Sunway Construction (SCGB MK)

Retracement Offers Opportunities; Upgrade To BUY

Highlights

- Suncon has achieved a record-high orderbook of RM10.5b. We remain confident that the group will achieve its orderbook replenishment of RM7b-9b in 2026.
- Suncon's implied dividend yield of 4.8-6.5% for 2026-27 (based on 100% dividend payout assumptions) remains appealing. Upgrade to BUY with an unchanged target price of RM8.44, which implies 22x 2027F PE.

Analysis

- **Multi-year earnings growth remains intact; orderbook replenishment targets further revised upwards.** Following the recent contracts wins, Sunway Construction (Suncon) has secured around RM6.9b in new jobs ytd. Management now targets to secure a RM7b-9b orderbook replenishment in 2026, raised from its initial target of RM6b. Suncon's outstanding orderbook also stands tall at a record-high of RM10.5b (1.7x orderbook cover). We remain optimistic that the group's RM7b-9b orderbook replenishment target in 2026 is highly attainable, well supported by data centre (DC)-related contracts.
- **Resilient tenderbook pipeline with upsizing opportunities.** With a healthy tenderbook of over RM14.2b, we are also optimistic that Suncon will be able to deliver earnings growth of 8-29% during 2026-28. The group is well positioned to clinch more contracts, with notable ones in the pipeline for 2H26-2027 including: a) multiple DC contracts (RM4b-6b); b) residential contracts for Rapid Transit System Transport Oriented Development (RTS TOD) at Bukit Chagar (RM350m-500m); c) internal project flows from parent company Sunway Berhad (potentially RM2b-3b); and d) various precast orders (~RM1b). Meanwhile, Suncon may also secure the MRT 3 civil packages (landbank acquisition completing in end-26) based on its past track records.
- **Valuations appear palatable after recent share price correction.** Suncon's share price has retraced as much as 16% in 2H26 thus far, mainly reflecting: a) profit taking after the stellar share price rally of >50%, and b) the ongoing Middle East tensions. Meanwhile, the sharp withdrawal of foreign funds from Malaysian equities also hurts sentiment. In our opinion, Suncon's current valuation poses palatable capital upside opportunities based on our forecasted earnings trajectories. Suncon is currently trading at 19x 2027F PE (five-year mean).

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,521.7	5,338.7	5,836.7	6,312.2	6,450.0
EBITDA	279.4	469.2	524.7	558.6	588.3
Operating profit	262.2	448.2	495.6	532.6	564.2
Net profit (rep./act.)	186.9	361.8	466.7	503.3	536.1
Net profit (adj.)	167.2	425.1	466.7	503.3	536.1
EPS	13.0	33.0	36.2	39.0	41.6
PE (x)	58.2	22.9	20.9	19.4	18.2
P/B (x)	11.1	9.0	10.1	10.2	10.3
EV/EBITDA (x)	30.5	18.2	16.2	15.3	14.5
Dividend yield (%)	1.1	6.7	6.1	5.2	5.6
Net margin (%)	5.3	6.8	8.0	8.0	8.3
Net debt/(cash) to equity (%)	(32.5)	(156.4)	(171.4)	(189.5)	(197.4)
ROE (%)	n.a	n.a	n.a	n.a	n.a
Consensus net profit	n.a	n.a	427.7	509.3	533.9
UOBKH/Consensus (x)	n.a	n.a	1.1	1.0	1.0

Source: Suncon, Bloomberg, UOB Kay Hian

Analyst(s)

Jack Goh
jackgoh@uobkh.com
(03) 2147 1943

Jack Lai
jacklai@uobkh.com
(03) 2147 1983

BUY (Upgraded)

Share Price	RM7.57
Target Price	RM8.44
Upside	11.5%

Stock Data

Sector	Industrials
Bloomberg ticker	SCGB MK
Shares issued (m)	1,332.1
Market cap (RMm)	10,085.4
Market cap (US$m)	2,472.5
3-mth avg daily t'over (US$m)	6.0

Price Performance (%)

52-week high/low: RM8.40/RM5.33

1mth	3mth	6mth	1yr	YTD
(4.2)	0.9	14.0	21.7	33.7

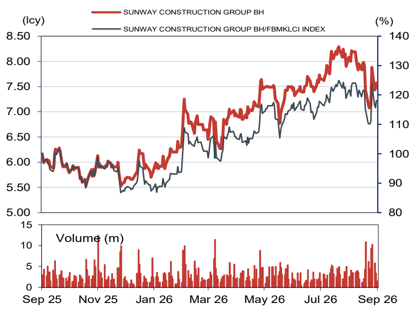
Major Shareholders (%)

Sunway Holdings Sdn Bhd	52.8
Employees Provident Fund Board	5.7
Sungei Way Corp Sdn Bhd	5.5

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.8
FY26 Net Debt/Share (RM)	(1.3)

Price Chart



Source: Bloomberg

Company Description

A leading construction company in Malaysia.

- **Feeling the heartbeat of DC-powered growth.** Note that Suncon secured three DC contracts worth RM2.9b in 2025, and other DC contracts worth approximately RM6.3b ytd. The group currently has three completed and 10 ongoing DC projects with a combined 330MW IT load, with DC works making up 70% of the total outstanding orderbook. Of the current tenderbook of about RM14.2b, above 80% are DC-related. Suncon is also still bidding for a few DC projects with a combined IT load of over 700MW (estimated value of RM11b-13b) that may be awarded within 2026-27. Overall, we assess that Suncon is in a good position to win several DC bids within 2026-27.
- **Attractive yield and capital management upside.** Suncon is in a net cash position of about RM1.2b currently, reflecting an improving trend over the last two years following better earnings and improved cash flow conversion. In line with the yoy earnings growth, we forecast a 100-143% dividend payout ratio in 2026-28, implying a lush prospective yield of 5.2-6.1%. We also do not rule out further special dividends as the group has sufficient room for better capital management.
- **Internal job flows supporting growth trajectories.** We forecast a RM1b orderbook replenishment from Suncon's parent company, Sunway Berhad, in 2026 and 2027. Several potential internal project flows in the pipeline include: a) Sunway Medical's hospital expansion, b) Sunway's new property launches of RM2b-3b p.a. in the coming years, c) multiple capacity expansions of medical centres, and d) potential renovation and refurbishment works for Sunway's existing hotels and malls. We believe that these internal projects will be doled out by Sunway in stages throughout 2026-27, and earnings translation is likely to be spread out across years.
- **Manageable impact from various input cost accelerations.** To recap, the elevated diesel prices due to the Middle East tensions, earlier higher sales and service tax (from 6% to 8%), implementation of diesel subsidy rationalisation, and higher labour costs following minimum wage revisions have raised concerns about cost hikes for certain building material costs (especially cement and premix concrete). Nevertheless, management alluded that the impact is negligible given larger contract sizes, and the group has avenues to partially pass through these costs. Overall, we assess that the negative earnings impact from these input costs increase is within 3%.

Valuation/Recommendation

- **Upgrade to BUY with an unchanged target price of RM8.44,** following the recent share price retracement. Our target price is pegged to 21.6x 2027F PE (+1SD above the five-year mean of 18x).
- **Key upside risks to our rating and target price** include: a) higher-than-expected contract wins, b) escalating rollout of mega projects, and c) improving institutional or foreign shareholdings which will further tighten the stock's liquidity (floating shares of about 20%).

Environment, Social, Governance (ESG) Updates

Environmental

- Mitigate the release of emissions, biodiversity impacts, waste disposal, pollution.

Social

- Work with local authorities and communities to ensure projects' success.

Governance

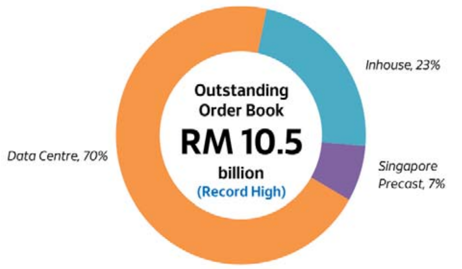
- Independent directors (four out of seven) comprise the majority of the board.

Outstanding Orderbook As Of End-2Q26

Projects	(RMm)
JHB1X0 Data Centre	139
JHB01 Data Centre	1,346
K2 Phase 2 Data Centre	53
RTS Link Package 1B & 5	10
Daiso Warehouse	25
PSR -MNC	81
PSR – MNC - JB01	558
PSR – MNC - JB02	346
General DC Contractor Work - Shell 1 - MNC	788
General DC Contractor Work - Shell 2 - MNC	2,295
Serendah DC	1,750
India Highways	51
Total External (A)	7,419
RTS TOD	1,054
Sunway Square Superstructure+VO	124
SW Ipoh Mall	864
Sunmed PH3 fit-out	31
Sunway Medical Iskandar	400
Sunway Sanctuary Fit-out Works	20
Total Internal (B)	2,369
Precast Concrete (C)	727
Grand Total (A+B+C)	10,515

Source: Suncon

Orderbook



Source: Suncon

Segmental Forecasts

(RMm)	2025	2026F	2027F
Revenue	5,339	5,837	6,312
- Construction	5,132	5,513	6,141
- Precast Concrete	207	324	171
Operating profit	448	496	533
- Construction	446	460	514
- Precast Concrete	2	36	19
Orderbook replenishment assumptions			
- Construction	4,500	7,000	6,000
- Precast Concrete	300	300	300

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	5,339	5,837	6,312	6,450
EBITDA	469	525	559	588
Deprec. & amort.	21	29	26	24
EBIT	448	496	533	564
Associate contributions	15	17	19	20
Net interest income/(expense)	62	95	104	113
Pre-tax profit	526	607	655	698
Tax	(123)	(134)	(144)	(154)
Minorities	(40)	(7)	(8)	(8)
Preferred dividends	362	467	503	536
Net profit	425	467	503	536
Net profit (adj.)	5,339	5,837	6,312	6,450

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	122	112	107	105
Other LT assets	656	759	778	797
Cash/ST investment	2,000	1,898	2,008	2,016
Other current assets	1,646	1,748	1,838	1,826
Total assets	4,424	4,518	4,730	4,745
ST debt	158	131	105	79
Other current liabilities	2,945	3,208	3,470	3,534
LT debt	143	119	95	71
Other LT liabilities	10	10	10	10
Shareholders' equity	1,087	961	954	946
Minority interest	81	89	96	104
Total liabilities & equity	4,424	4,518	4,730	4,745

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	1,617	647	691	624
Pre-tax profit	526	607	655	698
Tax	(107)	(134)	(144)	(154)
Deprec. & amort.	21	29	26	24
Associates	(15)	(17)	(19)	(20)
Working capital changes	1,133	160	173	76
Other operating cashflows	60	0	0	0
Investing	(27)	(19)	(21)	(21)
Capex (growth)	(44)	(19)	(21)	(21)
Investments	(164)	0	0	0
Proceeds from sale of assets	24	0	0	0
Others	(7)	0	0	0
Financing	(608)	(642)	(561)	(594)
Dividend payments	(305)	(592)	(511)	(544)
Proceeds from borrowings	(422)	(50)	(50)	(50)
Others/interest paid	119	0	0	0
Net cash inflow (outflow)	982	(15)	109	9
Beginning cash & cash equivalent	936	1,914	1,898	2,008
Changes due to forex impact	(5)	0	0	0
Ending cash & cash equivalent	2,000	1,898	2,008	2,016

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	8.8	9.0	8.8	9.1
Pre-tax margin	9.8	10.4	10.4	10.8
Net margin	6.8	8.0	8.0	8.3
ROA	11.4	14.5	15.2	16.1
ROE	42.0	58.4	63.3	67.8
Growth				
Net profit (adj.)	154.2	9.8	7.8	6.5
EPS	154.2	9.8	7.8	6.5
Leverage				
Debt to total capital	25.7	23.8	19.1	14.3
Debt to equity	27.6	26.0	21.0	15.9
Net debt/(cash) to equity	(156.4)	(171.4)	(189.5)	(197.4)