SYARIAH COMPLIANT

midf RESEARCH

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Resilience Amid AI Chips Restrictions

***Upgrade to* BUY**

(Previously NEUTRAL)

***Unchanged* Target Price: RM4.46**

KEY INVESTMENT HIGHLIGHTS

- **Minimal impact of the AI chip ban on DC operations; clients remain confident, with no delays or slowdowns expected**
- **Targeted order book replenishment target maintained at RM4-5b for FY25, supported by diversified projects.**
- **Outstanding Order and Tender book; DC projects make up 70& and 80% respectively.**
- **Upgrade to BUY with an unchanged TP of RM4.46**

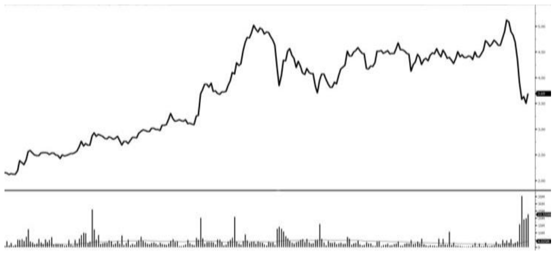
Business as usual. Our meeting with Sunway Construction (SunCon) yesterday reaffirms our belief that the recent sell down of data centre-related construction stocks may have been overdone. Management, which have been in close communication with its clients, said none have expressed any adverse feedback on the restrictions on exports of artificial intelligence (AI) chips. In fact, its clients (data centre owners from the United States, the Netherlands and Singapore) remain confident and do not expect any delays in their plans. However, management noted that much of the current discourse on the AI chip restrictions is speculative and clearer guidelines from the US government are necessary to fully assess potential long-term implications, especially with the new administration under President Donald Trump.

Data Centre project updates. SunCon's current order book reflects a strong focus on data centre projects, with circa 70% of its portfolio related to this segment. The JHB1X0 data centre that it is constructing at the Sedenak Tech Park is over 30% complete as of Dec-24, with substantial completion targeted for FY25 and minor spillovers into FY26. The total contract size for that project is RM3.65b, including additional works and variation orders (VOs). Management added that there is no slowdown in demand for data centre projects in the Klang Valley and Johor and no indications of such plans being delayed or scrapped due to the Framework of AI Diffusion by the US. Out of SunCon's RM10b tender book, about 80% are data centre jobs, with the remainder comprising external building jobs, warehouses, factories, and precast works. Out of that, about RM4b of data centre tenders are now in advanced negotiation stages.

RM4-5b of replenishment for FY25. Management has set its order book replenishment at RM4b to RM5b this year. Despite its current focus on data centre projects, this does not signify a shift away from infrastructure and property projects remains actively involved in infrastructure tenders. While it has taken on fewer property development projects currently, in a situation of a worst-case scenario surrounding data centre projects, it has the flexibility to revert to undertake more jobs within the Sunway Group. Management has also indicated its interest in bidding for the second package of the Penang LRT, likely via a JV, which will be an above-sea alignment from Komtar to Penang Sentral. The tender for the package is expected to be opened on Jul-25.

RETURN STATISTICS	
Price @ 21st January 2025 (RM)	3.69
Expected share price return (%)	+20.9
Expected dividend yield (%)	+1.6
Expected total return (%)	**+22.5**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-21.8	-21.3
3 months	-20.3	-14.6
12 months	68.5	58.5

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	2,978.96	3,964.86	4,163.10
Operating Profit	217.27	303.69	333.05
Profit Before Tax	230.45	318.60	337.21
Core net profit	178.74	240.03	259.80
Core EPS (sen)	13.9	18.6	20.1
DPS (sen)	7.0	7.0	7.0
Dividend Yield	1.6%	1.6%	1.6%

KEY STATISTICS	
FBM KLCI	1,580.46
Issued shares (m)	1292.90
Estimated free float (%)	26.71
Market Capitalisation (RM'm)	4,757.74
52-wk price range	RM2.15 - RM5.3
3-mth average daily volume (m)	3.63
3-mth average daily value (RM'm)	15.21
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	7.94

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Operational and financial resilience. SunCon's existing projects are fully protected by binding contracts. From the start of data centre projects, critical elements such as chillers and equipment are pre-ordered, resulting in significant sunk costs. This ensures that SunCon is compensated for completed work and materials, as cancellations are not permitted. The supply chain, largely consisting of purpose-built suppliers, is contractually secured, and clients are involved in fabrication processes, further reinforcing revenue protection. For data centre projects that are already four to five months into execution, approximately 60% of the total construction costs are already committed and would be recoverable. Management also acknowledged increasing competition in the data centre market, leading to margin compression. Current margins remain within the 6-8% range, but SunCon will not compromise quality by reducing prices below this threshold. Selective bidding ensures projects are large-scale, with clients who value quality over cost, mitigating the impact of price competition.

Earnings estimates. We maintain our earnings estimates due the minimal impact of the AI chip ban on its operations, as data centers do not rely directly on these chips for construction. Clients remain committed to expansion plans, and the group's ability to adapt by designing high-spec infrastructure for both AI and cloud servers ensures continued demand.

Target price. We are also maintaining our **TP** for SunCon at **RM4.46**, pegging its FY25F EPS of 18.6 sen to a PER of 24x, which is +1SD above its five-year mean.

Upgrade to BUY. SunCon continues to demonstrate resilience and adaptability, supported by a well-diversified project portfolio and strong confidence from its data centre clients. SunCon's expertise in data center construction positions it to capitalise on sustained demand, with significant contributions from ongoing projects and a robust RM10 billion tender pipelines. We believe the recent sell down in construction stocks recently, including **SunCon**, presents a good opportunity to pick up the counter hence, warranting the upgrading of our stance to **BUY** from NEUTRAL previously.

FINANCIAL SUMMARY

Income Statement (RM'm)	**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	2,155.23	2,364.70	2,978.96	3,964.86	4,163.10
Net operating expenses	(1,963.75)	(2,182.91)	(2,655.54)	(3,484.59)	(3,642.71)
Operating profit	148.41	169.97	217.27	303.69	333.05
Profit before tax	184.06	193.79	230.45	318.60	337.21
Net profit	135.18	140.80	178.74	240.03	259.80
Core net profit	134.44	140.80	178.74	240.03	259.80
Core EPS (sen)	10.5	10.9	13.9	18.6	20.1
DPS (sen)	5.5	6.0	7.0	7.0	7.0

Balance Sheet (RM'm)	**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Fixed assets	107.6	118.4	124.3	130.6	124.1
Other investments and assets	491.1	498.0	511.9	518.9	532.0
Non-current assets	**598.7**	**616.3**	**636.2**	**649.6**	**656.1**
Cash	491.6	468.2	522.1	548.3	520.8
Trade debtors	988.7	1,123.5	1,231.3	1,304.2	1,369.4
Current assets	**1,637.4**	**1,730.1**	**1,905.9**	**2,013.5**	**2,051.3**
Trade creditors	916.8	1,121.6	1,193.8	1,277.4	1,335.4
Short-term debt	172.2	161.6	197.5	197.6	217.3
Current liabilities	**1,103.3**	**1,296.9**	**1,407.9**	**1,491.6**	**1,569.4**
Long-term debt	308.5	203.6	207.6	150.6	118.3
Non-current liabilities	**311.9**	**489.1**	**212.8**	**155.4**	**122.1**
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	515.9	579.3	662.8	757.4	757.4
Equity	**737.1**	**837.9**	**921.4**	**1,016.0**	**1,016.0**

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	**184.1**	**193.8**	**211.5**	**318.6**	**337.2**
Depreciation & amortisation	23.8	26.1	27.4	28.8	27.4
Changes in working capital	-382.1	100.8	-64.8	-23.9	-16.7
Operating cash flow	**-215.0**	**414.9**	**206.6**	**297.7**	**286.1**
Capital expenditure	-1.9	-25.0	-25.0	-25.0	-30.0
Investing cash flow	**423.7**	**-308.0**	**-123.2**	**184.8**	**189.8**
Debt raised/(repaid)	233.4	107.6	193.7	**-145.4**	**-145.4**
Dividends paid	-90.3	-77.4	-77.4	-77.4	-77.4
Financing cash flow	**142.7**	**30.2**	**116.3**	**-222.8**	**-222.8**
Net cash flow	**351.4**	**137.1**	**199.7**	**259.8**	**253.1**
Beginning cash flow	**60.6**	**407.7**	**544.8**	**744.4**	**1004.2**
Ending cash flow	**407.7**	**544.8**	**744.4**	**1004.2**	**1257.3**

Profitability Margins	2022A	2023A	2024E	2025F	2026F
Operating profit margin	6.9%	7.2%	7.3%	7.7%	8.0%
PBT margin	8.5%	8.2%	7.7%	10.7%	11.3%
PAT margin	6.3%	6.0%	6.0%	8.1%	8.7%
Core PAT margin	5.8%	6.0%	6.0%	7.7%	8.0%

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology