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## SunCon To Benefit From Malaysia's Digitalisation And Infrastructure Development Initiatives

By **Business Today Editorial** - January 20, 2025



RHB Investment Bank Bhd (RHB Research) has reiterated its **BUY** call on Sunway Construction Group Bhd (SunCon), with a target price (TP) of RM5.50. The research house mentioned that the recent artificial intelligence (AI) chip export restrictions imposed by the US government on Tier-2 countries, including Malaysia, are expected to have minimal impact on SunCon's prospects due to the company's strong ties with clients from Tier-1 countries.

Despite the sell-off in SunCon's shares, RHB Research opined that its data centre (DC) projects remain well-positioned. Approximately 80%-90% of SunCon's DC order book and active tenders, which amount to RM11 billion as of September 2024, are tied to clients headquartered in Tier-1 countries. Many of these clients are expected to apply for Universal Validated End-User status, allowing them to access larger quantities of AI chips, mitigating the effects of US policy changes.

SunCon's involvement in the JHBX10 DC project in Johor has already yielded RM3.9 billion worth of contracts, covering 100MW to 150MW of planned capacity. With the total projected capacity of the JHBX10 DC estimated to be between 200MW and 300MW, future expansion works are anticipated, providing additional opportunities for SunCon to secure contracts.

Beyond DCs, SunCon is positioned to benefit from the nation's broader digitalisation and infrastructure development initiatives. These include the potential award of Segment 2 of the Penang Light Rail Transit project and upcoming medical centre developments by its parent company, Sunway Group. The nation's push for digitalisation and continued investments by global technology players are expected to ensure robust demand for SunCon's services in the foreseeable future.

RHB Research retained its earnings estimates for SunCon, emphasising that the stock's current trading valuation of 18.9 times FY25 price-to-earnings (P/E) is near the levels observed during the 2017 construction upcycle, a period that lacked the current data centre opportunities. The TP of RM5.50 incorporates a 6% premium for environmental, social and governance factors and is based on a forward price-to-earnings of 27 times FY25 earnings, reflecting SunCon's market leadership and alignment with global digitalisation trends.

With its robust order book, the potential for further contract wins and strategic alignment with Tier-1 data centre clients, SunCon remains a compelling proposition for investors, according to RHB Research. The primary downside risks identified were slower-than-expected order replenishment and potential delays in major project awards.