

6.16/3.29

8.0%

# Sunway Construction Group (SCGB MK)

# Expect knee jerk reaction from potential US AI rules

#### Laying out the possible scenarios

We expect a negative knee jerk reaction following news on the United States planning to restrict shipment of AI chips to Malaysia. We leave our earnings estimates unchanged as we believe it premature to pass judgement. However, we highlight 2 possible scenarios:- i) worst case fair value of MYR2.16 if annual job wins fall to MYR1.6b; and ii) share price falling to as low as MYR3.36 on PER derating to trough levels. Our current TP of MYR6.72 and BUY rating is premised on annual job wins of MYR7.0b.

#### Al chip curbs may bring DC jobs to a halt

News over the weekend on the United States (US) planning to restrict shipments of artificial intelligence (AI) chips that power data centres (DC) to Malaysia (<u>link</u>) suggests that the construction of DCs may decelerate and affect contractors such as SCGB. Of all the contractors under our coverage, SCGB is the most exposed to DCs. As at 31 May 2025, DCs account for 51% of its MYR7.9b outstanding orderbook and 54% of its MYR3.5b YTD job wins (Fig. 1).

#### MYR2.16 worst case fair value if no more DC jobs

From FY20-FY24A, SCGB won an average of MYR1.6b of non-DC jobs p.a. (Fig. 3). Its YTD job wins of MYR3.5b comprised 54% DCs and 46% non-DCs. Assuming SCGB does not win any more DC jobs from 2H25E but only wins MYR1.6b of non-DC jobs p.a. (half year impact in 2H25E), our FY25E/FY26E/FY27E EPS could reduce by 5%/43%/67%. (Fig. 4). Ascribing 19x PER (12M forward PER mean rather than our current +1SD) to FY27E EPS, by when the lower job wins would have largely played out, a situational 'worst case' fair value works out to be MYR2.16.

#### Near term derating likely, in our view

Our MYR6.72 TP is based on 24x F26E PER (+1SD to 12M forward PER mean). The same article stated that the planned restriction could change and include exemptions. Thus, we think it premature to cut our earnings estimates. That said, we postulate that if FY26E PER valuations derate to 19x (12M forward PER mean), 14x (-1 SD to 12M forward PER mean) and 12x (trough 12 forward PER mean in the last 5 years), SCGB's share price could fall to MYR5.32, MYR3.92 and MYR3.36 respectively (Fig. 7).

FYE Dec (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	2,671	3,522	5,625	5,987	7,788
EBITDA	245	279	458	491	633
Core net profit	145	187	338	361	463
Core EPS (sen)	11.3	14.5	26.2	28.0	35.9
Core EPS growth (%)	7.3	28.8	80.6	7.0	28.1
Net DPS (sen)	6.0	8.5	18.3	19.6	25.1
Core P/E (x)	17.2	31.9	22.9	21.4	16.7
P/BV (x)	3.0	6.8	7.9	7.1	6.3
Net dividend yield (%)	3.1	1.8	3.1	3.3	4.2
ROAE (%)	18.5	21.8	36.1	34.7	39.7
ROAA (%)	5.5	5.6	8.7	8.4	9.5
EV/EBITDA (x)	12.3	20.5	16.5	15.0	11.3
Net gearing (%) (incl perps)	51.5	net cash	net cash	net cash	net cash
Consensus net profit	-	-	302	332	345
MIBG vs. Consensus (%)	-	-	11.8	8.9	34.2

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# BUY

Share Price MYR 5.99

12m Price Target MYR 6.72 (+15%)

Previous Price Target MYR 6.72

#### **Company Description**

52w high/low (MYR)

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

#### **Statistics**

• ,	
3m avg turnover (USDm)	5.5
Free float (%)	27.1
Issued shares (m)	1,303
Market capitalisation	MYR7.8B
	USD1.8B
Major shareholders:	
Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%

#### Price Performance

Employees Provident Fund



 -1M
 -3M
 -12M

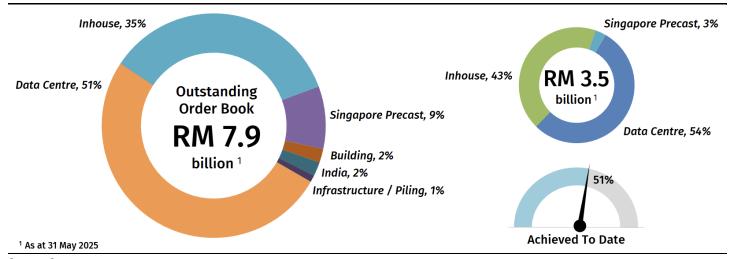
 Absolute (%)
 3
 38
 45

 Relative to index (%)
 0
 34
 51

Source: FactSet

Maybank

Figure 1: Outstanding order book (LHS) and YTD job wins (RHS)



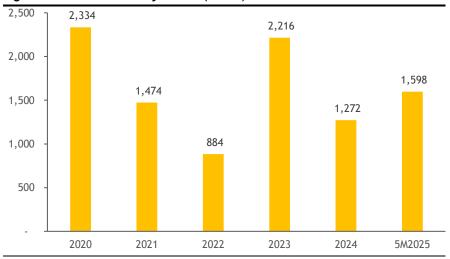
Source: Company

Figure 2: Detailed outstanding order book

AS AT MAR-25 (RM MIL)	COMPLETION	CONTRACT SUM	O/S ORDERBOOK		AS AT MAR-25 (RM MIL)	COMPLETION	CONTRACT SUM	O/S ORDERBOOK	
BUILDING			162	2%	INTERNAL - SUNWAY GROUP			2,747	35%
OXLEY TOWER (MEP) + VO	3Q 2025	73	11		SUNWAY SQUARE - SUPERSTRUCTURE + (VO)	4Q 2025	1,067	339	
DAISO	2Q 2026	298	152		SUNWAY CARNIVAL MALL - REFURBISHMENT	2Q 2025	253	63	
DATA CENTRE			3,990	51%	SUNWAY FLORA	1Q 2026	277	87	
JHB1X0 - DATA CENTRE & TIW	1Q 2026	3,806	1,542		SUNMED PH2 FIT-OUT	3Q 2025	70	36	
JHB1X0 - TENANT IMROVEMENT WORKS (TIW) - ADD	1Q 2026	185	185		SUNWAY IPOH MALL	1Q 2027	721	641	
EARLY CONTRACTOR INVOLVEMENT & ENABLING WORKS -	2Q 2025	160	42		SUNMED PH3 FIT-OUT	2Q 2026	80	80	
GENERAL CONTRACTOR WORKS - MNC	1Q 2027	1,155	1,155		SUNMED IPOH PH2 FIT OUT	2Q 2025	18	4	
PSR - MNC	2Q 2027	765	618		SUNMED DAMANSARA PH2 FIT OUT	2Q 2025	9	5	
K2 BUILDING 4 + VO	1Q 2026	458	448		RTS TRANSIT ORIENTED DEVELOPMENT PROJECT (RTS TOD)	4Q 2027	1,500	1,492	
INFRASTRUCTURE/PILING			64	1%	GRAND TOTAL @ MAR 2025		12,855	7,911	
RTS LINK PACKAGE 1B AND PACKAGE 5	2Q 2025	558	64		RED : SECURED IN 2025		3,477	3,421	
INDIA			197	2%	* included variation order secured in 2025				
THORAPALLI - JITTANDAHALLI (TJ)	2Q 2025	508	197						
SUSTAINABLE ENERGY			28	0%					
CGPP - GREEN	4Q 2025	37	28						
SINGAPORE			722	9%					
PRECAST	VARIOUS	759	624						
NEW ORDER 2025 - EXTERNAL	VARIOUS	98	98						

Source: Company

Figure 3: Non-data centre job wins (MYRm)



Source: Company, Maybank IBG Research



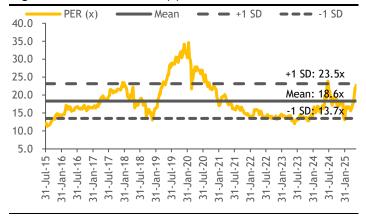
Figure 4: Scenario analysis of job wins assumptions

FY Dec	FY25E	FY26E	FY27E
<u>Potential</u>			
Job wins (MYRb)	4.3	1.6	1.6
EPS (sen)	25.0	16.1	12.0
Revenue (MYRm)	5,368.1	3,287.5	2,387.7
EBIT margin	7.4%	7.3%	7.1%
Core net profit (MYRm)	322.0	207.3	154.8
Current			
Job wins (MYRb)	7.0	7.0	7.0
EPS (sen)	26.2	28.0	35.9
Revenue (MYRm)	5,624.8	5,987.5	7,787.7
EBIT margin	7.7%	7.7%	7.6%
Core net profit (MYRm)	337.6	361.2	462.6
% change			
Job wins	-39%	-77%	-77%
EPS (sen)	-5%	-43%	-67%
Revenue	-5%	-45%	-69%
EBIT margin (ppt)	-0.3	-0.4	-0.5
Core net profit	-5%	-43%	-67%

Source: Maybank IBG Research

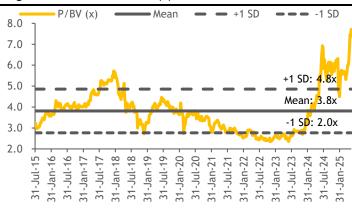
Under a worst case scenario of no DC job wins, we assume job wins of MYR1.6b p.a. From FY20-FY24A, SCGB won an average of MYR1.6b of non-DC jobs p.a. of which approximately 50% were sourced externally and approximately 50% were sourced internally from Sunway (SWB MK, BUY, CP: MYR4.90, TP: MYR5.31). YTD non-DC job wins stand at MYR1.6b but 95% or MYR1.5b of it comes from just 1 job which is the Rapid Transit System Transit Oriented Development job in Johor Bahru.

Figure 5: 12M forward PER (x)



Source: Bloomberg, Maybank IBG Research

Figure 6: 12M forward P/B (x)



Source: Bloomberg, Maybank IBG Research

Figure 7: possible fair values based on various FY26E PER valuations

24x FY26E PER (base case)	19x FY26E PER	14x FY26E PER	12x FY26E PER
+1 SD	Mean	-1 SD	5-year trough
MYR6.72	MYR5.32	MYR3.92	MYR3.36

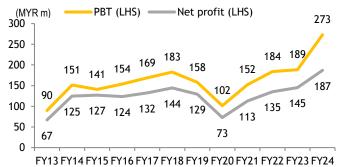
Source: Maybank IBG Research

# Maybank Investment Bank

## **Value Proposition**

- Malaysia's largest pure play construction group with an established brand name having commenced operations in 1981 with a cumulative revenue of >MYR40b.
- Operates on a fully integrated business model with 6 core operations:- (i) building construction; (ii) civil & infrastructure; (iii) foundation & geotechnics; (iv) mechanical, electrical & plumbing; (v) precast concrete products manufacturing; and (vi) sustainable energy.
- Completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall.
- Completed civil projects include SILK, MEX, SKVE, BRT, KVMRT 1&2 and KVLRT.
- Experienced senior management team and support from the Sunway Group add onto its value proposition.

#### Pretax profit and net profit (since relisting on 28 Jul 2015)



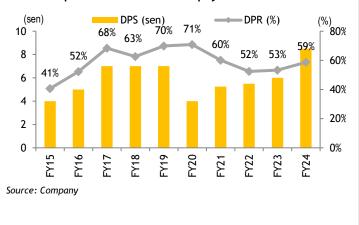
111311141113111011171110111711201121112211231

Source: Company

#### **Financial Metrics**

- Two main earnings growth drivers are major new contracts and higher margins which may come from value engineering.
- ROEs of >20% since its relisting in 2015 are above peers, but this suffered a set-back in FY20A and FY21A due to the COVID-19 pandemic.
- ROEs rebounded to 19% in FY22A, 19% in FY23A and 22% in FY24A.
- DPR is a minimum 35% of PATMI. Since its relisting on 28 Jul 2015, SCGB has paid up to 71% (FY20A).

#### Dividends per share and dividend payout ratio



#### **Price Drivers**

#### Historical share price trend



Source: Company, Maybank IBG Research

- 1. More economic activities re-opened in states under the National Recovery Plan Phase 1 (from 16 Aug 2021).
- 2. Secured MYR2.58b of net contracts in 2022, including its first data centre construction job.
- 3. Secured MYR2.51b of new contracts in 2023, including its second data centre construction job.
- 4. Secured MYR4.22b of new contracts in 2024, a record high.
- 5. US' Al Diffusion Rule, rise of DeepSeek and tariffs cast doubts on the viability of data centres.

# **Swing Factors**

# Upside

- Larger-than-expected orderbook replenishment could lift sentiment on the stock although the earnings impact will only be felt in full at least a year later.
- Significant margin expansion for its existing orderbook coming from value engineering breakthrough.
- Government policy on high usage of IBS will be positive for SCGB's precast concrete products operation.

#### Downside

- Slower-than-expected work progress at existing projects will affect the timing of earnings recognition.
- The timing of mega infrastructure project roll-outs by the Government could affect orderbook replenishment.
- At the precast segment, significant increase in steel prices and stiffer competition could affect margins.

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FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	15.6	25.2	22.9	21.4	16.7
Core P/E (x)	17.2	31.9	22.9	21.4	16.7
P/BV (x)	3.0	6.8	7.9	7.1	6.3
P/NTA (x)	3.0	6.8	7.9	7.1	6.3
Net dividend yield (%)	3.1	1.8	3.1	3.3	4.2
FCF yield (%)	nm	11.8	2.2	5.8	6.6
EV/EBITDA (x)	12.3	20.5	16.5	15.0	11.3
EV/EBIT (x)	13.5	21.9	17.6	16.0	12.1
INCOME STATEMENT (MYR m)					
Revenue	2,671.2	3,521.7	5,624.8	5,987.5	7,787.7
EBITDA	245.3	279.4	458.1	491.0	633.2
EBIT	224.3	262.2	430.5	461.6	595.0
Net interest income /(exp)	(21.5)	10.5	13.3	13.4	13.4
Associates & JV	(14.1)	0.3	0.3	0.3	0.3
Pretax profit	188.6	273.0	444.2	475.3	608.6
Income tax	(42.8)	(75.9)	(106.6)	(114.1)	(146.1)
Minorities	(0.7)	(10.1)	0.0	0.0	0.0
Reported net profit	145.1	186.9	337.6	361.2	462.6
Core net profit	145.1	186.9	337.6	361.2	462.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	470.4	1,015.8	948.3	1,139.6	1,328.9
Accounts receivable	1,595.6	1,795.1	2,499.1	2,660.2	3,460.0
Inventory	46.4	43.3	69.1	73.5	95.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	98.6	85.4	82.8	78.4	65.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	253.1	224.4	224.7	225.0	225.3
Other assets	618.7	432.3	339.4	246.5	153.6
Total assets	3,082.8	3,596.2	4,163.3	4,423.3	5,328.8
ST interest bearing debt	441.1	732.1	731.0	730.6	730.6
Accounts payable	1,239.7	1,911.3	2,372.9	2,524.4	3,286.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	488.7	1.1	1.1	0.3	0.0
Other liabilities	21.0	13.0	19.0	20.0	25.0
Total Liabilities	2,190.8	2,657.7	3,123.5	3,275.2	4,041.9
Shareholders Equity	820.2	877.9	979.2	1,087.5	1,226.3
Minority Interest	71.8	60.6	60.6	60.6	60.6
Total shareholder equity	892.0	938.5	1,039.8	1,148.1	1,286.9
Total liabilities and equity	3,082.8	3,596.2	4,163.3	4,423.3	5,328.8
CASH FLOW (MYR m)					
Pretax profit	188.6	273.0	444.2	475.3	608.6
Depreciation & amortisation	21.0	17.3	27.6	29.4	38.2
Adj net interest (income)/exp	0.3	0.2	0.0	0.0	0.0
Change in working capital	(516.6)	534.7	(175.2)	78.8	32.5
Cash taxes paid	(31.9)	(88.6)	(173.2)	(112.8)	(140.6)
Other operating cash flow	39.1	(20.0)	(0.3)	(0.3)	(0.3)
Cash flow from operations	(299.4)	716.4	194.9	470.3	538.4
Capex	(18.5)	(9.4)	(25.0)	(25.0)	(25.0)
Free cash flow	(317.8)	707.0	169.9	445.3	513.4
Dividends paid	(70.9)	(116.0)	(236.3)	(252.8)	(323.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt					
•	420.9 (57.0)	(167.2)	(1.1)	(1.1)	(0.3)
Other invest/financing cash flow	(57.0)	127.6	0.0	0.0	0.0
Effect of exch rate changes	1.1	0.8	0.0 (47.5)	0.0	0.0
Net cash flow	(23.7)	552.3	(67.5)	191.4	189.3

July 7, 2025 5



FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	23.9	31.8	59.7	6.4	30.1
EBITDA growth	16.7	13.9	63.9	7.2	29.0
EBIT growth	20.2	16.9	64.2	7.2	28.9
Pretax growth	2.5	44.7	62.7	7.0	28.1
Reported net profit growth	7.3	28.8	80.6	7.0	28.1
Core net profit growth	7.3	28.8	80.6	7.0	28.1
Profitability ratios (%)					
EBITDA margin	9.2	7.9	8.1	8.2	8.1
EBIT margin	8.4	7.4	7.7	7.7	7.6
Pretax profit margin	7.1	7.8	7.9	7.9	7.8
Payout ratio	53.3	58.6	70.0	70.0	70.0
DuPont analysis					
Net profit margin (%)	5.4	5.3	6.0	6.0	5.9
Revenue/Assets (x)	0.9	1.0	1.4	1.4	1.5
Assets/Equity (x)	3.8	4.1	4.3	4.1	4.3
ROAE (%)	18.5	21.8	36.1	34.7	39.7
ROAA (%)	5.5	5.6	8.7	8.4	9.5
Liquidity & Efficiency					
Cash conversion cycle	37.0	17.6	4.6	12.9	11.7
Days receivable outstanding	174.1	173.3	137.4	155.1	141.5
Days inventory outstanding	6.7	4.6	3.6	4.3	3.9
Days payables outstanding	143.8	160.3	136.4	146.5	133.6
Dividend cover (x)	1.9	1.7	1.4	1.4	1.4
Current ratio (x)	1.3	1.1	1.1	1.2	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.3	1.4	1.3
Net gearing (%) (incl perps)	51.5	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	51.5	net cash	net cash	net cash	net cash
Net interest cover (x)	10.4	na	na	na	na
Debt/EBITDA (x)	3.8	2.6	1.6	1.5	1.2
Capex/revenue (%)	0.7	0.3	0.4	0.4	0.3
Net debt/ (net cash)	459.4	(282.5)	(216.2)	(408.7)	(598.3)

Source: Company; Maybank IBG Research



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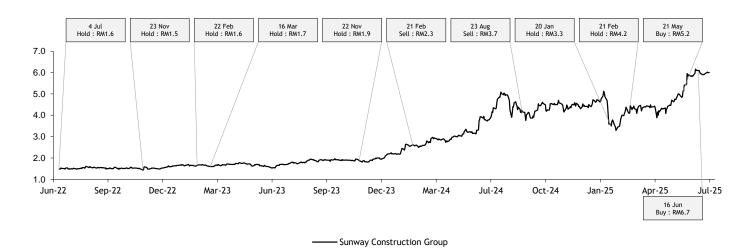
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