272.9	525.5	583.1	904.1	1,040.2
Depreciation/Amortisation	17.3	17.2	12.8	24.1	27.6
Net change in working capital	534.7	1,134.9	(757.1)	715.7	210.7
Others	(108.4)	(58.6)	(63.4)	(126.3)	(144.8)
Cash flow from operations	**716.4**	**1,619.1**	**(224.6)**	**1,517.6**	**1,133.9**
Capital expenditure	(9.4)	(44.1)	(42.8)	(80.3)	(92.2)
Net investments & sale of fixed assets	6.6	22.0	-	-	-
Others	141.3	(7.0)	20.0	22.5	25.0
Cash flow from investing	**138.4**	**(29.1)**	**(22.8)**	**(57.8)**	**(67.2)**
Debt raised/(repaid)	(163.6)	(415.6)	(34.1)	(77.5)	(98.7)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(116.0)	(274.8)	(547.3)	(522.2)	(525.7)
Others	(23.7)	82.8	(22.2)	(34.4)	(39.5)
Cash flow from financing	**(303.4)**	**(607.6)**	**(603.6)**	**(634.1)**	**(664.0)**
Net cash flow	**551.5**	**982.4**	**(851.0)**	**825.6**	**402.7**
Net cash/(debt) b/f	**463.5**	**1,022.8**	**2,000.1**	**1,148.6**	**1,973.4**
Net cash/(debt) c/f	**1,015.8**	**2,000.1**	**1,148.6**	**1,973.4**	**2,375.3**

Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	31.8	51.6	(19.8)	87.7	14.7
EBITDA growth (%)	13.9	66.6	17.0	46.0	12.9
Pretax margin (%)	7.7	9.8	13.6	11.3	11.3
Net profit margin (%)	5.3	6.8	9.8	8.1	8.2
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	27.8	23.5	24.0	24.0	24.0
Dividend payout (%)	62.1	76.0	135.0	80.0	70.0
Debtors turnover (days)	82	101	108	82	107
Stock turnover (days)	2	4	5	3	4
Creditors turnover (days)	99	174	229	147	182

Source: Company, AmInvestment Bank Bhd.

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad ("AmInvestment") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constituteAmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located. If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.