

Sunway Construction (SCGB MK)

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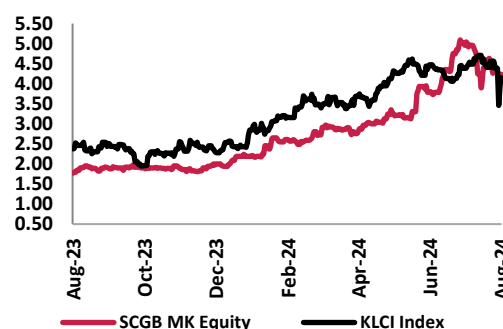
HOLD ▼

Share Price RM4.24
Target Price RM3.90 -7.9%

Remain Sanguine with a Robust Orderbook

- **Downgrade to HOLD (TP: RM3.90).** Sunway Construction (SunCon) reported 1H24 Core Net Profit of RM71.3mn (+17.2% YoY), which fell short of both ours and consensus estimates, achieving 39.9% and 39.4% respectively. The earnings shortfall relative to our forecast was due to our aggressive assumption on the timing of earnings recognition. Hence, we lowered our earnings forecasts for FY24F-26F by 7.0%-12.1%, reflecting a more conservative outlook. SunCon has declared a dividend of 3.5sen and we anticipated total FY24F DPS of 6.5sen, translating to a 1.5% dividend yield. We downgrade SunCon to a **HOLD** with a revised **TP of RM3.90 (from RM4.01)**, based on FY25F EPS of 17.2sen, pegged to +0.5SD average 5-years PER of 22.7x.
- **Key highlights.** In 2QFY24, SunCon posted a 7.7% QoQ revenue increase, with net profit jumping 43.9% QoQ, primarily due to the progress in its building and data center projects. Currently the company is working on five data centre projects from four different MNCs. Meanwhile, the precast segment experienced a 12.4% revenue decline, mainly due to delayed productions which scheduled to begin only in the final quarter of this year and early next year. Hence, we anticipate for slower earnings contribution from this segment for FY24.
- **Earnings Revision.** We cut our earnings forecasts for FY24F/25F/26F by 12.1%/8.8%/7.0% (refer to Table 2) as we adjusted lower our progress billings assumptions.
- **Outlook.** We remain sanguine on SunCon's outlook driven by its active participation in tenders within the warehousing and semiconductor manufacturing, and the expected opportunities from major infra projects namely the Penang LRT and Penang International Airport expansion. Currently, SunCon's outstanding orderbook stood at RM7.4bn and the company has raised its new orderbook win target to RM5.0bn from RM4.0bn. We believe this is achievable supported by in-house pipeline projects from Sunway Berhad, especially those involving special purpose buildings. Furthermore, the anticipated first annuity from one of its India highway projects by 3Q24 could help to bolster its financial position. Potential downside risks include: 1) further setbacks in infrastructure project schedules; 2) continued delays in payment receipts, which may hinder the ability to undertake new projects; and 3) adverse shifts in building material costs.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(14.5)	30.5	146.1
vs FBM KLCI	(15.5)	28.9	111.8

Stock Data

ESG Rating	Good
Mkt Cap (RM mn)	5,466.9
Adjusted Beta	1.0
Free float (%)	29.1
Issued shares (mn)	1,289.4
52w H/L (RM)	5.18 / 1.76
3m avg daily volume	4,688,410

Major Shareholders (%)

Sunway Holdings	54.6
Sungei Way Corp	10.1
Employees Provident Fund	6.2

Research Team

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Table 1: Quarterly Figures

Sunway Construction FYE 31 Dec (RM mn)	Quarterly			Change		Cumulative		YTD Chg	BIMB	6M/F24
	2Q23	1Q24	2Q24	QoQ	YoY	1HFY23	1HFY24			
Revenue	604.1	604.8	651.2	7.7%	7.8%	1,126.2	1,256.0	11.5%	3,101.8	40.5%
Operating Cost	(562.3)	(564.6)	(601.4)	6.5%	7.0%	(1,046.6)	(1,166.0)	11.4%	(2,879.8)	40.5%
EBITDA	52.0	57.7	57.2	-0.8%	10.0%	108.1	114.8	6.3%	222.1	51.7%
EBIT	46.7	53.2	52.7	-1.0%	12.8%	88.4	105.7	19.7%	244.9	43.2%
Pretax Profit	42.3	41.6	50.2	20.5%	18.8%	79.8	91.9	15.1%	203.7	45.1%
Taxation	(9.0)	(8.9)	(12.4)	39.2%	38.3%	(17.9)	(21.4)	19.6%	(25.0)	85.5%
Net Profit	33.0	32.4	37.8	16.6%	14.4%	61.9	70.5	13.8%	178.7	39.4%
PATAMI	33.0	27.0	38.9	43.9%	17.8%	60.8	71.3	17.2%	178.7	39.9%
EPS (sen)	2.6	2.5	3.0	0.2	0.2	4.7	5.5	0.2	13.9	39.9%
DPS declared (sen)	3.0	0.0	3.5	0.0	0.2	3.0	3.5	0.2	6.0	58.3%
				Chg (ppts)				Chg (ppts)		
EBITDA margin	8.6%	9.5%	8.8%	(0.7)	0.2	9.6%	9.1%	(0.5)	8.6%	
EBIT margin	7.7%	8.8%	8.1%	(0.7)	0.4	7.8%	8.4%	0.6	7.7%	
PBT margin	7.0%	6.9%	7.7%	0.8	0.7	7.1%	7.3%	0.2	7.0%	
Net Profit margin	5.5%	5.4%	6.0%	0.6	0.5	5.5%	5.6%	0.1	5.5%	
Effective tax rate	(21.3%)	(21.5%)	(24.8%)	(0.0)	(0.0)	(22.4%)	(23.3%)	(0.0)	(21.3%)	

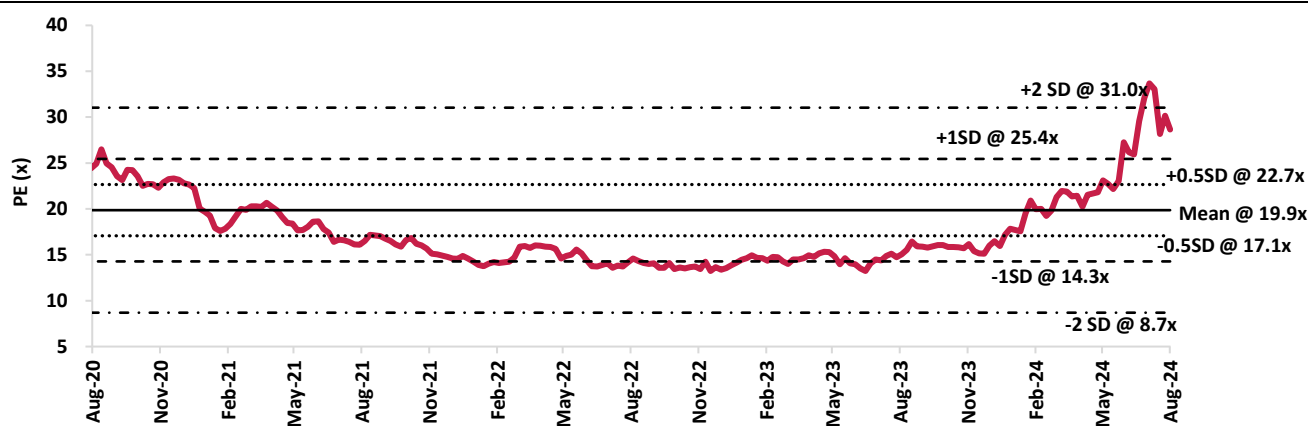
Source: Bloomberg, BIMB Securities

Table 2: Earnings Revision

FYE 31 Dec RM mn	Before			After			Changes		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Turnover	3101.8	3282.4	3465.0	2835.7	3008.7	3168.9	-8.6%	-8.3%	-8.5%
EBITDA	222.1	236.2	367.3	200.5	214.9	344.8	-9.7%	-9.0%	-6.1%
Pretax profit	203.7	271.9	344.2	196.2	264.5	335.8	-3.7%	-2.7%	-2.4%
Net Profit	178.7	243.9	320.2	157.0	222.3	297.7	-12.1%	-8.8%	-7.0%
EPS (sen)	13.9	18.9	24.8	12.2	17.2	23.1	-12.1%	-8.8%	-7.0%
							ppts		
EBITDA margin (%)	7.2	7.2	10.6	7.1	7.1	10.9	-0.1	-0.1	0.3
Pretax margin (%)	6.6	8.3	9.9	6.9	8.8	10.6	0.4	0.5	0.7
Net margin (%)	5.8	7.4	9.2	5.5	7.4	9.4	-0.2	0.0	0.2

Source: BIMB Securities

Chart 2: SunCon's 5-years Historical Forward PE



Source: Bloomberg, BIMB Securities

Table 3: Earnings Forecast

FYE 31 Dec (RM mn)	2022	2023	2024F	2025F	2026F
Turnover	2155.2	2672.2	2835.7	3008.7	3168.9
EBITDA	210.3	203.3	200.5	214.9	344.8
Pre-tax profit	182.4	202.8	196.2	264.5	335.8
PATAMI	135.2	145.1	157.0	222.3	297.7
Consensus PATAMI			181.1	261.5	279.8
Core EPS (sen)	10.5	11.3	12.2	17.2	23.1
PER (x)	14.9	13.7	35.1	24.8	18.5
DPS (sen)	5.5	6.0	6.0	6.0	6.0
Div. Yield (%)	3.5	3.6	1.4	1.4	1.5
BVPS (sen)	0.6	0.6	0.7	0.8	1.0
P/B (x)	2.7	2.4	6.1	5.3	4.4
Net gearing (x)	(0.7)	(0.6)	(0.5)	(0.5)	(0.4)
Key Ratios (%)					
ROE	19.1	18.7	18.3	22.9	25.8
EBITDA margin	9.8	7.6	7.1	7.1	10.9
Pretax margin	8.5	7.1	6.4	8.3	10.2
Net margin	6.4	5.5	5.5	7.4	9.4

Source: Bloomberg, 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.

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