

Malaysia

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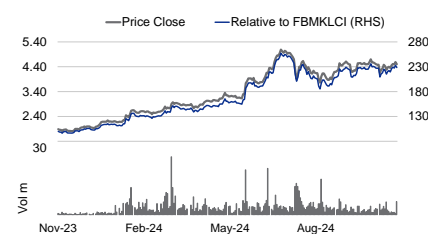
Consensus ratings*: Buy 8 Hold 8 Sell 1

Current price:	RM4.50
Target price:	RM6.00
Previous target:	RM6.00
Up/downside:	33.3%
CGSI / Consensus:	23.7%
Reuters:	SCOG.KL
Bloomberg:	SCGB MK
Market cap:	US\$1,298m
	RM5,802m
Average daily turnover:	US\$2.89m
	RM12.47m
Current shares o/s	1,293m
Free float:	28.9%

*Source: Bloomberg

Key financial forecasts

	Dec-24F	Dec-25F	Dec-26F
Net Profit (RMm)	190.9	322.6	326.8
Core EPS (RM)	0.15	0.25	0.25
Core EPS Growth	27.2%	69.0%	1.3%
FD Core P/E (x)	30.47	18.04	17.80
Recurring ROE	22.0%	32.4%	28.2%
P/BV (x)	6.35	5.40	4.69
DPS (RM)	0.07	0.12	0.13
Dividend Yield	1.64%	2.77%	2.81%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	8.4	134.4
Relative (%)	2.9	11.1	124.7

Major shareholders	% held
Sunway Berhad	54.4
EPF	9.4
Amanah Saham	7.3

Analyst(s)

CHONG Tjen-San, CFA

T (60) 3 2635 9298

E tjen-san.chong@cgsi.com

Sunway Construction Group Bhd

3Q24 driven by DCs; expect stronger 4Q24F

- 3Q24 results met expectations, amid improvements in construction margins. We expect a stronger 4Q24F driven by its Sedenak DC project.
- YTD wins of RM4bn are at the lower end of its RM4bn-5bn target for FY24F. Expect some deferrals, with upsizing of existing DC projects to 1QFY25F.
- Reiterate Add and GGM-derived TP of RM6.00.

3Q24 in line, expect strong 4Q24F from acceleration of DC projects

- Sunway Construction (Suncon) announced a 3Q24 core net profit of RM34m (-10% yoy, -8% qoq), bringing 9M24 core net profit to RM98m (+2% yoy; forming 52% of our FY24F forecast and 55% of Bloomberg consensus estimate). We deem this in-line as we expect a stronger 4Q24F from higher recognition of its data centre (DC) projects. A second interim DPS of 2.5 sen was declared, bringing YTD DPS to 6 sen.
- The key highlight in 3Q24 was a meaningful pick-up in construction revenue to RM832m (+41% yoy; +39% qoq) due to the acceleration in the progress of its DC projects. 3Q24 construction pretax margin improved to 8.2%, from 7.0% in 3Q23 and 7.8% in 2Q24.
- Its upsized RM3.7bn Sedenak DC project has reached 17% recognition since its award at end-2022, but we expect this to pick up in 4Q24F given that the project is fast-tracked, with scheduled completion in 1Q26F. Additionally, the finalisation of the end-client and upsizing happened only in late-2Q24.
- 3Q24 precast revenue was RM34m (-60% yoy, -38% qoq); 3Q23 revenue included higher contributions from projects nearing completion. 3Q24 precast margin was 6.0%, vs. 3Q23's 7.8%, but stable qoq.

YTD wins of RM4bn meeting lower end of guidance; DCs form 54% of orderbook

- Suncon's YTD wins amount to RM4bn; its total orderbook stands at RM7.1bn as at Sep 24, with DC projects contributing 54% of the total. It currently has five DC projects from four clients, with potential upsizing opportunities, in our view. We expect the upsizing of a few existing DC projects, but the timing could be deferred to 1QCY25F, in our view.
- With a strong pipeline of DC projects in Johor, given the slew of land sales in 2023 and 2024, we expect more DC project awards going forward. However, we believe the approvals for new DCs may be more stringent going forward. Based on a Straits Times newspaper article on 19 Nov, Johor state had rejected four of a total 14 applications over the past five months due to lack of sustainable measures to reduce water and power usage. Another key criteria imposed by the state is the ability of the DC operator to offer competitive wages.
- According to Johor state's development committee, DC capacity had grown from 10MW in 2021 to 1.3GW currently, and is set to rise to 2.7GW by 2027F. We believe Suncon is the contractor of choice for DCs in Johor because of its first-mover advantage in the state, with two projects currently ongoing and a strategic partnership with Engie Malaysia, which has experience in constructing DCs in Singapore, as well as strong mechanical, electrical and plumbing (MEP) capabilities.

Reiterate Add and TP of RM6.00

- We reiterate our Add rating and TP of RM6.00 based on GGM (LTG 4.5%, COE 8.4%, ROE 32%). We think that relative to SOP, GGM better reflects Suncon's superior ROEs of 28-32% for FY25-26F (vs. sector average of 10%) given its more concentrated DC exposure, which has higher margins and shorter project tenures.
- We like Suncon for its strong execution track record, first-mover advantage in DCs and 3-year EPS CAGR of 24% (FY23-26F). Key downside risks: slower recognition of existing DC projects and higher cost environment. Re-rating catalysts: award of government infrastructure and more DC projects.

Figure 1: Sector Comparisons (share prices as at 21 Nov)

Company	Bloomberg Ticker	Rec.	Price (lcl curr)	TP (lcl curr)	Mkt Cap (US\$ m)	P/E (x) CY24F	2-year		P/BV (x)		Recurring ROE (%)		Dividend Yield (%)		
							EPS CAGR	PEG (x)	CY24F	CY25F	CY24F	CY25F	CY24F	CY25F	
Gamuda	GAM MK	Add	9.08	10.00	5,730	24.6	19.5	23.3%	1.1	2.21	2.09	8.8%	10.8%	1.9%	2.2%
IJM Corp Bhd	IJM MK	Add	3.02	4.40	2,368	18.8	16.1	25.7%	0.7	1.00	0.95	5.3%	6.0%	1.0%	1.0%
WCT Holdings	WCTHG MK	Add	0.91	1.52	317	25.4	18.0	na	na	0.34	0.34	1.4%	1.9%	0.0%	0.0%
Sunway Construction Group Bhd	SCGB MK	Add	4.50	6.00	1,298	30.5	18.0	52.6%	0.6	6.35	5.40	21.0%	32.4%	1.6%	2.8%
Muhibbah Engineering	MUHI MK	Add	0.83	1.34	135	11.3	8.9	-50.0%	-0.2	0.45	0.43	3.9%	4.9%	3.5%	5.6%
HSS Engineers	HSS MK	Add	1.17	1.48	133	22.8	11.8	59.2%	0.4	2.30	2.02	9.8%	18.2%	1.4%	2.8%
YTL Corporation	YTL MK	Add	1.96	3.55	4,840	10.7	10.4	15.6%	0.7	1.27	1.16	12.2%	11.4%	2.4%	2.6%
Malayan Cement Bhd	LMC MK	Add	4.83	6.90	1,445	14.3	13.3	28.1%	0.5	0.99	0.94	7.0%	7.1%	2.2%	2.5%
Sunway Bhd	SWB MK	Add	4.90	5.20	6,235	30.0	27.5	24.5%	1.2	1.95	2.03	6.5%	7.5%	1.8%	2.1%
Econpile Holdings Bhd	ECON MK	Add	0.41	0.56	130	na	24.4	na	na	1.61	1.59	-1.2%	6.3%	1.2%	3.1%
Construction sector						20.9	16.8	22.4%	0.6	1.8	1.7	7.5%	10.7%	1.7%	2.5%

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 2: Suncon's 3Q24 results comparison yoy and qoq

	3QFY24	3QFY23	% change yoy	2QFY24	% change qoq
	RMm	RMm		RMm	
Revenue	865.3	673.5	28%	651.2	33%
Other operating income	24.7	3.4	631%	1.6	1449%
Other operating expense	-825.3	-622.8	33%	-600.2	37%
EBIT	64.8	54.1	20%	52.7	23%
Finance income	22.4	7.0	219%	15.3	46%
Finance cost	-16.6	-13.0	28%	-17.8	-6%
Profit before taxation	70.5	48.1	47%	50.2	40%
Taxation	-21.9	-12.6	74%	-12.4	76%
Net income	48.6	35.5	37%	37.8	29%
Minority interest	-2.2	-0.5	333%	1.1	-298%
Atributed to shareholders	46.5	35.0	33%	38.9	20%
Less: Exceptional Items	12.3	-3.0	-514%	1.7	624%
Core net profit	34.2	38.0	-10%	37.2	-8%
	3QFY24	3QFY23	% change yoy	2QFY24	% change qoq
	RMm	RMm		RMm	
Construction	831.8	590.6	41%	597.6	39%
Precast Concrete	33.5	83.0	-60%	53.6	-38%
Revenue	865.3	673.5	28%	651.2	33%
Construction	68.5	41.6	65%	46.9	46%
Precast Concrete	2.0	6.5	-69%	3.3	-40%
Profit before taxation	70.5	48.1	47%	50.2	40%
Construction pretax margins	8.2%	7.0%	17%	7.8%	5%
Precast concrete pretax margins	6.0%	7.8%	-24%	6.2%	-4%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	2,698	3,461	5,537	5,595
Gross Profit	588	650	848	859
Operating EBITDA	245	304	498	506
Depreciation And Amortisation	(21)	(21)	(27)	(32)
Operating EBIT	224	283	471	474
Financial Income/(Expense)	(21)	(27)	(37)	(34)
Pretax Income/(Loss) from Assoc.	(14)	2	2	2
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	189	258	436	442
Exceptional Items	25	0	0	0
Pre-tax Profit	214	258	436	442
Taxation	(43)	(67)	(113)	(115)
Exceptional Income - post-tax				
Profit After Tax	171	191	323	327
Minority Interests	(1)	0	0	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	170	191	323	327
Recurring Net Profit	150	191	323	327
Fully Diluted Recurring Net Profit	150	191	323	327

Balance Sheet

(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	470	588	469	656
Total Debtors	1,596	1,842	2,951	2,982
Inventories	46	43	69	70
Total Other Current Assets	127	127	127	127
Total Current Assets	2,239	2,600	3,616	3,835
Fixed Assets	99	128	151	169
Total Investments	253	253	253	253
Intangible Assets	483	483	483	483
Total Other Non-Current Assets	9	9	9	9
Total Non-current Assets	844	873	896	914
Short-term Debt	438	438	438	438
Current Portion of Long-Term Debt				
Total Creditors	1,243	1,387	2,215	2,239
Other Current Liabilities	21	21	21	21
Total Current Liabilities	1,702	1,846	2,674	2,698
Total Long-term Debt	488	638	688	738
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	488	638	688	738
Total Provisions	1	1	1	1
Total Liabilities	2,191	2,485	3,363	3,437
Shareholders' Equity	820	916	1,077	1,240
Minority Interests	72	72	72	72
Total Equity	892	987	1,149	1,312

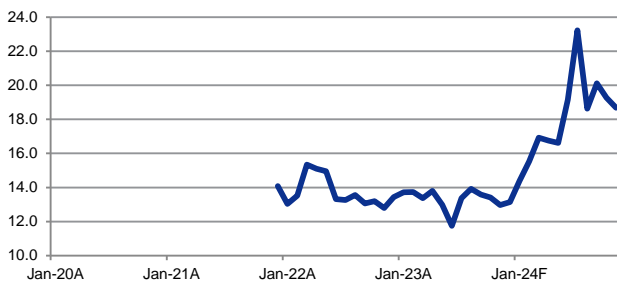
Cash Flow

(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	245.3	304.0	497.8	505.9
Cash Flow from Invnt. & Assoc.				
Change In Working Capital	(274.1)	(98.6)	(307.2)	(7.7)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(62.1)	(40.0)	(46.7)	(49.0)
Other Operating Cashflow	(130.6)	0.0	0.0	0.0
Net Interest (Paid)/Received	(21.5)	(27.0)	(36.7)	(34.3)
Tax Paid	(42.8)	(67.1)	(113.3)	(114.8)
Cashflow From Operations	(285.8)	71.4	(6.2)	300.1
Capex	(17.7)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	(70.4)	0.0	0.0	0.0
Cash Flow From Investing	(88.1)	(50.0)	(50.0)	(50.0)
Debt Raised/(repaid)	445.2	150.0	50.0	50.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid	(70.9)	(95.5)	(161.3)	(163.4)
Preferred Dividends				
Other Financing Cashflow	(21.6)	41.7	48.4	50.7
Cash Flow From Financing	352.7	96.2	(62.9)	(62.7)
Total Cash Generated	(21.2)	117.6	(119.1)	187.4
Free Cashflow To Equity	71.3	171.4	(6.2)	300.1
Free Cashflow To Firm	(326.0)	63.0	(7.8)	300.8

Key Ratios

	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	23.9%	29.0%	60.2%	1.0%
Operating EBITDA Growth	11.0%	23.9%	63.8%	1.6%
Operating EBITDA Margin	9.2%	8.8%	9.0%	9.1%
Net Cash Per Share (RM)	(0.35)	(0.38)	(0.51)	(0.40)
BVPS (RM)	0.63	0.71	0.83	0.96
Gross Interest Cover	4.68	6.80	9.73	9.36
Effective Tax Rate	20.0%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	53.3%	50.0%	50.0%	50.0%
Accounts Receivables Days	176.6	182.5	158.3	194.0
Inventory Days	8.64	5.84	4.38	5.36
Accounts Payables Days	186.8	171.2	140.2	171.6
ROIC (%)	38%	26%	38%	31%
ROCE (%)	16.0%	15.3%	22.2%	20.6%
Return On Average Assets	6.29%	6.65%	9.00%	7.80%

12-mth Fwd FD P/E (x) - Sunway Construction Group Bhd



Key Drivers

	Dec-23A	Dec-24F	Dec-25F	Dec-26F
New order wins	2,500.0	2,231.0	5,000.0	5,000.0
Construction revenue	2,381.0	3,195.0	5,216.2	5,194.1
Precast revenue	290.2	252.0	307.0	387.0
Construction EBIT margins	7.5	7.8	8.2	8.0
Precast EBIT margins	15.5	14.0	14.0	15.0

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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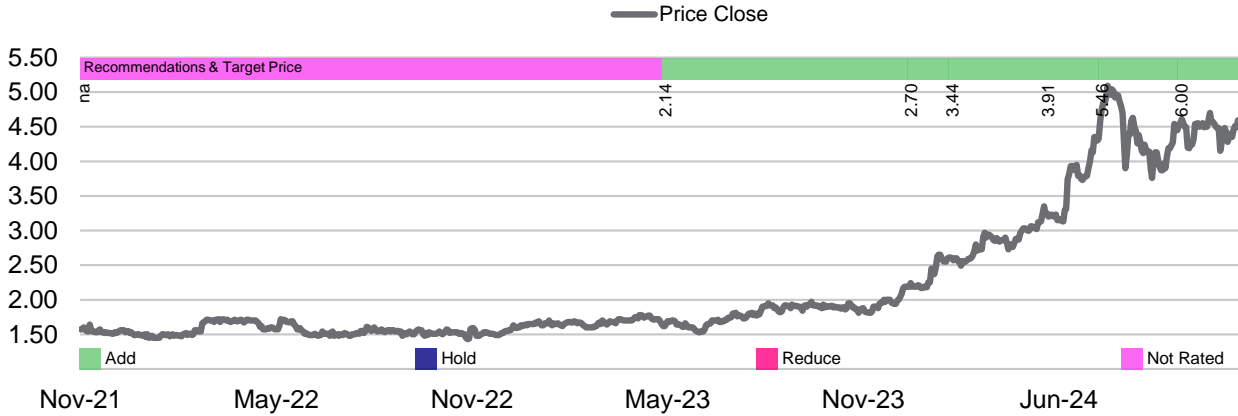
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2024		
588 companies under coverage for quarter ended on 30 September 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.0%	0.5%
Hold	23.5%	0.9%
Reduce	9.5%	0.2%

Spitzer Chart for stock being researched (2 year data)

Sunway Construction Group Bhd (SCGB MK)



Recommendation Framework

Stock Ratings

Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.