

13 May, 2024

Sunway Construction (SCGB MK)

Robust Outlook on Rising Data Centre Projects

- We recently toured the Rapid Transit System Link (RTS Link) in Bukit Chagar, Johor Bahru, where Sunway Construction (SunCon) is actively involved. We were informed that its work scope has reached 30% completion, staying on track to meet the operational deadline set for 2027.
- Overall, we remain optimistic on its earnings outlook due to (i) exposure to data centre projects which could offer double digit margin and shorter project turnaround, (ii) steady flow of internal contracts from Sunway, and (iii) robust orderbook of RM6.9bn.
- Maintain SunCon as a BUY with higher TP of RM3.69 (from RM3.19) based on 5-year average PER of 19.5x pegged to FY25F EPS of 18.9sen.

Bustling Construction Activity in Bukit Chagar

We recently visited the Rapid Transit System Link (RTS Link) in Bukit Chagar, Johor Bahru, where Sunway Construction (SunCon) is currently undertaking the construction of Package 1B Advance Works and Package 5 Terrestrial Viaducts and Ancillary Structures that is worth RM605mn. The project is making good progress and is on course to meet its deadline in which the package set to be delivered by 2QFY25. SunCon's portion has currently achieved approximately 30% progress, with expectations to reach 60% by 4Q2024. Simultaneously, the Transport Minister has reported that the overall RTS Link progress has reached 65-70% completion.

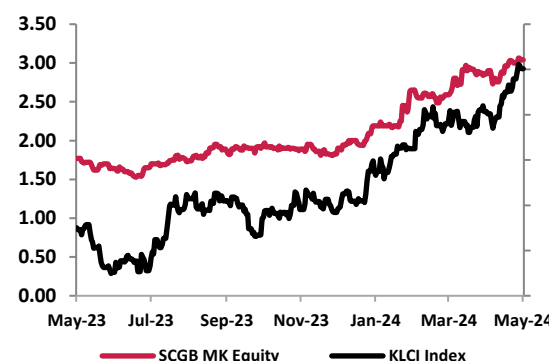
With the vision of making Bukit Chagar the transportation hub in the central district, main roads with elevated flyovers will be directly link to the Bukit Chagar Immigration, Customs, and Quarantine (ICQ) complex. This is to be complimented further with multiple access points from surrounding roads for enhanced accessibility. Pedestrian bridges will also be linked to nearby shopping centers and the Ibrahim International Business District (IIBD). To streamline services, a pedestrian bridge will seamlessly integrate the ICQ complex, RTS Link station, and KTM JB Sentral Station, facilitating smooth coordination among RTS, KTMB, and MyBas Johor Bahru. Additionally, the government is exploring the potential use of the Gemas-Johor Baru Electrified Double-Tracking Rail Project (Gemas-JB EDTP) track to offer direct access to the RTS Link station for residents from other districts in Johor.

Balancing Potential and Feasibility

SunCon has expressed interest in participating in the bid for the Light Rapid Transit (LRT) Johor project, but we think it may only take off after the completion of RTS Link project in 2027. In regards of involvement in the High-Speed Rail (HSR) project, SunCon is less

BUY Share Price **RM3.04**
Target Price **▲RM3.69 +21.3%**

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	4.8	18.2	76.5
vs FBM KLCI	3.0	9.8	52.7

Stock Data

ESG Rating	Good
Mkt Cap (RM mn)	3,919.7
Beta	0.9
Free float (%)	29.4
Issued shares (mn)	1,289.4
52w H/L (RM)	3.08/ 1.53
3m avg daily volume	4,192,066

Major Shareholders (%)

Sunway Holdings	54.6
Sungei Way Corp	10.1
Employees Provident Fund	5.9

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Turnover	2,155.2	2,671.2	3,101.8	3,282.4	3,465.0
EBITDA	210.3	245.3	264.1	278.2	367.3
Core PBT	184.1	188.6	203.7	271.9	344.2
Core Profit	138.7	145.8	178.7	243.9	320.2
Consensus NP			178.9	204.0	222.5
EPS (sen)	10.8	11.3	13.9	18.9	24.8
PER (x)	26.0	24.3	19.7	14.4	11.0
DPS (sen)	5.5	5.5	6.0	6.0	6.5
D. Yield (%)	2.0	2.0	2.2	2.2	2.4
BVPS (RM)	0.6	0.6	0.7	0.8	1.0
P/B (x)	4.3	4.3	3.8	3.2	2.7

Key Ratios (%)

ROE	17.6	17.7	20.5	24.3	26.5
EBITDA margin	9.8	9.2	8.5	8.5	10.6
Pretax margin	8.5	7.1	6.6	8.3	9.9
Net margin	6.4	5.5	5.8	7.4	9.2

Source: Bloomberg, BIMB Securities

Research Team

aimannawwar@bimbsec.com.my
(603) 2613 1741

enthusiastic due to the requirement for self-funding, which may pose challenges to the company's balance sheet. However, there is still potential for SunCon to engage as a second-tier contractor. To recap, SunCon's net gearing stood at 0.56x as at end FY23 (Refer Chart 2), a shift from the previous year's net cash position. The total borrowings are largely attributed to two Hybrid Annuity Model (HAM) projects in India. Under these projects, 60% of receivables will be paid over a 15-year period in the form of annuities upon the completion of the projects this year. Additionally, the borrowings also encompass the ongoing expansion of the Singapore's Integrated Construction and Prefabrication Hub (ICPH) plant and the deferred payment scheme for the two LSS4 projects, where construction costs are paid only after the scheduled commercial operation date.

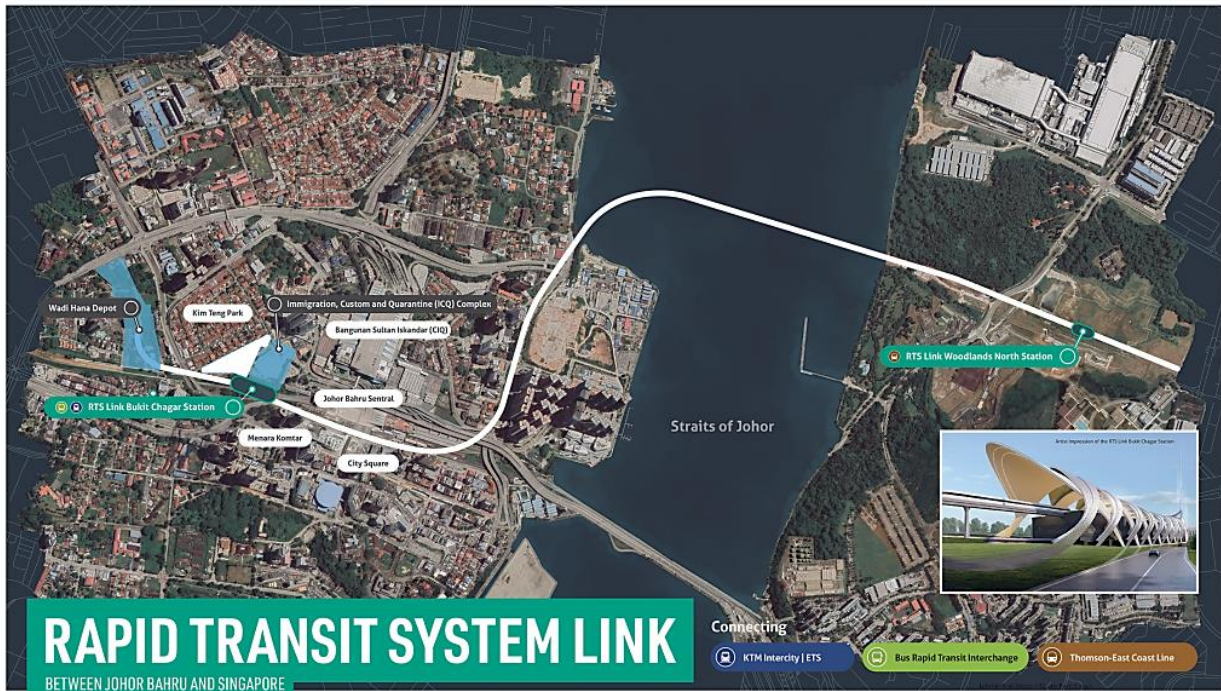
Seizing Growth Opportunities in Data Centre Landscape

Supported by its parent company, Sunway Berhad, with internal contracts accounting for 36% as of 1QFY24 (Refer Chart 3), SunCon remains proactive in its pursuit of external contracts and the company is actively bidding on data center (DC) and industrial projects in both Johor and the Klang Valley. SunCon's foray into this sector is poised for significant advancement, especially with the ongoing development of the Sunway City Iskandar Puteri's Free Commercial Zone, a project overseen by its parent company. Spanning over 135 acres and boasting a Gross Development Value (GDV) of RM8bn, it sets a promising stage for SunCon's expansion. Furthermore, recent announcements from Microsoft on its commitment to invest USD2.2bn over the next four years to propel Malaysia's digital transformation, sparked considerable interest. This commitment has translated into the acquisition of a substantial plot of land in Pulai, Johor, covering 1.1million sqft, likely earmarked for DC. The development opens new avenues for SunCon, positioning it as a frontrunner in the region's DC contracting sphere and further enhancing its profitability prospects, as the segment offer a double-digit margin with shorter project turnaround. Within its portfolio, SunCon's has already secured contracts worth approximately RM2.0bn for two DC projects in Sedenak, Johor, further solidifying its foothold in this burgeoning market. Additionally, its precast segment stands to benefit from Singapore's neighbouring country, as the Housing Development Board (HDB) has committed to building another 19,600 new flats in 2024. Considering all the emerging opportunities, we believe SunCon's growth trajectory remains strong, supported by a solid outstanding orderbook of RM6.9bn as at 1QFY24.

Maintain BUY with higher TP RM3.69

We maintain SunCon as a **BUY** with higher **TP of RM3.69 (from RM3.19)**, based on average PER of 19.5x pegged to FY25F EPS of 18.9sen. We continue to like SunCon due to: i) first-mover advantage in Johor's data center industry, ii) steady flow of internal contracts from parent company, and iii) lucrative precast demand from Singapore

Chart 1: RTS Link's alignment map



Source: MRT Corp

Picture 1: Site next to Menara Komtar



Picture 2: RTS Link's Marine bridge



Picture 3: SunCon's RTS Link package



Picture 4: RTS Link – CIQ Complex



Source: BIMB Securities

Chart 2: SunCon's Total Borrowings

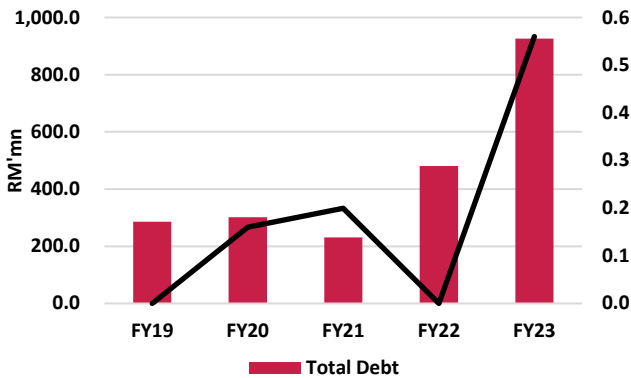
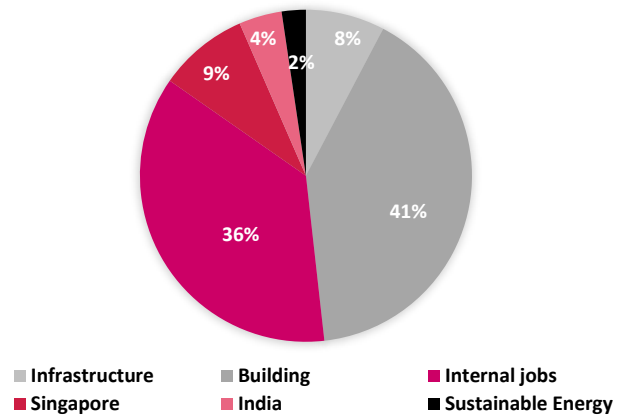
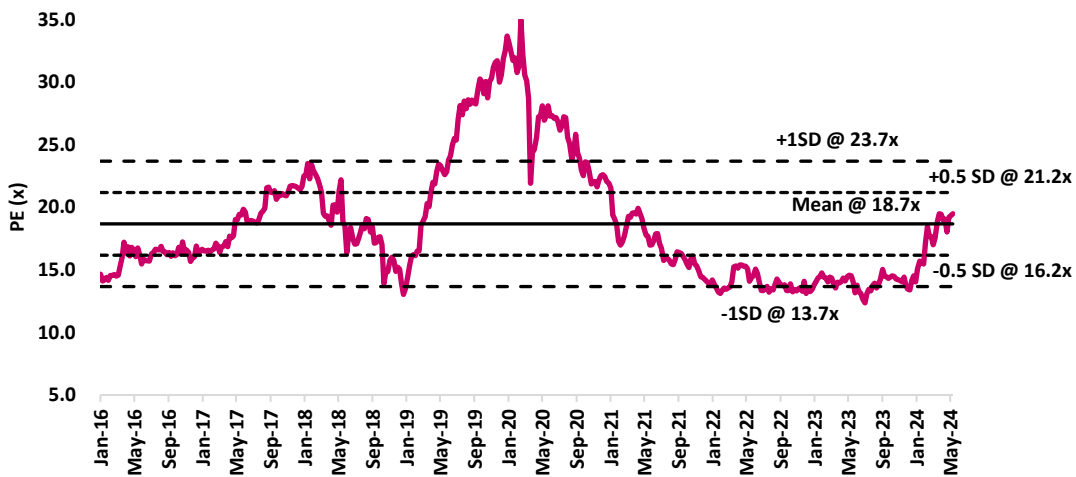


Chart 3: SunCon's outstanding orderbook breakdown



Source: Company, BIMB Securities

Chart 4: SunCon's 5-years Historical Forward PE



Source: Bloomberg, BIMB Securities

Income Statement

FYE Dec (RM m)	2022	2023	2024F	2025F	2026F
Turnover	2,155.2	2,671.2	3,101.8	3,282.4	3,465.0
Operating costs	(1,945.0)	(2,425.9)	(2,833.4)	(2,995.3)	(3,097.6)
EBITDA	210.3	245.3	268.4	287.1	367.3
Depreciation & amortisation	(23.8)	(21.0)	(23.5)	(26.2)	(24.0)
EBIT	186.5	224.3	244.9	260.9	343.3
Interest income	(4.2)	(21.5)	(27.0)	25.1	15.0
Pretax profit	184.1	188.6	203.7	271.9	344.2
Tax expense	(45.3)	(42.8)	(25.0)	(28.0)	(24.0)
Net profit	138.7	145.8	178.7	243.9	320.2
PATAMI	135.2	145.1	178.7	243.9	320.2

Balance Sheet

FYE Dec (RM m)	2022	2023	2024F	2025F	2026F
Non-Current Asset	598.7	843.6	836.5	829.3	813.1
Current Asset	1,637.4	2,239.2	2,418.6	2,817.9	3,254.5
Total Asset	2,236.0	3,082.8	3,255.1	3,647.2	4,067.6
Non-Current Liabilities	311.9	489.1	489.1	489.1	489.1
Current Liabilities	1,103.3	1,701.8	1,844.6	2,070.1	2,254.2
Total Liabilities	1,415.3	2,190.8	2,333.6	2,559.2	2,743.2
Total Equity	820.8	820.2	921.5	1,088.0	1,324.4
Total liabilities & equity	2,236.0	3,082.8	3,255.1	3,647.2	4,067.6

Cash Flow

FYE Dec (RM m)	2022	2023	2024F	2025F	2026F
Cash flow from operating activities (CFO)	(215.0)	(285.8)	331.6	413.4	451.1
Cash flow from investing activities (CFI)	423.8	(88.1)	(22.7)	(20.6)	(18.5)
Cash flow from financing activities (CFF)	142.7	383.8	(81.8)	(81.6)	(87.8)
Net change in cash & cash equivalent	351.4	9.9	227.0	311.2	344.8

Source: Company, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Disclaimer

This report has been prepared for information and educational purposes only and are not recommendation or endorsement to sell or solicitation to buy any securities, subscription of financial products or otherwise to be taken as investment advice of any form or kind and neither should be relied upon as such. The information herein was obtained or derived from publicly available information, internally developed data and other sources believed to be reliable. Whilst all reasonable care has been taken to ensure that all information and data are accurate and the opinions are fair and reasonable, we do not represent or warrant their accuracy, timeliness, completeness and currentness or applicability of such information for any particular purpose. The investments advice or idea discussed or recommended in this report may not be suitable for all investors. Any recommendation presented in this report is general in nature and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this report. The investors are advised to conduct own research and seek independent professional advice prior to taking any investment or investment related decisions. The directors and employees of BIMB Securities Sdn Bhd and BIMB Group of Company may from time to time have a position in or either the securities mentioned or may provide services to any company and affiliates of such companies whose securities are mentioned herein. BIMB Securities Sdn Bhd and BIMB Group of Company accept no liability for any direct, indirect or consequential losses, claims and damages arising from any use of this report. BIMB Securities does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report. Unless stated otherwise, BIMB Securities is not a market maker in the securities or other capital market products of the subject company(ies) covered in this report. BIMB Securities did not receive compensation for corporate finance services from the subject company(ies) in the past 12 months. BIMB Securities did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report. The analyst(s) who prepared this research report is/are prohibited from receiving any compensation, incentive or bonus based on specific transactions or for providing a specific recommendation for, or view of, a particular company.

Printed and published by

BIMB SECURITIES

BIMB SECURITIES SDN BHD (290163-X)

A Participating Organisation of Bursa Malaysia Securities Berhad

Level 34, Menara Bank Islam

No. 22, Jalan Perak,

50450 Kuala Lumpur

Tel: 03-2613 1600 Fax: 03-2613 1799

<http://www.bimbsec.com.my>



Noorhayati Maamor
Head of Research