

06 October 2023

Sunway Construction Group

Bags Warehouse and Data Centre Jobs

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SUNCON has bagged two building jobs - a Daiso warehouse in Pulau Indah and a data centre in Johor effectively worth a total of RM487.6m. This brings its YTD job wins to RM2.2b, which has already met our FY23F full-year assumption. We maintain our forecasts, TP of RM2.39 and **OUTPERFORM** call.

SUNCON has clinched two building contracts effectively worth a total of RM487.6m as follows:

- a RM595.4m building job for Daiso's global distribution centre warehouse in Pulau Indah Port Klang, from Daiso Malaysia Group Sdn Bhd, via a 50:50 JV with Kajima (Malaysia) Sdn Bhd, with completion in 2QFY26.
- RM190m contract from K2 Strategic Infrastructure Malaysia Sdn Bhd (a Kuok Group company) to build a data centre in Johor with completion in 4QFY24.

We are positive on these two contracts that boosted SUNCON's YTD job wins to RM2.2b, which has already met our FY23F full-year assumption of RM2.2b and exceeded the company's own more conservative target of RM2b. They have also lifted its current outstanding order book by 8% to RM6.38b. The guided EBIT margin of 5%-8% is also in line with our assumption of 7.5%.

Forecasts: Maintained.

We keep our TP of RM2.39 based on 18x FY24F PER, which is in-line with our valuation for big cap construction companies, i.e., **GAMUDA (OP; TP: RM5.45)** and **IJM (OP; TP: RM2.15)**. Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by us (see Page 4).

Outlook. We expect a significant revitalisation of the construction sector in 2024 backed by: (i) the roll-out of the RM45b MRT3 project, RM9.5b Bayan Lepas LRT and six flood mitigation projects reportedly to be worth RM13b, and (ii) the vibrant private sector construction market, underpinned by massive investment in new semiconductor foundries and data centres. SUNCON is eyeing opportunities in data centre building jobs, MRT3 and Bayan Lepas LRT work packages and contracts from parent and sister companies.

We like SUNCON for: (i) strong job prospects of the sector as a whole with the imminent roll-out of key public infrastructure projects; (ii) its strong earnings visibility underpinned by RM6.38b outstanding order book and recurring jobs from parent and sister companies, and (iii) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works. Maintain **OUTPERFORM**.

Risks to our recommendation include: (i) weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

OUTPERFORM ↔

Price: RM1.91
Target Price: RM2.39 ↔

Share Price Performance



KLCI	1,415.60
YTD KLCI chg	-5.3%
YTD stock price chg	22.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,462.7
Shares Outstanding	1,289.4
52-week range (H)	1.98
52-week range (L)	1.41
3-mth avg daily vol:	627,004
Free Float	13%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund	9.8%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	2155.2	2587.0	2854.4
EBIT	188.2	196.0	224.6
PBT	184.1	190.5	214.6
Net Profit	135.2	146.1	163.3
Core Net Profit	144.0	146.1	163.3
Consensus	-	140.8	160.2
Earnings Revision (%)	-	-	-
Core EPS (sen)	11.2	11.3	12.7
Core EPS growth (%)	28.7	1.5	11.8
NDPS (sen)	5.5	5.0	5.0
NTA Per Share (RM)	0.59	0.66	0.73
Price to NTA (x)	3.2	2.9	2.6
PER (x)	17.1	16.9	15.1
Net Gearing (x)	-0.49	0.06	-0.06
ROE (%)	18.9	17.3	17.3
Net Div. Yield (%)	2.9	2.6	2.6

06 October 2023

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	4.47	5.45	21.9%	12,054.8	Y	07/2024	43.6	52.0	29.5%	19.2%	12.3	9.9	1.0	9.8%	12.0	2.7%
IJM	OP	1.83	2.15	17.5%	6,416.3	Y	03/2024	9.2	8.6	-2.1%	-6.3%	20.1	21.5	0.7	4.0%	6.0	3.3%
KERJAYA	OP	1.37	1.64	19.7%	1,727.6	Y	12/2023	12.2	14.0	31.0%	14.6%	11.3	9.8	1.6	14.6%	6.0	4.4%
KIMLUN	OP	0.815	0.910	11.7%	288.0	Y	12/2023	9.5	11.9	-12.6%	25.9%	8.2	7.0	0.3	4.1%	1.0	1.2%
SUNCON	OP	1.91	2.39	25.1%	2,462.7	Y	12/2023	11.3	12.6	1.5%	11.7%	15.0	14.4	2.9	17.7%	5.0	2.6%
WCT	OP	0.545	0.740	35.8%	772.4	Y	12/2023	2.5	3.7	-28.6%	48.6%	21.6	14.8	0.2	2.7%	0.5	0.9%
Sector Aggregate					23,721.7					17.2%	14.2%	13.1	11.5	0.9	6.5%		2.5%

Source: Kenanga Research

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06 October 2023

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★	★	

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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