Sunway Construction (SCGB MK)

3Q26: Resilient Quarter WIthin Expectations

Highlights

- 9M26 earnings were within expectations, making up 70% and 74% of our and consensus full-year estimates, respectively. Yoy growth was mainly driven by a favourable project mix which lifted blended margins.
- Declared interim dividend of 7.9 sen, bringing 9M26 dividend to 34.7 sen (9M25: 41.5sen) which implies a payout ratio of 141% and a yield of 4.6%.
- Maintain BUY and target price of RM8.44, which implies 21.6x 2027F PE (+1SD above five-year mean of 18x).

3Q26 Results

Year to 31 Dec (RMm)	3Q26	qoq % chg	yoy % chg	9M26	yoy % chg	Comments
Revenue	**1,072.7**	**5.4**	**(25.8)**	**3,113.1**	**(28.0)**	Lower progress billing yoy as 3Q25 had DC acceleration
- Construction	995.2	5.7	(28.3)	2,887.3	(31.1)	
- Precast Concrete	77.6	2.0	34.3	225.8	71.3	Higher contributions from ICPH and new projects
Operating profit	**113.6**	**2.1**	**18.8**	**359.6**	**12.5**	
- Construction	115.2	5.8	19.1	354.6	10.6	
- Precast Concrete	(1.5)	(163.6)	(51.7)	5.0	583.4	
Pre-tax Profit	**135.2**	**3.0**	**6.4**	**421.2**	**16.1**	Higher construction margin and precast earnings
PATAMI	**105.1**	**1.4**	**25.4**	**327.1**	**34.4**	
Core PATAMI	**105.1**	**0.8**	**11.1**	**323.7**	**19.5**	
Margins	**%**	**+/-ppt**	**+/-ppt**	**%**	**+/-ppt**	
EBIT:	**10.6**	**-0.3**	**4.0**	**11.6**	**4.2**	
- Construction	11.6	0.0	4.6	12.3	4.6	Higher DC margins
- Precast Concrete	(2.0)	-5.2	-0.2	2.2	3.0	Improved contract replenishment
PBT	**12.6**	**-0.3**	**3.8**	**13.5**	**5.1**	
Core PATMI	**9.8**	**-0.4**	**3.3**	**10.4**	**4.1**	

Source: Suncon, UOB Kay Hian

Analysis

- **3Q26 results within expectations.** Sunway Construction's (Suncon) 3Q26 core net profit came in at RM105.1m (+1% qoq, +11% yoy), despite a lower revenue of RM1.07b (+5% qoq, -26% yoy). 9M26 earnings made up 70% and 74% of our and consensus full-year estimates respectively, and is deemed within expectations as we anticipate a seasonally stronger 4Q26.

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)	57.8	22.8	20.7	19.2	18.0
P/B (x)	11.0	8.9	10.1	10.1	10.2
EV/EBITDA (x)	33.8	17.1	15.4	14.2	13.4
Dividend yield (%)	1.1	6.7	6.1	5.3	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 (%)	24.7	42.0	58.4	63.3	67.8
Consensus net profit	n.a	n.a	440.6	547.7	579.6
UOBKH/Consensus (x)	n.a	n.a	1.1	0.9	0.9

Source: Suncon, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM7.50
Target Price	RM8.44
Upside	4.5%

Stock Data

Sector	Industrials
Bloomberg ticker	SCGB MK
Shares issued (m)	1,332.5
Market cap (RMm)	9,993.7
Market cap (US$m)	2,430.2
3-mth avg daily t'over (US$m)	7.4

Price Performance (%)

52-week high/low				RM8.40/RM5.33
1mth	**3mth**	**6mth**	**1yr**	**YTD**
0.3	(7.3)	5.0	36.0	35.4

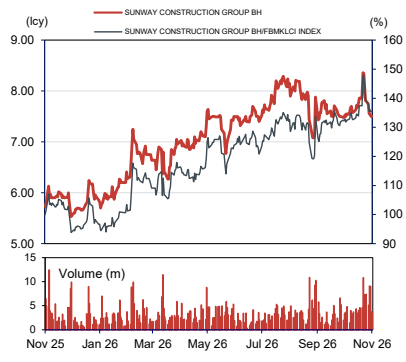
Major Shareholders (%)

Sunway Holdings Sdn Bhd	52.
Employees Provident Fund Board	6.
Sungei Way Corp Sdn Bhd	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.

- **Declared third interim dividend of 7.9 sen.** Suncon declared a 7.9 sen interim dividend (3Q25: 29.25 sen). For 9M26, it declared a dividend of 34.7 sen (9M25: 41.5sen), and implies a payout ratio of 141% and a yield of 4.6%.
- **Construction segment: Earnings improvement premised on meaningful margin uptick.** The construction division's profit before tax (PBT) improved to RM130.5m (+6% yoy) despite a significantly lower revenue of RM995m (-28% yoy) in 3Q26. Revenue declined yoy due to lower progress billing as 3Q25 saw accelerated progress of several data centre and in-house projects. Nevertheless, PBT margins have seen meaningful expansions (+4.2ppt yoy) due to a more favourable project mix.
- **Precast segment: Continuous recovery from low base.** In 3Q26, the precast segment delivered a higher yoy revenue of RM77.6m (+34% yoy) which presumably reflects improving contributions from Integrated Construction & Prefabrication Hub (ICPH) and newly secured projects. PBT surged to RM4.7m (+18% yoy) despite lower margins (-0.8ppt yoy). We anticipate a similarly strong quarter for the precast segment through 4Q26, supported by an existing orderbook of about RM666m.
- **Exceeded orderbook replenishment target which was previously revised upwards.** Following recent contracts wins driven by accelerating DC-related contracts, Suncon has secured around RM9.8b in new jobs ytd. This is higher than management's revised target of RM7b-9b orderbook in 2026. Suncon's current outstanding orderbook also stands tall at a record high of RM12.5b (2.2x orderbook cover), with a tenderbook pipeline of over RM15.7b.
- **DC-powered growth narratives remain exciting.** Note that Suncon secured three DC contracts worth RM2.9b in 2025, and another approximately RM9b in DC contracts ytd. The group currently has three completed and 11 ongoing DC projects with a combined 395MW IT load, with DC works making up 76% of the total outstanding orderbook. Of the current tenderbook of about RM15.7b, over 80% are DC-related. Suncon is also still bidding for a few DC projects with a combined IT load of over 600MW (estimated value of RM10b-11b) that may be awarded within 2026-28. Overall, we assess that Suncon is in a good position to win several DC bids within 2026-28. This will lift the group's overall margins as a DC has a shorter construction period and better profit margins.
- **Valuations appear attractive after recent retracement, well supported by decent yield and capital management upside.** Suncon is in a net cash position of about RM1.42b currently, reflecting an improving trend over the last two years following better earnings and improved cash flow conversion. Adjacent with the yoy earnings growth, we forecast a 100-125% dividend payout ratio in 2026-28, implying a lush prospective yield of 5.3-6.1%. We also do not rule out further special dividends as the group has sufficient room for better capital management.

Valuation/Recommendation

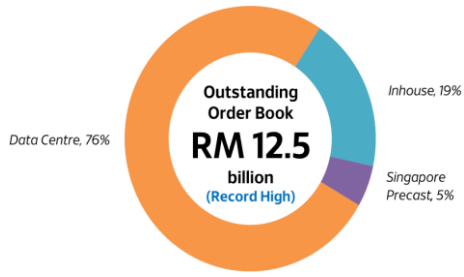
- **No changes to earnings.**
- **Maintain BUY with unchanged target price of RM8.44.** Our target price is pegged to 21.6x 2027F PE (+1SD above the five-year mean of 18x).

Outstanding Orderbook As Of End-3Q26

Projects	(RMm)
JHB1X0 Data Centre	135
JHB01 Data Centre	2,151
K2 Phase 2 Data Centre	37
General DC Contractor Work - Shell 1 - MNC	576
General DC Contractor Work - Shell 2 - MNC	2,149
PSR -MNC	44
PSR – MNC - JB01	534
PSR – MNC - JB02	335
Serendah DC	1,710
Serendah DC 2	1,739
India Highways	45
Total External (A)	**9,453**
RTS TOD	921
Sunmed PH3 fit-out	24
SW Ipoh Mall	768
Sunway Medical Iskandar	400
Sunway Sanctuary Fit-out Works	20
Sunway Medical Seremban	200
Total Internal (B)	**2,332**
Precast Concrete (C)	**666**
Grand Total (A+B+C)	**12,452**

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	9,000	8,000
- Precast Concrete	300	300	300

Source: UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental
- Mitigate emissions, biodiversity impact, waste disposal and 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.

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)

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