

Malaysia

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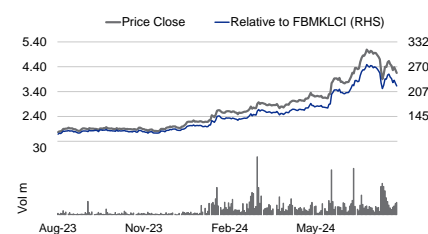
**ADD** (no change)

Consensus ratings\*: Buy 9 Hold 4 Sell 1

Current price:	RM4.12
Target price:	RM5.46
Previous target:	RM5.46
Up/downside:	32.5%
CGSI / Consensus:	21.8%
Reuters:	SCOG.KL
Bloomberg:	SCGB MK
Market cap:	US\$1,213m
	RM5,312m
Average daily turnover:	US\$3.94m
	RM18.16m
Current shares o/s	1,293m
Free float:	28.9%
*Source: Bloomberg	

Key financial forecasts

	Dec-24F	Dec-25F	Dec-26F
Net Profit (RMm)	203.3	314.5	315.8
Core EPS (RM)	0.16	0.24	0.24
Core EPS Growth	35.4%	54.7%	0.4%
FD Core P/E (x)	26.20	16.94	16.87
Recurring ROE	23.3%	31.4%	27.3%
P/BV (x)	5.78	4.94	4.31
DPS (RM)	0.08	0.12	0.12
Dividend Yield	1.91%	2.95%	2.96%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-17.9	26.8	128.9
Relative (%)	-17.8	26	116.2

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

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# Sunway Construction Group Bhd

## Stronger 2HF from high-margin DC projects

- 2Q24 results met expectations; we expect a stronger 2H24F as Sedenak DC project upsizing and finalisation of end-client happened in late-2Q24.
- We still expect upsizing for existing DC projects in 3Q24F, which could beef up its current orderbook of RM7.4bn by RM1bn-2bn.
- Reiterate Add and SOP-derived TP of RM5.46.

### 2Q24 in line, stronger 2H24F from acceleration of DC projects

- Sunway Construction (Suncon) announced 2Q24 core net profit of RM37m (+15% yoy, +38% qoq), bringing 1H24 core net profit to RM64m (+10% yoy; forming 32% of our FY24F forecast). This was in line with our forecasts and Bloomberg consensus estimates as we expect a stronger 2H24F from higher recognition of its data centre (DC) projects. A first interim DPS of 3.5 sen was declared (vs. 3 sen for 2Q23).
- The key highlight was the meaningful pick-up in 2Q24 construction revenue to RM598m (+12% yoy; +10% qoq) due to the acceleration in the progress of some newer projects. 2Q24 construction pretax margin improved to 7.8% from 7.3% in 2Q23 and 7.0% in 1Q24. As at Jun 2024, its upsized RM3.2bn Sedenak DC project has only reached 9% completion since its award at end-2022, but we expect this to pick up in 2H24F 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.
- 2Q24 precast revenue was RM54m (-22% yoy, -12% qoq) as 2Q23 revenue included higher contribution from projects nearing completion. On the positive side, 2Q24 precast pretax margin improved to 6.2% vs. 2Q23's 4.7%.
- Suncon in 2Q24 also started to recognise income from one of its India concessions, which is paid on a deferred payment basis.

### On track to achieve new order target for FY24F

- 1H24 wins amounted to RM3.5bn and we believe it is on track to achieve its revised target of RM4bn-5bn for FY24F. Our FY24 forecast is RM5.2bn.
- We expect the more assured new wins for 2H24F to come from the upsizing of existing DC projects which are K2 (initial contract value RM197m), early contractor involvement for a US MNC (initial contract value RM58m) and another US MNC (initial contract value RM748m).
- This is notwithstanding potential new wins from government infrastructure projects (Penang LRT and airport expansion and Johor ART), parent company Sunway Berhad (SWB MK, Add, CP: RM4.08), and new data centres.
- Its total orderbook as at Jun 2024 was RM7.4bn, with 51% coming from DC projects, 27% from in-house projects, and the rest from building, infrastructure, precast and sustainable energy. Its total tenderbook as at Aug 2024 was RM14.7bn, comprising mainly DC, automated warehousing and semiconductor factories.

### Reiterate Add and SOP-derived TP of RM5.46

- We reiterate our Add rating and SOP-derived TP of RM5.46. We like Suncon for its strong execution track record and first-mover advantage in the data centre space, 3-year EPS CAGR of 23% over FY23-FY26F, and market-leading ROEs of 23-31% for FY24-FY26F. Suncon will also be included in the MSCI Malaysia Small Cap Index effective 30 Aug 2024.
- Key downside risks: higher cost environment with an increase in diesel prices and more competitive landscape for data centre jobs.
- Re-rating catalysts: award of government infrastructure and more data centre projects.

**Figure 1: Sector comparison (share prices as at 22 Aug 2024)**

Company	Bloomberg Ticker	Rec.	Price (lcl curr)	TP (lcl curr)	Mkt Cap (US\$ m)	P/E (x) CY24F	2-year		P/BV (x) CY24F	Recurring ROE (%)		Dividend Yield (%)			
							EPS CAGR	PEG (x)		CY24F	CY25F	CY24F	CY25F		
Gamuda	GAM MK	Add	7.51	9.50	4,783	18.3	15.8	14.3%	1.3	1.72	1.61	9.8%	10.5%	2.1%	2.1%
IJM Corp Bhd	IJM MK	Add	3.21	4.40	2,570	19.7	17.1	18.8%	1.0	1.07	1.01	5.5%	6.1%	0.9%	0.9%
WCT Holdings	WCTHG MK	Add	1.00	1.52	322	27.8	19.7	na	na	0.37	0.37	1.4%	1.9%	0.0%	0.0%
Sunway Construction Group Bhd	SCGB MK	Add	4.24	5.46	1,248	27.0	17.4	42.4%	0.6	5.95	5.08	23.6%	31.4%	1.9%	2.9%
Muhibbah Engineering	MUHI MK	Add	0.90	1.34	149	12.7	10.0	na	na	0.48	0.47	4.0%	4.8%	3.1%	5.0%
HSS Engineers	HSS MK	Add	1.14	1.48	132	17.6	11.6	53.4%	0.3	2.20	1.94	12.6%	17.7%	1.8%	2.8%
YTL Corporation	YTL MK	Add	3.13	3.55	7,870	17.1	16.7	15.6%	1.1	2.03	1.86	12.2%	11.4%	1.5%	1.6%
Malayan Cement Bhd	LMC MK	Add	5.40	6.90	1,647	15.9	14.9	28.1%	0.6	1.11	1.06	7.0%	7.1%	1.9%	2.2%
Sunway Bhd	SWB MK	Add	4.08	4.40	5,270	27.3	26.5	11.6%	2.4	1.41	1.36	5.3%	5.2%	1.9%	2.2%
Econpile Holdings Bhd	ECON MK	Add	0.43	0.61	139	49.7	13.5	na	na	1.57	1.47	3.2%	11.3%	1.2%	2.9%
<b>Construction sector</b>						<b>23.3</b>	<b>16.3</b>	<b>26.3%</b>	<b>1.0</b>	<b>1.8</b>	<b>1.6</b>	<b>8.5%</b>	<b>10.7%</b>	<b>1.6%</b>	<b>2.3%</b>

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

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

	2QFY24 RMm	2QFY23 RMm	% change yoy	1QFY24 RMm	% change qoq
Revenue	651.2	604.1	8%	604.8	8%
Other operating income	1.6	5.0	-68%	14.5	-89%
Other operating expense	(600.2)	(562.5)	7%	(566.2)	6%
EBIT	52.7	46.7	13%	53.1	-1%
Finance income	15.3	6.7	128%	4.7	224%
Finance cost	(17.8)	(11.5)	55%	(16.2)	10%
Share of JV profits	-	0.3	n.m.	-	n.m.
Profit before taxation	50.2	42.3	19%	41.6	21%
Taxation	(12.4)	(9.0)	38%	(8.9)	39%
Net income	37.8	33.3	14%	32.7	15%
Minority interest	1.1	(0.3)	-512%	(0.3)	-455%
Attributed to shareholders	38.9	33.0	18%	32.4	20%
Less: Exceptional Items	1.7	0.7	143%	5.4	-69%
Core net profit	37.2	32.3	15%	27.0	38%
	2QFY24 RMm	2QFY23 RMm	% change yoy	1QFY24 RMm	% change qoq
Construction	597.6	535.6	12%	543.6	10%
Precast Concrete	53.6	68.5	-22%	61.2	-12%
Revenue	651.2	604.1	8%	604.8	8%
Construction	46.9	39.0	20%	37.9	24%
Precast Concrete	3.3	3.2	4%	3.8	-11%
Profit before taxation	50.2	42.3	19%	41.6	21%
Construction pretax margins	7.8%	7.3%	8%	7.0%	13%
Precast concrete pretax margins	6.2%	4.7%	33%	6.1%	1%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

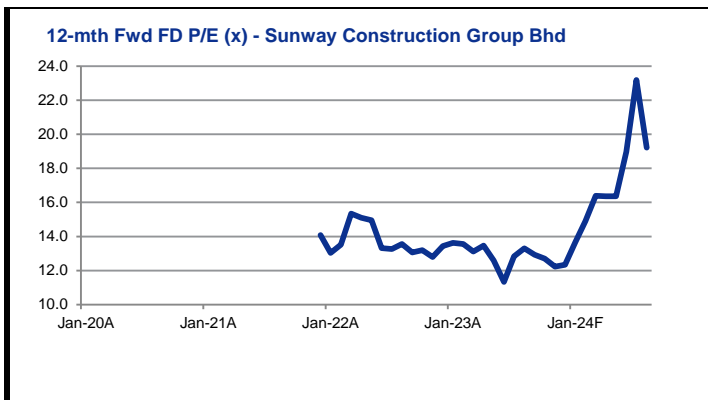
## BY THE NUMBERS

Profit & Loss				
(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
<b>Total Net Revenues</b>	<b>2,698</b>	<b>3,653</b>	<b>5,460</b>	<b>5,586</b>
<b>Gross Profit</b>	<b>588</b>	<b>668</b>	<b>836</b>	<b>844</b>
<b>Operating EBITDA</b>	<b>245</b>	<b>321</b>	<b>486</b>	<b>491</b>
Depreciation And Amortisation	-21	-21	-27	-32
<b>Operating EBIT</b>	<b>224</b>	<b>301</b>	<b>460</b>	<b>459</b>
Financial Income/(Expense)	-21	-28	-36	-34
Pretax Income/(Loss) from Assoc.	-14	2	2	2
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>189</b>	<b>275</b>	<b>425</b>	<b>427</b>
Exceptional Items	25	0	0	0
<b>Pre-tax Profit</b>	<b>214</b>	<b>275</b>	<b>425</b>	<b>427</b>
Taxation	-43	-71	-110	-111
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>171</b>	<b>203</b>	<b>314</b>	<b>316</b>
Minority Interests	-1	0	0	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>170</b>	<b>203</b>	<b>314</b>	<b>316</b>
Recurring Net Profit	150	203	314	316
<b>Fully Diluted Recurring Net Profit</b>	<b>150</b>	<b>203</b>	<b>314</b>	<b>316</b>

Balance Sheet				
(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	470	566	484	660
Total Debtors	1,596	1,944	2,909	2,977
Inventories	46	46	68	70
Total Other Current Assets	127	127	127	127
<b>Total Current Assets</b>	<b>2,239</b>	<b>2,682</b>	<b>3,589</b>	<b>3,834</b>
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
<b>Total Non-current Assets</b>	<b>844</b>	<b>873</b>	<b>896</b>	<b>914</b>
Short-term Debt	438	438	438	438
Current Portion of Long-Term Debt				
Total Creditors	1,243	1,463	2,186	2,241
Other Current Liabilities	21	21	21	21
<b>Total Current Liabilities</b>	<b>1,702</b>	<b>1,923</b>	<b>2,645</b>	<b>2,701</b>
Total Long-term Debt	488	638	688	738
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>488</b>	<b>638</b>	<b>688</b>	<b>738</b>
Total Provisions	1	1	1	1
<b>Total Liabilities</b>	<b>2,191</b>	<b>2,562</b>	<b>3,334</b>	<b>3,440</b>
Shareholders' Equity	820	922	1,079	1,237
Minority Interests	72	72	72	72
<b>Total Equity</b>	<b>892</b>	<b>994</b>	<b>1,151</b>	<b>1,309</b>

Cash Flow				
(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	245.3	321.2	486.4	490.9
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(274.1)	(127.0)	(265.5)	(13.7)
(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)	(27.5)	(36.3)	(34.2)
Tax Paid	(42.8)	(71.4)	(110.5)	(111.0)
<b>Cashflow From Operations</b>	<b>(285.8)</b>	<b>55.4</b>	<b>27.4</b>	<b>283.1</b>
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
<b>Cash Flow From Investing</b>	<b>(88.1)</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(50.0)</b>
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)	(101.6)	(157.2)	(157.9)
Preferred Dividends				
Other Financing Cashflow	(21.6)	41.7	48.4	50.7
<b>Cash Flow From Financing</b>	<b>352.7</b>	<b>90.0</b>	<b>(58.8)</b>	<b>(57.2)</b>
Total Cash Generated	(21.2)	95.4	(81.4)	175.9
<b>Free Cashflow To Equity</b>	<b>71.3</b>	<b>155.4</b>	<b>27.4</b>	<b>283.1</b>
<b>Free Cashflow To Firm</b>	<b>(326.0)</b>	<b>47.0</b>	<b>25.8</b>	<b>283.8</b>

Key Ratios				
	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	23.9%	36.2%	49.7%	2.3%
Operating EBITDA Growth	11.0%	31.0%	51.4%	0.9%
Operating EBITDA Margin	9.2%	8.8%	8.9%	8.8%
Net Cash Per Share (RM)	-0.35	-0.39	-0.50	-0.40
BVPS (RM)	0.63	0.71	0.83	0.96
Gross Interest Cover	4.68	7.21	9.49	9.06
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	178.0	162.7	192.8
Inventory Days	8.64	5.65	4.50	5.32
Accounts Payables Days	186.8	165.9	144.0	170.4
ROIC (%)	38%	27%	37%	30%
ROCE (%)	16.0%	16.2%	21.7%	20.0%
Return On Average Assets	6.29%	6.95%	8.73%	7.58%



Key Drivers				
	Dec-23A	Dec-24F	Dec-25F	Dec-26F
New order wins	2,500.0	2,231.0	4,900.0	4,900.0
Construction revenue	2,381.0	3,387.0	5,138.8	5,185.4
Precast revenue	290.2	252.0	307.0	387.0
Construction EBIT margins	7.5	7.8	8.1	7.7
Precast EBIT margins	15.5	14.0	14.0	15.0

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

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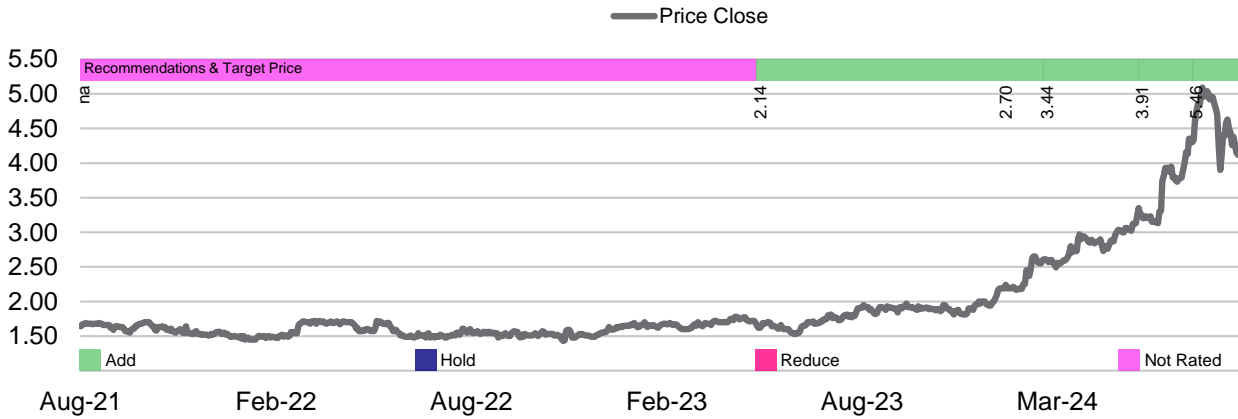
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588 companies under coverage for quarter ended on 30 June 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.0%	0.5%
Hold	25.3%	0.5%
Reduce	9.7%	0.3%

**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.

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Definition:

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- 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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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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