

"1H24 results were within expectations; expecting strong earnings ramp-up in 2H24"

Share price performance



	1M	3M	12M
Absolute (%)	-14.5	30.5	139.5
Rel KLCI (%)	-15.5	28.9	111.8

	BUY	HOLD	SELL
Consensus	9	4	1

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US\$m)	5,466.9/1,248.4
Avg daily vol - 6mth (m)	4.4
52-wk range (RM)	1.76-5.18
Est free float	26.7%
Stock Beta	1.00
Net cash/(debt) (RMm)	(262.8)
ROE (2024E)	19.1%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good	NA
Constituent	
FBM EMAS (Top 200)	NA
ESG Rank	
ESG Risk Rating	27.9 (+1.5 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: +17.9%

Price Target: RM5.00

Previous Target (Rating): RM4.90 (BUY)

Full steam ahead in 2H24

- Sunway Construction's (SunCon) core net profit grew 10% yoy to RM64.2m in 1H24, largely within our expectations as we anticipate a ramp-up in progress billings in 2H24
- SunCon's orderbook of RM7.4bn is now anchored by data centres (51%), and we expect progress billings of current projects and new contract wins from both the public and private sectors to fuel earnings growth in 2H24 and beyond
- SunCon remains a top sector mid-cap BUY with a slightly higher 12-month RNAV-based target price (TP) of RM5.00

Largely within expectations; assuming earnings acceleration in 2H24

SunCon recorded core net profit of RM64.2m (+10% yoy) for 1H24, which are within expectations despite only making up 35% and 37% of the consensus and our full-year forecasts respectively. We expect higher 2H24 earnings as progress billings ramp up, coupled with earnings contribution from new contract wins. On a quarterly basis, 2Q24 revenue came in at RM651.2m (+8% qoq and yoy) as new projects kick off. EBIT increased 10% yoy to RM51m with sustained operational profitability, while PBT jumped 19% yoy to RM50.2m – boosted by a 1.3x spike in finance income during the quarter. Construction PBT grew 20% yoy in 2Q24, in tandem with the higher revenue (+13% yoy), while the precast segment saw PBT increase by 4% yoy despite revenue dropping 22% yoy as reversal of provisions for completed projects sustained margins.

Centre stage for data centres in 2H24 and beyond

SunCon is now involved in 5 data centre packages, making up 51% (RM3.8bn) of its total outstanding order book of RM7.4bn. The bulk of it is anchored by the JHB1X0 project, which saw an upward revision in total contract value to RM3.2bn back in June 2024. The project is slated for completion by 1Q26. We estimate the project only contributed about RM40-50m revenue in 1H24 with the remaining contract value of RM2.91bn to be mostly recognised in 2024-25. The potential conversion to a full contract post-completion of early contractor works will fuel order book growth with potential additional contracts of at least RM0.5bn per package.

Reiterate BUY with slightly higher 12-month TP of RM5.00

SunCon has officially revised its order book replenishment target in 2024 to RM4-5bn; our unchanged assumption of RM5.0bn is at the high of the range. YTD wins stand at RM3.5bn, and we believe SunCon will likely meet its new target for the year, underpinned by its active tender book of RM13.7bn in 2Q24 (RM9.4bn 1Q24), comprising data centre, warehouse and semiconductor plant projects. We also anticipate SunCon to be a potential beneficiary of the imminent roll out of the Penang LRT and Penang International Airport expansion projects. We maintain our earnings forecasts and BUY call. We raise our RNAV-based TP to RM5.00 from RM4.90 previously as net debt declined in 2Q24.

Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	2,155.2	2,671.2	3,290.5	5,128.0	5,157.2
EBITDA (RMm)	218.9	252.4	285.1	438.3	468.1
Pretax profit (RMm)	184.1	188.6	228.8	377.8	409.2
Net profit (RMm)	135.2	145.1	173.1	286.4	310.3
EPS (sen)	10.5	11.3	13.4	22.2	24.1
PER (x)	40.5	37.7	31.6	19.1	17.6
Core net profit (RMm)	143.8	152.2	173.1	286.4	310.3
Core EPS (sen)	11.1	11.8	13.4	22.2	24.1
Core EPS growth (%)	(0.6)	5.9	13.8	65.4	8.3
Core PER (x)	38.1	35.9	31.6	19.1	17.6
Net DPS (sen)	5.5	6.0	7.0	11.0	12.0
Dividend Yield (%)	1.3	1.4	1.7	2.6	2.8
EV/EBITDA	24.8	23.2	20.6	13.6	12.3

Chg in EPS (%) - - -
Affin/Consensus (x) 1.0 1.1 1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Key risks

Key downside risks to our BUY call are: i) lower-than-expected new contract wins, ii) lower-than-expected profit margins.

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q23	1Q24	2Q24	QoQ % chg	YoY % chg	1H23	1H24	YoY % chg	Comment
Revenue	604.1	604.8	651.2	7.7	7.8	1,126.2	1,256.0	11.5	1H24: Higher construction (+14% yoy) but lower pre-cast concrete (-5% yoy) revenue as some projects reach their tail end
Op costs	(552.4)	(552.6)	(595.7)	7.8	7.8	(1,029.6)	(1,148.3)	11.5	
EBITDA	51.7	52.2	55.5	6.3	7.5	96.6	107.8	11.6	
<i>EBITDA margin (%)</i>	<i>8.6</i>	<i>8.6</i>	<i>8.5</i>	<i>(0.1 ppt)</i>	<i>0.0 ppt</i>	<i>8.6</i>	<i>8.6</i>	<i>0.0ppt</i>	
Depn and amort	(5.3)	(4.5)	(4.6)	1.1	(14.3)	(10.6)	(9.1)	(14.2)	
EBIT	46.4	47.7	51.0	6.8	10.0	86.0	98.7	14.7	
<i>EBIT margin (%)</i>	<i>7.7</i>	<i>7.9</i>	<i>7.8</i>	<i>(0.1 ppt)</i>	<i>0.2 ppt</i>	<i>7.6</i>	<i>7.9</i>	<i>0.2ppt</i>	
Interest income	6.7	4.7	15.3	223.9	128.2	10.8	20.1	85.4	Higher returns on cash in tandem with higher cash balance Higher net debt for concessions and deferred payment construction projects
Interest expense	(11.5)	(16.2)	(17.8)	9.9	55.3	(19.7)	(34.0)	72.2	
Associates	0.3	0.0	0.0	#DIV/0!	(100.0)	0.3	0.0	(100.0)	
Forex gain (losses)	0.6	1.5	0.4	(75.8)	(41.8)	0.9	1.8	115.9	
Exceptional items	(0.3)	3.9	1.3	(66.2)	(544.6)	1.5	5.2	254.4	
Pretax profit	42.3	41.6	50.2	20.5	18.8	79.8	91.9	15.1	Higher PBT despite lower construction profit margin (-0.1ppt) due to higher revenue
Tax	(9.0)	(8.9)	(12.4)	39.2	38.3	(17.9)	(21.4)	19.6	
<i>Tax rate (%)</i>	<i>21.4</i>	<i>21.5</i>	<i>24.8</i>	<i>3.3 ppt</i>	<i>3.3 ppt</i>	<i>22.5</i>	<i>23.3</i>	<i>0.8ppt</i>	
Minority interests	(0.3)	(0.3)	1.1	(455.2)	(512.4)	(1.1)	0.8	(173.2)	
Net profit	33.0	32.4	38.9	19.9	17.8	60.8	71.3	17.2	Within expectations
EPS (sen)	2.6	2.5	3.0	19.9	17.6	4.7	5.5	17.2	
Core net profit	32.7	27.0	37.2	37.6	13.8	58.5	64.2	9.8	Within expectations Exclude one-off items

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	2Q23	1Q24	2Q24	QoQ % chg	YoY % chg	1H23	1H24	YoY % chg
Construction	535.6	543.6	597.6	9.9	11.6	1,004.7	1,141.2	13.6
Precast concrete	68.5	61.2	53.6	(12.4)	(21.7)	121.5	114.9	(5.5)
Total	604.1	604.8	651.2	7.7	7.8	1,126.2	1,256.0	11.5

Source: Affin Hwang, Company



Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	2Q23	1Q24	2Q24	QoQ % chg	YoY % chg	1H23	1H24	YoY % chg
Construction	39.0	37.9	46.9	23.7	20.0	75.3	84.7	12.6
Precast concrete	3.2	3.8	3.3	(11.2)	3.8	4.5	7.1	57.5
Total	42.3	41.6	50.2	20.5	18.8	79.8	91.9	15.1

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	2Q23	1Q24	2Q24	QoQ ppt chg	YoY ppt chg	1H23	1H24	YoY ppt chg
Construction	7.3	7.0	7.8	0.9	0.6	7.5	7.4	(0.1)
Precast concrete	4.7	6.1	6.2	0.1	1.5	3.7	6.2	2.5
Total	7.0	6.9	7.7	0.8	0.7	7.1	7.3	0.2

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	5,400	5,400	0
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)*		293	143	105
RNAV		6,444	6,322	2
No. of shares (m)		1,289	1,289	0
RNAV/share (RM)		5.00	4.90	2
Target price		5.00	4.90	2

Source: Affin Hwang, Company * : adjusted for RNAV calculation

Fig 6: 12-month forward PER



Source: Affin Hwang, Bloomberg

Fig 7: New contract wins YTD 2024

PROJECTS (2024 NEW AWARDS)	CLIENT	COMPLETION DATE	CONTRACT SUM (RM'MIL)
SUNWAY IPOH MALL	SUNWAY LOST WORLD WATER PARK SDN BHD	JAN-27	721.0
EARLY CONTRACTOR INVOLVEMENT & ENABLING WORKS - PACKAGE A	MULTINATIONAL TECHNOLOGY COMPANY	OCT-24	34.3
EARLY CONTRACTOR INVOLVEMENT & ENABLING WORKS - PACKAGE B	MULTINATIONAL TECHNOLOGY COMPANY	OCT-24	25.8
ULU PANDAN C1 & C2	CES ENGINEERING & CONSTRUCTION PTE LTD	JUN-27	103.4
PROJECT SERVICE REQUEST	MULTINATIONAL TECHNOLOGY COMPANY	APR-27	747.8
BEDOK N2C23 - WATER TANKS	PRECAST CONCRETE PTE LTD	SEP-25	3.4
LPS TERM CONTRACT BATCH 14	HOUSING AND DEVELOPEMNT BOARD	SEP-25	82.1
SECURED IN 1Q 2024			1,717.8
101 NEYTHAL ROAD REDEVELOPMENT	FONDA GLOBAL ENGINEERING PTE LTD	AUG-25	5.9
SUNMED PHASE 3 - FIT-OUT WORKS	SUNWAY MEDICAL CENTRE SDN BHD	JUN-26	80.0
JHB1X0 - REVISED NTP WORKS	YELLOWWOOD PROPERTIES SDN BHD	FEB-26	1,500.0
SECURED IN 2Q 2024			1,585.9
KALLANG WHAMPOA C53	NEWCON BUILDERS PTE LTD	JUL-27	100.4
PROJECT C - SITE 1	FONDA GLOBAL ENGINEERING PTE LTD	MAY-26	22.6
PROJECT C - SITE 2	FONDA GLOBAL ENGINEERING PTE LTD	DEC-26	40.2
SECURED IN 3Q 2024			163.1
TOTAL AS AT AUGUST 2024			3,466.9

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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