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SunCon Unperturbed By Intensifying Competition In DC Space

By *Business Today Editorial* July 18, 2025

MBSB Investment Bank Bhd (MBSB Research) has maintained a BUY call on Sunway Construction Group Bhd (SunCon), keeping its target price unchanged at RM6.44. The research house highlighted that the company's earnings outlook remains solid, supported by a strong order book exceeding RM7.9 billion as of May 2025, over half of which is made up of data centre (DC) contracts.

Despite intensifying competition in the DC segment, MBSB Research noted that SunCon's established track record and early mover advantage in completing over 100MW of hyperscale DC capacity positions it well for continued growth.

The company's pipeline of data centre projects remains healthy, buoyed by aggressive land acquisitions by major global operators and ongoing tender activity. SunCon management, following its latest engagement on July 15 2025, expressed confidence that demand for DC construction remains resilient, even amid expanded U.S. chip export restrictions.

Management observed increased momentum among lease-based hyperscale clients, especially U.S. multinationals, which are actively bidding out additional packages. The recently announced increase in electricity tariffs by Tenaga Nasional Bhd is not expected to significantly affect contractors like SunCon, as most energy usage occurs only during final project commissioning.

SunCon's flagship Johor-based Yondr project is ahead of schedule and expected to be completed by end-2025. This will allow the company to redeploy critical resources to other ongoing DC tenders, several of which are expected to be awarded between late July and early August.

In locations such as Sedenak, Johor, where land and power infrastructure remain ample, the potential for further phases remains high. Analysts believe SunCon is well placed to benefit as multiple US-listed DC firms that have secured land begin to roll out new development phases.

Looking beyond the current DC cycle, the company has already outlined plans to diversify into larger infrastructure projects. These include the Penang Airport expansion, MRT3 and the LRT Mutiara Line, all of which are expected to launch over the medium term. In addition, SunCon aims to expand its DC capabilities across ASEAN, while continuing to support Sunway Group's healthcare and property development segments domestically.

However, SunCon's precast segment is currently underperforming. Revenue for 1QFY25 declined nearly 50% year-on-year due to project delays by Singaporean main contractors, on whom SunCon relies as a subcontractor. Although the company holds a sizeable RM722 million precast order book, revenue contributions are expected to remain muted through FY25, with recovery only anticipated in FY26. Management noted that its precast infrastructure is tailored for Singapore's HDB market, making exports more lucrative than internal use for DC construction.

Meanwhile, the upcoming Sales and Service Tax (SST) implementation from September 2025 will raise construction costs by 6%. SunCon is currently engaging with authorities for further clarification but expects the cost to be largely borne by clients, including hyperscalers. In response, the company is trimming its internal plant holdings and pivoting toward subcontractor-led equipment models to mitigate cost pressures.

SunCon is also divesting its Indian infrastructure asset, freeing up cash for other opportunities, particularly in renewable energy and high-tech construction. While the company views India's local infrastructure market as overly competitive, it remains interested in entering India's data centre and semiconductor space post-saturation in Malaysia. Domestically, SunCon is open to participating in PPP and PFI infrastructure models, although solar projects remain less attractive due to compressed margins.