

"1Q24 results within expectations;
good new contract win prospects"

Share price performance



	1M	3M	12M
Absolute (%)	21.4	28.4	94.8
Rel KLCI (%)	15.6	22.9	71.2

	BUY	HOLD	SELL
Consensus	9	4	2

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US\$m)	4,319.4/922.1
Avg daily vol - 6mth (m)	2.8
52-wk range (RM)	1.53-3.35
Est free float	20.5%
Stock Beta	0.91
Net cash/(debt) (RMm)	(412.7)
ROE (2024E)	19.4%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good	NA
Constituent	
FBM EMAS (Top 200)	NA
ESG Rank	
ESG Risk Rating	27.3 (+3.1 yoy)

Key Shareholders

Sunway Holdings	54.6%
Sungei Way Corp	10.1%
EPF	6.2%
ASN	3.3%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainability

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Sunway Construction (SCGB MK)

BUY (maintain)

Up/Downside: +16.4%

Price Target: RM3.90

Previous Target (Rating): RM2.90 (BUY)

Expect sequential earnings growth

- Sunway Construction's (SunCon) core net profit grew 5% yoy to RM27m in 1Q24, which was within expectations, and we expect higher progress billings for both construction and pre-cast concrete operations in 2H24
- SunCon secured RM1.7bn of new contracts in 1Q23, expanding its order book to RM6.3bn. We raise core EPS by 3-22% in 2024-26E to reflect higher new contract wins (RM4.5bn in 2024E)
- SunCon remains a top sector mid-cap BUY with a higher 12-month RNAV-based target price (TP) of RM3.90

Within expectations; assuming higher earnings in 2H24

SunCon's core net profit of RM27m (+5% yoy and -52% qoq) in 1Q24 lagged market and our forecasts of RM162-182m. However, we expect better 2H24 earnings as progress billings accelerate and new contracts are secured. Revenue jumped 16% yoy to RM605m in 1Q24 as new projects kicked in. Similarly, EBIT increased 20% yoy to RM47.7m with sustained operational profitability. PBT saw slower 11% yoy growth to RM41.6m in 1Q24, mainly due to higher interest expense. Construction PBT grew 5% yoy to RM37.9m in 1Q24 on higher revenue (+16% yoy) despite a lower profit margin. Net exceptional and forex gains boosted net profit to RM32.4m (+16% yoy) in 1Q24.

Both segments saw better earnings in 1Q24

Pre-cast concrete PBT nearly tripled to RM3.8m on higher revenue (+16% yoy), mainly due to improved efficiency for its new Industrial Concrete Products Hub (ICPH) in Singapore. Construction PBT margin eased marginally to 7.0% in 1Q24 compared to 7.7% in 1Q23. Core earnings contracted 52% qoq from a high base but grew 5% yoy to RM27m in 1Q24. We expect strong sequential earnings growth, driven by higher progress billings and new contract wins for both its construction and pre-cast concrete segments.

Reiterate BUY with higher TP of RM3.90

SunCon's high remaining order book of RM6.3bn at end-1Q24, equivalent to 2.4x its 2023 revenue, should sustain its construction earnings in 2024-25E. It secured RM1.7bn worth of new contracts in 1Q24 and we believe SunCon will likely exceed its RM2.5-3.0bn target in 2024. Its active tender book has declined to RM9.4bn from RM26.3bn as its Klang Valley MRT Line 3 (MRT3) contract tender validity was not extended. Prospective new contracts are the Vietnam coal-fired power plant, data centres (including potential additional works for ongoing projects), warehouses and semiconductor plant projects. We raise our RNAV-based TP to RM3.90 from RM2.90 assuming higher sustainable earnings for the construction segment. Maintain our BUY call. Key downside risks: lower-than-expected new contract wins and profit margin.

Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	2,155.2	2,671.2	3,205.5	3,868.0	3,947.2
EBITDA (RMm)	218.9	252.4	277.1	335.0	371.3
Pretax profit (RMm)	184.1	188.6	221.3	279.4	315.3
Net profit (RMm)	135.2	145.1	167.4	211.6	238.9
EPS (sen)	10.5	11.3	13.0	16.4	18.5
PER (x)	32.0	29.8	25.8	20.4	18.1
Core net profit (RMm)	143.8	152.2	167.4	211.6	238.9
Core EPS (sen)	11.1	11.8	13.0	16.4	18.5
Core EPS growth (%)	(0.6)	5.9	10.0	26.4	12.9
Core PER (x)	30.1	28.4	25.8	20.4	18.1
Net DPS (sen)	5.5	6.0	6.5	8.5	9.5
Dividend Yield (%)	1.6	1.8	1.9	2.5	2.8
EV/EBITDA	19.5	18.7	16.9	13.9	12.5
Chg in EPS (%)			+3.1	+21.7	+19.9
Affin/Consensus (x)			0.9	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg	Comment
Revenue	522.1	871.5	604.8	(30.6)	15.8	1Q24: Higher construction (+16% yoy) and pre-cast concrete (+16% yoy) revenue with the acceleration in progress billings and ramp up in ICPH operation.
Op costs	(477.2)	(777.6)	(552.6)	(28.9)	15.8	
EBITDA	44.9	93.9	52.2	(44.4)	16.2	
<i>EBITDA margin (%)</i>	<i>8.6</i>	<i>10.8</i>	<i>8.6</i>	<i>-2.1</i>	<i>0.0</i>	Higher profit margin for precast concrete operation but lower construction profit margin
Depn and amort	(5.3)	(5.2)	(4.5)	(13.4)	(14.1)	
EBIT	39.7	88.7	47.7	(46.2)	20.3	
<i>EBIT margin (%)</i>	<i>7.6</i>	<i>10.2</i>	<i>7.9</i>	<i>(2.3 ppt)</i>	<i>0.3 ppt</i>	
Interest income	4.1	8.6	4.7	(44.9)	15.4	
Interest expense	(8.3)	(15.2)	(16.2)	6.7	95.7	Higher net debt for concessions and deferred payment construction projects.
Associates	0.0	(14.5)	0.0	(100.0)	#DIV/0!	
Forex gain (losses)	0.2	(1.6)	1.5	(190.4)	527.8	
Exceptional items	1.8	(5.2)	3.9	(174.2)	120.4	
Pretax profit	37.5	60.8	41.6	(31.5)	11.0	Higher construction PBT (+5% yoy) and pre-cast concrete PBT (+191% yoy).
Tax	(8.9)	(12.3)	(8.9)	(27.6)	0.7	
<i>Tax rate (%)</i>	<i>23.7</i>	<i>16.4</i>	<i>21.5</i>	<i>5.0 ppt</i>	<i>(2.2 ppt)</i>	
Minority interests	(0.8)	0.8	(0.3)	(136.6)	(61.9)	
Net profit	27.8	49.3	32.4	(34.2)	16.4	Within expectations.
EPS (sen)	2.2	3.8	2.5	(34.3)	16.2	
Core net profit	25.8	56.2	27.0	(51.9)	4.6	Within expectations. Exclude one-off items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg
Construction	469.1	785.8	543.6	(30.8)	15.9
Precast concrete	53.0	85.7	61.2	(28.6)	15.5
Total	522.1	871.5	604.8	(30.6)	15.8

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg
Construction	36.2	53.0	37.9	(28.6)	4.6
Precast concrete	1.3	7.7	3.8	(51.3)	191.1
Total	37.5	60.8	41.6	(31.5)	11.0

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (RMm)	1Q23	4Q23	1Q24	QoQ ppt chg	YoY ppt chg
Construction	7.7	6.7	7.0	0.2	(0.8)
Precast concrete	2.4	9.0	6.1	(2.9)	3.7
Total	7.2	7.0	6.9	(0.1)	(0.3)

Source: Affin Hwang, Company

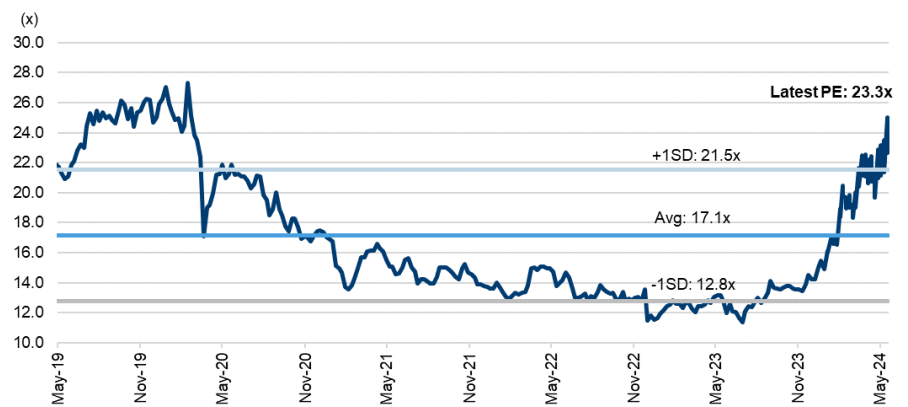


Fig 5: RNAV and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PER 16x sustainable earnings of RM200m	100	4,140	3,200	29
Pre-cast concrete @ PER 16x sustainable earnings of RM40m	100	640	640	0
Investment in Singapore IPPH JV @ book value	50	47	47	0
Book value of Indian highways	60	64	64	0
Net cash/(debt)		143	(214)	NA
RNAV		5,035	3,737	35
No. of shares (m)		1,291	1,291	0
RNAV/share (RM)		3.90	2.90	35
Target price		3.90	2.90	35

Source: Affin Hwang, Company

Fig 6: 12-month forward PER



Source: Affin Hwang, Bloomberg

Fig 7: New contract wins in 1Q24

Projects (2024 new awards)	Client	Duration	Contract Sum (RM'mil)
Sunway Ipoh Mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721.0
Early Contractor Involvement (ECI) Services - Package A	Multinational Technology Company	Aug-24	3.4
Early Contractor Involvement (ECI) Services - Package B	Multinational Technology Company	Aug-24	3.4
Ulu Pandan C1 & C2	CES Engineering & Construction Ptd Ltd	Jun-27	103.4
Project Service Request	Multinational Technology Company	Apr-27	747.8
Bedok N2C23 - Watertanks	Precast Concrete Pte Ltd	Sep-25	3.4
LPS Term Contract Batch 14	Housing and Development Board	Sep-25	82.1
Work Order 1B - Package A	Multinational Technology Company	Oct-24	30.9
Work Order 1B - Package B	Multinational Technology Company	Oct-24	22.5
Secured in 1Q 2024			1,717.9
TOTAL AS AT 1Q 2024			1,717.9

Source: Company



Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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