

Malaysia

ADD (no change)

Consensus ratings*: Buy 7 Hold 6 Sell 1

Current price:	RM4.45
Target price:	RM6.00
Previous target:	RM5.46
Up/downside:	34.8%
CGSI / Consensus:	29.2%
Reuters:	SCOG.KL
Bloomberg:	SCGB MK
Market cap:	US\$1,365m
	RM5,738m
Average daily turnover:	US\$4.32m
	RM19.46m
Current shares o/s:	1,293m
Free float:	28.9%

*Source: Bloomberg

Key changes in this note

- ▶ Trimming FY24F EPS by 6% to factor in timing of contract recognition
- ▶ Raising FY25F/FY26F EPS by 3%/4% assuming higher new order wins of RM5bn/RM5bn vs RM4.9bn/RM4.9bn previously.
- ▶ Changing valuation to GGM and raising TP to RM6.00.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.2	17.4	133
Relative (%)	5.6	12.6	118

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

Analyst(s)

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Sunway Construction Group Bhd

Constructing DCs while the sun shines

- Visible pipeline from upsizing of DC projects and fresh tenders should enable Suncon to achieve the higher end of RM4bn-5bn new win target for FY24F.
- DC opportunities in Johor still abundant but diversification is also key.
- Reiterate Add and moving our valuation to GGM with higher TP of RM6.00.

Strong and visible pipeline from existing DC upsizing opportunities

Sunway Construction's (Suncon) total orderbook as at Jun 24 was RM7.4bn, with 51% comprising data centre (DC) projects. It currently has 5 data centre projects with 4 clients, where almost all have upsizing opportunities. We expect its K2 and early contractor involvement project for a US MNC to lead to a combined increase in orderbook of RM1bn-2bn by end-24F. This alone will enable Suncon to achieve the higher end of its new wins target of RM4bn-5bn for FY24F; 1H24 wins stood at RM3.5bn. Moving to FY25F, its largest DC project, the RM3.2bn Sedenak DC project, which was upsized once in Jun 24, may see another large upsizing, we believe, but this will be dependent on end-demand.

The go-to Johor DC contractor

With a strong pipeline of DC projects in Johor, Suncon appears to be the contractor of choice for DCs in the state. We believe this is because of its first mover advantage in the state, with two projects currently and a strategic partnership with Engie Malaysia, which has experience in constructing DCs in Singapore and strong mechanical, electrical and plumbing (MEP) capabilities. Suncon has 4 outstanding tenders from 4 new clients in Johor, with one potential award this year. According to Knight Frank, total IT capacity in Johor as at 1H24 was 795MW (452MW committed, 105MW under construction and 237MW live) and including early stage supply of 825MW brings the total to 1.6GW. Assuming project cost of RM40m/MW and using the 452MW committed, there is potential value of RM18bn in Johor alone. Property developers have also been selling land to DC operators in Johor (Fig 9), which will eventually translate into project pipeline, in our view. A rerating catalyst is diversification of some of its DC exposure to semicon factories and government infrastructure projects.

Reiterate Add; adjusting FY24F-26F EPS and TP

We now value Suncon using GGM from SOP with TP of RM6.00 (LTG 4.5%, COE 8.4%, ROE 32%). We think this better reflects its superior ROEs of 28-32% for FY25F/FY26F (vs. sector average of 10%) given its more concentrated DC exposure, which has higher margins and shorter project tenures. This is reflected in its higher asset turnover of 1.1-1.4x for FY24F-26F (vs.0.9-1.0x for FY21-23) (Fig 3). Bloomberg consensus appears to be more divided on the stock now, with more downgrades in ratings vs. 2Q24, when there were more Add calls, which we see as a buying opportunity. 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: higher cost environment and more competitive landscape. Re-rating catalysts: award of government infrastructure and more DC projects.

Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (RMm)	2,155	2,671	3,447	5,523	5,581
Operating EBITDA (RMm)	221.0	245.3	304.0	497.8	505.9
Net Profit (RMm)	135.2	170.2	190.9	322.6	326.8
Core EPS (RM)	0.11	0.12	0.15	0.25	0.25
Core EPS Growth	17.1%	4.8%	27.2%	69.0%	1.3%
FD Core P/E (x)	40.16	38.32	30.14	17.84	17.60
DPS (RM)	0.05	0.06	0.07	0.12	0.13
Dividend Yield	1.18%	1.35%	1.66%	2.80%	2.84%
EV/EBITDA (x)	26.36	25.61	20.77	13.02	12.54
P/FCFE (x)	12.74	80.69	33.57	NA	19.17
Net Gearing	(1.3%)	51.1%	49.4%	57.2%	39.6%
P/BV (x)	7.81	7.01	6.28	5.34	4.64
ROE	19.9%	19.3%	22.0%	32.4%	28.2%
% Change In Core EPS Estimates			(6.09%)	2.59%	3.48%
EPS/Consensus EPS (x)			1.07	1.20	1.12

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Constructing DCs while the sun shines

Figure 1: Revisions to our FY24F-26F forecasts for Suncon

	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue (RMm)	3,639.0	5,445.8	5,572.4	3,447.0	5,523.2	5,581.1	-5.3%	1.4%	0.2%
EBITDA (RMm)	321.2	486.4	490.9	304.0	497.8	505.9	-5.4%	2.3%	3.0%
Net profit (RMm)	203.3	314.5	315.8	190.9	322.6	326.8	-6.1%	2.6%	3.5%
EPS (Sen)	15.7	24.3	24.4	14.8	25.0	25.3	-6.1%	2.6%	3.5%

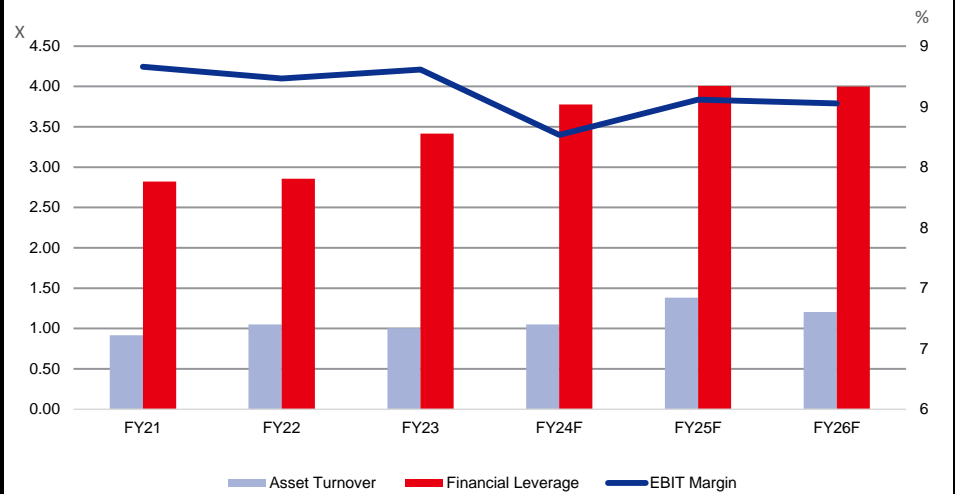
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: GGM-derived TP for Suncon

GGM TP (RM/share)	6.00
Implied P/E FY25F (x)	24
Beta (x)	0.8
Required return (%)	8.4%
LT growth rate (%)	4.5%
2025 BV/share	0.83
2025 ROE (%)	32.4%

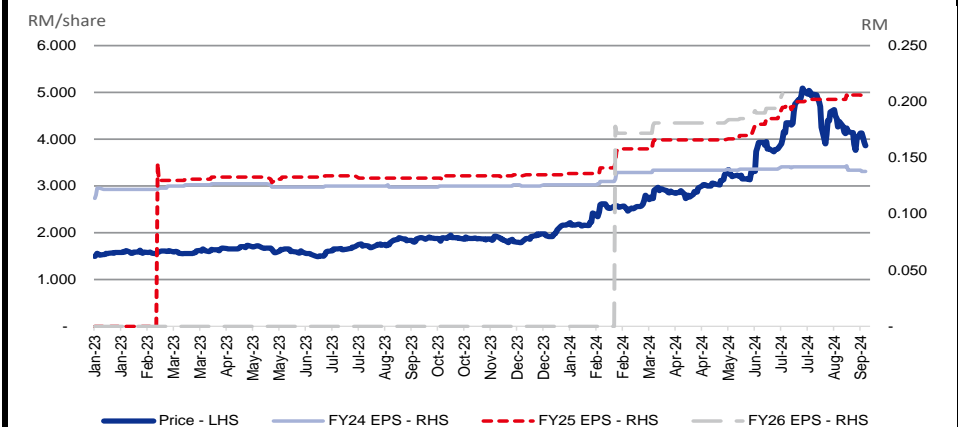
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Dupont analysis for Suncon



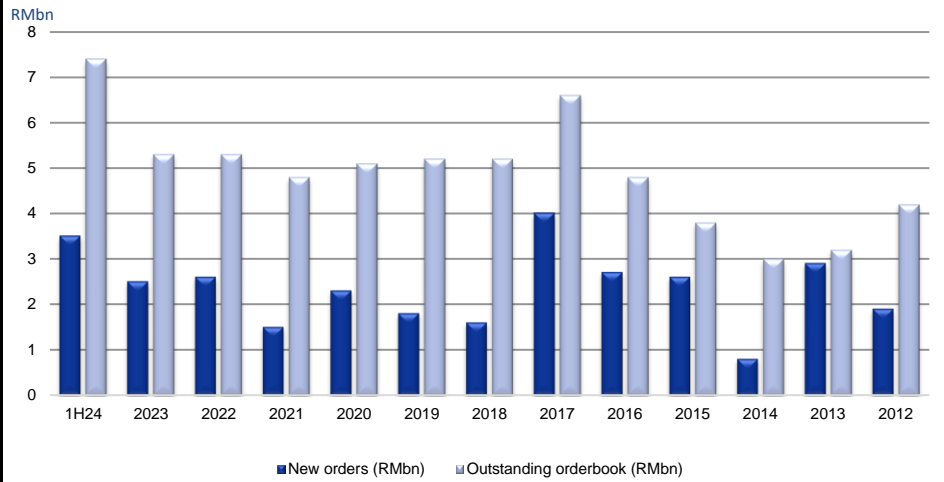
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Suncon's share price re-rating has been driven largely by EPS upgrades so far



SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Historical new order wins



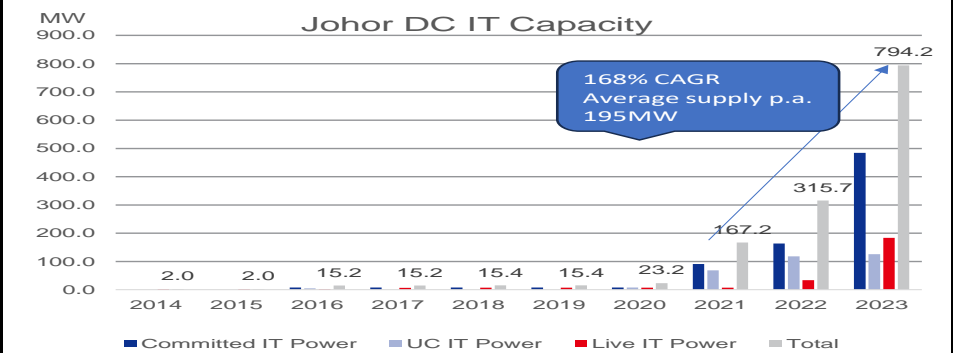
SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 6: Suncon's YTD wins for FY24F

Contract	Completion	Value (RMm)
Sunway Ipoh mall	Jan-27	721
ECI & Work Order 1A and 1B - Package A	Oct-24	34
ECI & Work Order 1A and 1B - Package B	Oct-24	26
Ulu Pandan C1 & C2	Jun-27	103
Data Centre Project Service Request	Apr-27	748
Bedok Watertanks	Sep-25	3
LPS Term Contract Batch 14	Sep-25	82
101 Neythal Road Development	Aug-25	6
Sunway Medical Centre fit out works	Jun-26	80
Sedenak data centre revised works	Feb-26	1,500
Kallang Whampoa G53	Jul-27	100
Project C - Site 1	May-26	23
Project C - Site 2	Dec-26	40
		3,466

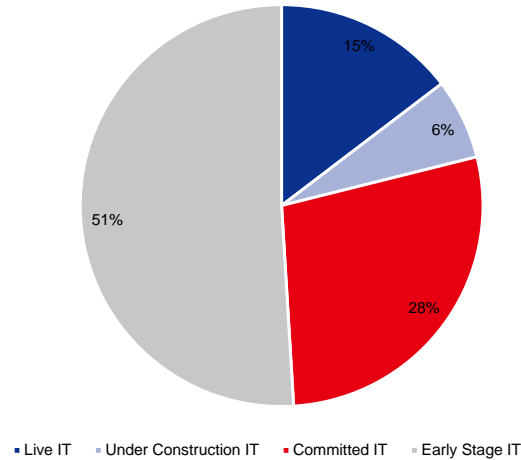
SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 7: Johor DC IT Capacity (2014-2023)



SOURCES: KNIGHT FRANK, CGSI RESEARCH, COMPANY REPORTS

Figure 8: Total potential data centre capacity in Johor, including early stage (1H24)



SOURCES: KNIGHT FRANK, CGSI RESEARCH, COMPANY REPORTS

Figure 9: Land sales in Johor over 2023-YTD 2024 for DCs (selected)

Date	Buyer	Size (Acres)	Price psf (RM)	Location	DC operator/tenants
7/11/2023	STT GDC Malaysia 2 Sdn Bhd	22.39	119.98	Pulai	STT GDC
17/11/2023	Microsoft Payments (M) Sdn Bhd	60.29	120.01	Pulai	Microsoft
4/4/2024	Microsoft Payments (M) Sdn Bhd	25.34	120.01	Pulai	Microsoft
24/4/2024	Undisclosed (DC player)	26.96	137.95	Nusajaya	unknown DC player
9/5/2024	Bridge Data Centres Malaysia IV Sdn Bhd	47.86	114.31	Plentong	Bridge DC
13/5/2024	Digital Hyperscale Malaysia Sdn Bhd	34.91	137.99	Pulai	Quantum DC
10/6/2024	Microsoft Payments (M) Sdn Bhd	123.14	75.00	Kulai	Microsoft
11/6/2024	Digital Halo Pte Ltd	20.46	130.00	Pulai	Digital Halo
2/7/2024	Equalbase Pte Ltd	64.00	136.31	Pendas	Equalbase

SOURCES: BURSA, CGSI RESEARCH, COMPANY REPORTS

Figure 10: Peer comparison (as at 20 Sep 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		Dividend			
							CAGR	PEG (x)		ROE (%) CY24F	CY25F	Yield (%) CY24F	CY25F		
Gamuda	GAM MK	Add	8.23	9.50	5,520	20.0	17.3	14.3%	1.4	1.88	1.76	9.8%	10.5%	1.9%	1.9%
IJM Corp Bhd	IJM MK	Add	3.21	4.40	2,677	19.9	17.1	25.7%	0.8	1.07	1.01	5.3%	6.0%	0.9%	0.9%
WCT Holdings	WCTHG MK	Add	1.05	1.52	374	29.3	20.8	na	na	0.39	0.39	1.4%	1.9%	0.0%	0.0%
Sunway Construction Group Bhd	SCGB MK	Add	4.45	6.00	1,365	30.1	17.8	52.6%	0.6	6.28	5.34	21.0%	32.4%	1.7%	2.8%
Muhibbah Engineering	MUHI MK	Add	0.87	1.34	151	11.8	9.4	-50.0%	-0.2	0.47	0.45	3.9%	4.9%	3.4%	5.3%
HSS Engineers	HSS MK	Add	1.10	1.48	133	17.0	11.2	53.4%	0.3	2.12	1.87	12.6%	17.7%	1.9%	2.9%
YTL Corporation	YTL MK	Add	2.72	3.55	7,127	14.9	14.5	15.6%	1.0	1.76	1.61	12.2%	11.4%	1.7%	1.8%
Malayan Cement Bhd	LMC MK	Add	5.25	6.90	1,669	15.5	14.5	28.1%	0.6	1.08	1.03	7.0%	7.1%	2.0%	2.3%
Sunway Bhd	SWB MK	Add	4.39	4.65	5,925	26.6	24.9	24.4%	1.1	1.74	1.82	6.5%	7.5%	2.0%	2.3%
Econpile Holdings Bhd	ECON MK	Add	0.45	0.56	150	na	26.4	na	na	1.75	1.72	-1.3%	6.4%	1.1%	2.8%
Construction sector						20.6	17.4	20.5%	0.7	1.9	1.7	7.9%	10.6%	1.7%	2.3%

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS



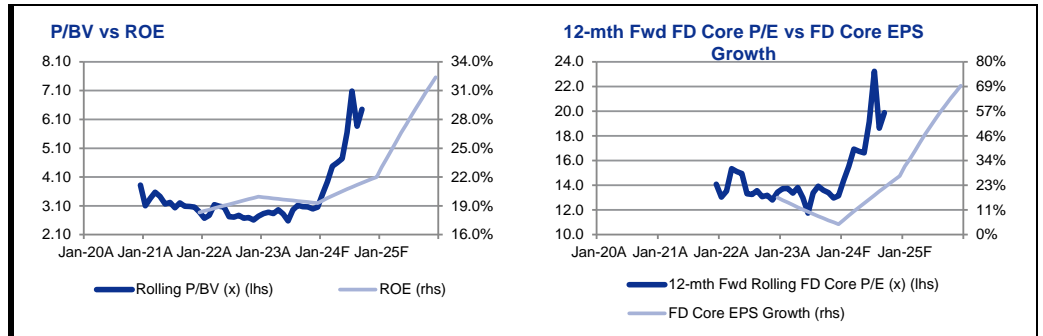
ESG in a nutshell

We deem Sunway Construction Group Bhd's (Suncon) ESG practices as some of the most progressive in the local construction industry. In 2022, SunCon reviewed its Sustainability Framework to better align its strategic approach to ESG with industry best practices as well as to adopt more stringent reporting disclosures. Suncon is bidding for more ESG-based projects such as renewable energy and green building projects; this is positive for its ESG journey, in our view. Two large scale solar (LSS) projects it bagged in FY21-22 marked the beginning of this foray.

<p>Keep your eye on</p> <p>The group is looking to expand further in the solar energy space; it is currently an engineering, procurement, construction and commissioning (EPCC) contractor for two large scale solar (LSS) projects. Besides this, there is growing demand for more sustainable or ESG-based projects in Malaysia, such as thermal energy storage (TES), district cooling systems (DCS), energy efficient or “smart” buildings, solar farms and solar panels. It was one of 22 most recent winners of the Corporate Green Power Programme (CGPP) announced by the Energy Commission (EC) on 7 Aug 2023.</p>	<p>Implications</p> <p>State your view on the controversy and how you have factored the issue into fundamentals or valuations. If not factored in, mention the signposts you will KIV with regard to this issue.</p>
<p>ESG highlights</p> <p>There was a delay in the rollout of renewable (RE) projects in Malaysia, especially LSS farms, due to the high prices of solar panels but prices have since abated. The Energy Commission (EC) announced new measures to maintain the viability of projects identified under the fourth round of LSS awards (LSS4), such as the extension of the duration of Power Purchase Agreements (PPA) by four years from 21 years to 25 years. While Suncon is just an EPCC contractor, this is still positive for the company, in our view.</p> <p>On 20 July 2022, SunCon commenced construction of a district cooling system (DCS) at the mixed development in South Quay Square, Sunway City Kuala Lumpur, in collaboration with ENGIE South East Asia.</p>	<p>Implications</p> <p>We consider Suncon's ESG efforts to be progressive and among the best among the local contractors. SunCon is working towards achieving 30% women representation on its board, according to its FY23 annual report.</p>
<p>Trends</p> <p>SunCon may be looking to participate in Malaysia's voluntary carbon market (VCM) as a buyer of carbon credits to offset emissions. It may also potentially generate carbon credits through its carbon negative projects, according to its FY22/FY23 annual report.</p> <p>The construction industry's increased focus on climate change and sustainability provides more opportunities for green building design and construction. SunCon's continued progress in and focus on green and sustainable infrastructure development could boost its access to green bonds and sustainable financing, in our view.</p> <p>Suncon is rated AA for ESG by MSCI and was recently included in the FBM 70 Index.</p>	<p>Implications</p> <p>While it is early days, we think Suncon will continue to tick more boxes for ESG where it can also leverage on its parent company Sunway Berhad to achieve this.</p> <p>All Sunway Berhad's ESG initiatives are aligned with five global megatrends i.e. rapid urbanisation, social change, technological breakthroughs, resource scarcity, and shifting economic power. These trends will become more central in 2024F, in our view. Sunway Berhad also targets that, by 2030, it would have achieved green building certification for all Sunway-owned and/or managed townships and buildings completed from 2025 onwards. This will bode well for Suncon, in our view.</p>

SOURCES: CGSI RESEARCH, LSEG

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	2,177	2,698	3,461	5,537	5,595
Gross Profit	475	588	650	848	859
Operating EBITDA	221	245	304	498	506
Depreciation And Amortisation	-24	-21	-21	-27	-32
Operating EBIT	197	224	283	471	474
Financial Income/(Expense)	-4	-21	-27	-37	-34
Pretax Income/(Loss) from Assoc.	2	-14	2	2	2
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	195	189	258	436	442
Exceptional Items	-11	25	0	0	0
Pre-tax Profit	184	214	258	436	442
Taxation	-45	-43	-67	-113	-115
Exceptional Income - post-tax					
Profit After Tax	139	171	191	323	327
Minority Interests	-4	-1	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	135	170	191	323	327
Recurring Net Profit	143	150	191	323	327
Fully Diluted Recurring Net Profit	143	150	191	323	327

Cash Flow

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	221.0	245.3	304.0	497.8	505.9
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(120.5)	(274.1)	(98.6)	(307.2)	(7.7)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(16.3)	(62.1)	(40.0)	(46.7)	(49.0)
Other Operating Cashflow	(249.6)	(130.6)	0.0	0.0	0.0
Net Interest (Paid)/Received	(4.2)	(21.5)	(27.0)	(36.7)	(34.3)
Tax Paid	(45.3)	(42.8)	(67.1)	(113.3)	(114.8)
Cashflow From Operations	(215.0)	(285.8)	71.4	(6.2)	300.1
Capex	(27.1)	(17.7)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	450.8	(70.4)	0.0	0.0	0.0
Cash Flow From Investing	423.7	(88.1)	(50.0)	(50.0)	(50.0)
Debt Raised/(repaid)	242.8	445.2	150.0	50.0	50.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(90.3)	(70.9)	(95.5)	(161.3)	(163.4)
Preferred Dividends					
Other Financing Cashflow	31.5	(21.6)	41.7	48.4	50.7
Cash Flow From Financing	184.0	352.7	96.2	(62.9)	(62.7)
Total Cash Generated	392.8	(21.2)	117.6	(119.1)	187.4
Free Cashflow To Equity	451.6	71.3	171.4	(6.2)	300.1
Free Cashflow To Firm	226.8	(326.0)	63.0	(7.8)	300.8

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	492	470	588	469	656
Total Debtors	989	1,596	1,842	2,951	2,982
Inventories	53	46	43	69	70
Total Other Current Assets	104	127	127	127	127
Total Current Assets	1,637	2,239	2,600	3,616	3,835
Fixed Assets	108	99	128	151	169
Total Investments	223	253	253	253	253
Intangible Assets	264	483	483	483	483
Total Other Non-Current Assets	3	9	9	9	9
Total Non-current Assets	599	844	873	896	914
Short-term Debt	172	438	438	438	438
Current Portion of Long-Term Debt					
Total Creditors	917	1,243	1,387	2,215	2,239
Other Current Liabilities	14	21	21	21	21
Total Current Liabilities	1,103	1,702	1,846	2,674	2,698
Total Long-term Debt	309	488	638	688	738
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	309	488	638	688	738
Total Provisions	3	1	1	1	1
Total Liabilities	1,415	2,191	2,485	3,363	3,437
Shareholders' Equity	737	820	916	1,077	1,240
Minority Interests	84	72	72	72	72
Total Equity	821	892	987	1,149	1,312

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	24.6%	23.9%	29.0%	60.2%	1.0%
Operating EBITDA Growth	22.6%	11.0%	23.9%	63.8%	1.6%
Operating EBITDA Margin	10.3%	9.2%	8.8%	9.0%	9.1%
Net Cash Per Share (RM)	0.01	-0.35	-0.38	-0.51	-0.40
BVPS (RM)	0.57	0.63	0.71	0.83	0.96
Gross Interest Cover	10.94	4.68	6.80	9.73	9.36
Effective Tax Rate	24.6%	20.0%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	61.9%	53.3%	50.0%	50.0%	50.0%
Accounts Receivables Days	155.7	176.6	182.5	158.3	194.0
Inventory Days	10.68	8.64	5.84	4.38	5.36
Accounts Payables Days	193.9	186.8	171.2	140.2	171.6
ROIC (%)	139%	38%	26%	38%	31%
ROCE (%)	18.6%	16.0%	15.3%	22.2%	20.6%
Return On Average Assets	7.49%	6.29%	6.65%	9.00%	7.80%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
New order wins	2,600.0	2,500.0	2,231.0	5,000.0	5,000.0
Construction revenue	1,973.6	2,381.0	3,195.0	5,216.2	5,194.1
Precast revenue	181.6	290.2	252.0	307.0	387.0
Construction EBIT margins	8.5	7.5	7.8	8.2	8.0
Precast EBIT margins	9.9	15.5	14.0	14.0	15.0

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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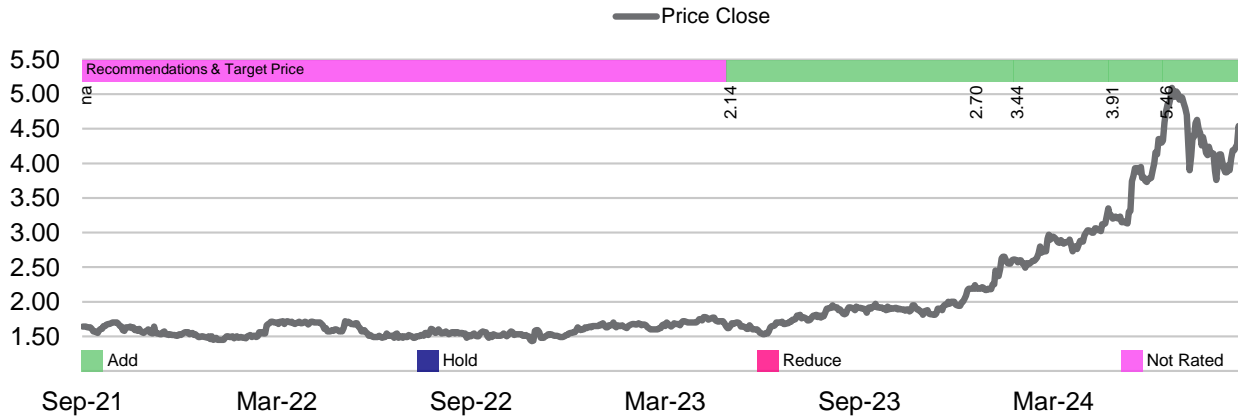
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588 companies under coverage for quarter ended on 30 June 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.0%	0.5%
Hold	25.3%	0.5%
Reduce	9.7%	0.3%

Spitzer Chart for stock being researched (2 year data)

Sunway Construction Group Bhd (SCGB MK)



Recommendation Framework

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