

Malaysia

ADD (no change)

Consensus ratings*: Buy 9 Hold 4 Sell 2

Current price:	RM3.35
Target price:	RM3.91
Previous target:	RM3.44
Up/downside:	16.8%
CGSI / Consensus:	28.8%
Reuters:	SCOG.KL
Bloomberg:	SCGB MK
Market cap:	US\$922.3m
	RM4,319m
Average daily turnover:	US\$2.30m
	RM10.92m
Current shares o/s:	1,293m
Free float:	28.9%

*Source: Bloomberg

Key changes in this note

- Raising FY24F/FY25F/FY26F EPS by 3%/13%/12%
- Raising TP to RM3.91



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	21.4	28.4	94.8
Relative (%)	16.2	23.8	80.9

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

Analyst(s)



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Sunway Construction Group Bhd

Taking a more constructive view

- Reiterate Add; we raise FY24F-FY26F EPS and TP to RM3.91.
- Market pricing in RM3bn-3.5bn new wins for FY24 vs. our revised RM5.2bn.
- RM6bn Vietnam project may be closer to an award where we think there is upside potential to our FY25F-FY26F EPS.

Reiterate Add; we raise FY24-FY26F EPS and TP

We reiterate our Add rating and lift our SOP-based TP to RM3.91. We also raise our FY24F/FY25F/FY26F EPS by 3%/13%/12% to factor in higher new order wins given strong YTD wins and visible pipeline of contracts. 1Q24 results met our and Bloomberg consensus estimates (pg 2). We like Suncon for its strong execution track record and first-mover advantage in the data centre space, 3-year EPS CAGR of 19% over FY23-FY26F, and market-leading ROEs of 22-26% for FY24-FY26F. Key downside risks: continued delays for its Sedenak data centre project and more competitive landscape for data centre jobs. Re-rating catalysts: the award of the Vietnam project and more data centre projects.

What's not in the price?

The largest catalyst which is not yet in the price is the potential award of the US\$2.4bn Song Hau 2 Power Plant Vietnam project (Vietnam) where its 55% stake would be worth c.RM6bn. This hinges on the ability of the client to achieve financial close by 30 Jun 24. This project would lift its order book of RM6.3bn (as at May 24) to RM12.3bn, significantly raise its earnings visibility and put it as the contractor with the second-highest order book under our coverage apart from Gamuda. The project will have a five-year duration and superior pretax margins of c.10% (vs. 5-8% for local projects). Besides this project, we believe Suncon will continue to solidify its presence for other data centre projects and other construction opportunities from its parent company which has a JV project with Singapore developer and asset manager Equalbase Pte Ltd on 135 acres of its 1,770 acres of land bank in Johor. In our view, it is also a front runner for the Penang LRT and Johor ART.

What is the market pricing in?

Suncon's YTD May 24 wins have been strong at RM1.7bn, which is looking increasingly conservative against its RM2.5bn-3bn target for FY24F. In our view, the market has only priced in RM3bn-3.5bn new wins for FY24F, at the upper end of its target. We raise our FY24F new wins forecast to RM5.2bn (vs. RM3.9bn) where we think the incremental wins will come from i) conversion of two early contractor involvement (ECI) data centre projects (RM3.4m each) to a full-scale contract of c.RM1bn-1.5bn; higher contract value for its existing RM1.7bn Sedenak data centre contract, internal projects from parent company of c.RM400m-600m and outstanding tenders for data centres, industrial warehouses and semiconductor factories of RM5-6bn. Our current new construction order wins for FY25F is RM4.5bn (including precast RM4.9bn). Assuming Suncon can consistently win RM3bn-4bn new jobs per year, our new order wins for FY25F would only partially factor in the RM6bn Vietnam contract, still leaving room for us to raise our FY25F-FY26F EPS.

Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (RMm)	2,155	2,671	3,598	4,865	5,444
Operating EBITDA (RMm)	221.0	245.3	305.1	406.7	458.4
Net Profit (RMm)	135.2	170.2	191.5	256.6	291.4
Core EPS (RM)	0.11	0.12	0.15	0.20	0.23
Core EPS Growth	17.1%	4.8%	27.5%	34.0%	13.5%
FD Core P/E (x)	30.23	28.85	22.62	16.88	14.87
DPS (RM)	0.05	0.06	0.07	0.10	0.11
Dividend Yield	1.57%	1.79%	2.21%	2.96%	3.36%
EV/EBITDA (x)	19.93	19.81	16.08	12.25	10.77
P/FCFE (x)	9.59	60.74	27.97	77.65	22.91
Net Gearing	(1.3%)	51.1%	51.1%	51.9%	42.4%
P/BV (x)	5.88	5.28	4.73	4.15	3.64
ROE	19.9%	19.3%	22.1%	26.2%	26.1%
% Change In Core EPS Estimates			3.2%	12.9%	12.4%
EPS/Consensus EPS (x)			1.07	1.20	1.25

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Taking a more constructive view

1Q24 met expectations; strong 2H24F expected

- Sunway Construction (Suncon) announced 1Q24 core net profit of RM27m (+4% yoy, -51% qoq). This was in line with our forecasts and Bloomberg consensus estimates as 1Q is traditionally a slower quarter, contributing 15-24% of full-year core net profit.
- The key highlight was the strong pick-up in construction revenue in 1Q24 to RM544m (+16% yoy; -31% qoq) due to the acceleration in the progress of some newer projects. 1Q24 pretax margin held steady at 7.0% vs. 7.7% in 1Q23 and 7.0% in 4Q23. Progress on its RM1.7bn Sedenak data centre project remains slow (15% recognised since award at end-22), but we expect this to pick up in 2H24F due to the finalisation of the end client with a possible increase in contract value.
- 1Q24 precast revenue was RM61m (+16% yoy, -29% qoq), with improvement in pretax margin to 6.1% (1Q23: 2.6%). The higher revenue was driven by contributions from Integrated Construction and Prefabrication Hub (ICPH) and several newer projects.

Figure 1: Suncon's 1Q24 results comparison yoy and qoq

	1QFY24	1QFY23	% change yoy	4QFY23	% change qoq
	RMm	RMm		RMm	
Revenue	604.8	522.1	16%	871.5	-31%
Other operating income	14.5	4.9	198%	40.7	-64%
Other operating expense	-566.2	-485.3	17%	-830.4	-32%
EBIT	53.1	41.7	27%	81.8	-35%
Finance income	4.7	4.1	15%	8.6	-45%
Finance cost	-16.2	-8.3	96%	-15.2	7%
Share of JV profits	0.0	0.0	nm	-14.5	-100%
Profit before taxation	41.6	37.5	11%	60.8	-31%
Taxation	-8.9	-8.9	1%	-12.3	-28%
Net income	32.7	28.6	14%	48.4	-32%
Minority interest	-0.3	-0.8	-62%	0.8	-137%
Attributed to shareholders	32.4	27.8	16%	49.3	-34%
Less: Exceptional Items	5.4	1.9	184%	-5.7	-195%
Core net profit	27.0	25.9	4%	55.0	-51%
	1QFY24	1QFY23	% change yoy	4QFY23	% change qoq
	RMm	RMm		RMm	
Construction	543.6	469.1	16%	785.8	-31%
Precast Concrete	61.2	53.0	16%	85.7	-29%
Revenue	604.8	522.1	16%	871.5	-31%
Construction	37.9	36.2	5%	53.0	-29%
Precast Concrete	3.8	1.3	191%	7.7	-51%
Profit before taxation	41.6	37.5	11%	60.8	-31%
Construction pretax margins	7%	8%	-10%	7%	3%
Precast concrete pretax margins	6%	2%	152%	9%	-32%

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Raising FY24F-FY26F EPS

We summarise the changes in our FY24F/FY25F/FY26F revenue, EBITDA and net profit forecasts in Figure 2.

Our revised assumptions factor in RM5.2bn in new orders (including precast) for FY24F (vs. RM3.9bn previously), while we leave new orders for FY25F/FY26F unchanged at RM4.9bn p.a. for both years. This is on the back of construction pretax margins of 7.5%/7.4%/7.3% for FY24F/FY25F/FY26F. 1Q24 construction pretax margins were 7% and we believe with higher recognition of data centre projects, there could be upside to margins.

Figure 2: Revisions to our forecasts for Suncon

	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue (RMm)	3,513.4	4,334.7	4,862.0	3,598.4	4,864.7	5,443.6	2.4%	12.2%	12.0%
EBITDA (RMm)	296.9	365.7	413.7	305.1	406.7	458.4	2.8%	11.2%	10.8%
Net profit (RMm)	185.6	227.4	259.2	191.5	256.6	291.4	3.2%	12.9%	12.4%
EPS (Sen)	14.4	17.6	20.1	14.8	19.9	22.5	3.2%	12.9%	12.4%

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Lifting SOP-derived TP to RM3.91

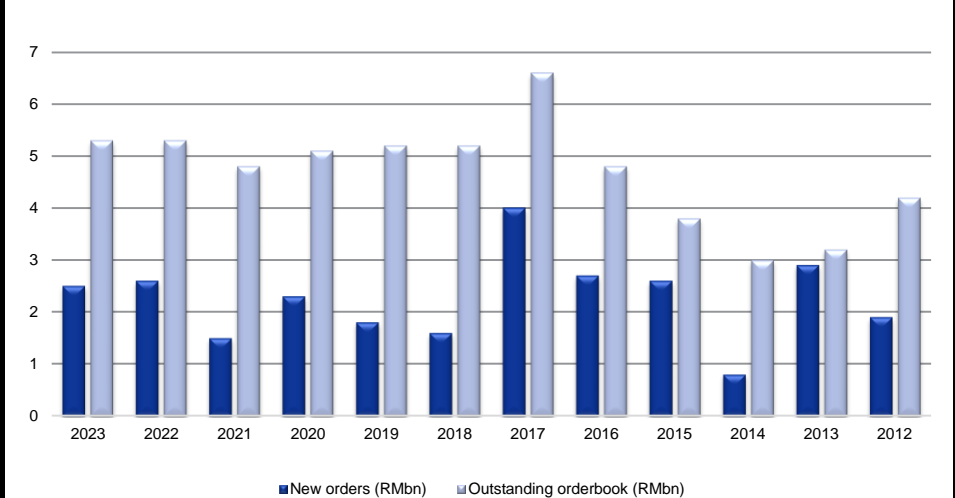
Our revised TP of RM3.91 factors in our higher net profit and implies FY25F P/E of 20x, which is more than 2 s.d. above mean P/E since 2015. In our view, we think the earnings base for Suncon over the next few years has changed where we expect record earnings and hence comparison against historical trading bands may be less relevant. We think Suncon's first-mover advantage for data centre projects, market-leading ROEs of 22-26% for FY24F-FY26F (in our estimates) and 3-year EPS CAGR of 19% over FY23-FY26F will support the higher valuations, in our view.

Figure 3: Sum-of-parts (SOP) valuation

	Earnings (RMm)	P/E (x)	Stake	Attributed Value (RMm)	Per Share (RM)
Construction	249	18	100%	4,487.2	3.47
Precast	32	18	100%	572.5	0.44
SOP Value				5,059.7	3.91

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Historical new order wins



SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Peer comparison (as at 20 May 2024)

Company	Bloomberg Ticker	Rec.	Price (lcl curr)	TP (lcl curr)	Mkt Cap (US\$ m)	P/E (x) CY24F	CY25F	2-year EPS CAGR	PEG (x)	P/BV (x) CY24F	CY25	Recurring ROE (%) CY24F	CY25F	Dividend Yield (%) CY24F	CY25F
Gamuda	GAM MK	Add	5.80	6.50	3,431	14.3	12.7	11.3%	1.3	1.31	1.22	9.6%	9.9%	2.1%	2.1%
IJM Corp Bhd	IJM MK	Add	2.52	2.88	1,887	19.2	16.3	17.4%	1.1	0.85	0.82	4.5%	5.1%	1.2%	1.2%
WCT Holdings	WCTHG MK	Add	0.54	0.68	162	15.2	10.8	na	na	0.20	0.20	1.4%	1.8%	0.0%	0.0%
Sunway Construction Group Bhd	SCGB MK	Add	3.35	3.91	922	22.6	16.9	29.0%	0.8	4.73	4.15	22.3%	26.2%	2.2%	3.0%
Muhibbah Engineering	MUHI MK	Add	1.04	1.34	162	14.8	11.6	na	na	0.56	0.55	4.0%	4.8%	2.7%	4.3%
HSS Engineers	HSS MK	Add	1.05	1.31	114	16.4	12.8	40.2%	0.4	2.03	1.83	12.5%	15.0%	1.9%	2.6%
YTL Corporation	YTL MK	Add	3.81	3.00	8,938	20.9	19.2	20.1%	1.0	2.55	2.35	12.8%	12.7%	1.8%	1.8%
Malayan Cement Bhd	LMC MK	Add	5.30	6.80	1,494	15.8	14.8	24.3%	0.7	1.09	1.04	7.1%	7.2%	2.0%	2.3%
Econpile Holdings Bhd	ECON MK	Add	0.53	0.61	159	60.6	16.4	na	na	1.92	1.79	3.2%	11.3%	1.0%	2.4%
Construction sector						22.2	14.6	21.8%	1.1	1.6	1.5	8.3%	9.9%	1.7%	2.2%

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.

Keep your eye on

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.

Implications

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.

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.

ESG highlights

In 2022/2023, SunCon continued to focus on driving its ESG performance. This included addressing energy consumption and emissions, improving labour practices and also improving waste management and recycling efforts across all aspects of its operations.

2022 saw Suncon align its related disclosures with the Task Force on Climate-Related Financial Disclosures (TCFD). The inclusion of the TCFD disclosures is in line with Suncon's continued strategic approach of embedding material ESG matters within its strategy.

Implications

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.

Trends

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.

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.

Suncon is rated AA for ESG by MSCI but is not in the FTSE4GOOD as it was excluded from FTSE EMAS due to liquidity issues.

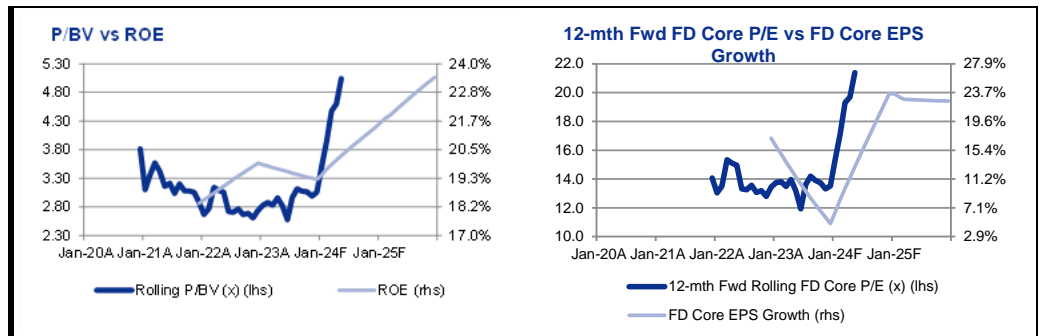
Implications

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.

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..

SOURCES: CGSI RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	2,177	2,698	3,527	4,349	4,876
Gross Profit	475	588	643	716	767
Operating EBITDA	221	245	297	366	414
Depreciation And Amortisation	-24	-21	-21	-27	-32
Operating EBIT	197	224	276	339	382
Financial Income/(Expense)	-4	-21	-27	-33	-33
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	251	307	350
Exceptional Items	-11	25	0	0	0
Pre-tax Profit	184	214	251	307	350
Taxation	-45	-43	-65	-80	-91
Exceptional Income - post-tax					
Profit After Tax	139	171	186	227	259
Minority Interests	-4	-1	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	135	170	186	227	259
Recurring Net Profit	143	150	186	227	259
Fully Diluted Recurring Net Profit	143	150	186	227	259

Cash Flow

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	221.0	245.3	296.9	365.7	413.7
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(120.5)	(274.1)	(102.9)	(116.6)	(76.1)
(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)	(27.1)	(33.3)	(33.4)
Tax Paid	(45.3)	(42.8)	(65.2)	(79.9)	(91.1)
Cashflow From Operations	(215.0)	(285.8)	61.7	89.2	164.1
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)	(92.8)	(113.7)	(129.6)
Preferred Dividends					
Other Financing Cashflow	31.5	(21.6)	41.7	48.4	50.7
Cash Flow From Financing	184.0	352.7	98.9	(15.3)	(28.9)
Total Cash Generated	392.8	(21.2)	110.6	23.9	85.2
Free Cashflow To Equity	451.6	71.3	161.7	89.2	164.1
Free Cashflow To Firm	226.8	(326.0)	53.4	87.6	164.8

SOURCES: CGSI RESEARCH, 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	581	605	690
Total Debtors	989	1,596	1,877	2,316	2,598
Inventories	53	46	44	55	61
Total Other Current Assets	104	127	127	127	127
Total Current Assets	1,637	2,239	2,629	3,102	3,476
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	1,419	1,752	1,964
Other Current Liabilities	14	21	21	21	21
Total Current Liabilities	1,103	1,702	1,878	2,211	2,423
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	2,517	2,900	3,162
Shareholders' Equity	737	820	913	1,027	1,156
Minority Interests	84	72	72	72	72
Total Equity	821	892	985	1,098	1,228

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	24.6%	23.9%	31.5%	23.4%	12.2%
Operating EBITDA Growth	22.6%	11.0%	21.1%	23.1%	13.1%
Operating EBITDA Margin	10.3%	9.2%	8.5%	8.4%	8.5%
Net Cash Per Share (RM)	0.01	-0.35	-0.38	-0.40	-0.38
BVPS (RM)	0.57	0.63	0.71	0.79	0.89
Gross Interest Cover	10.94	4.68	6.63	7.00	7.54
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	180.9	176.5	184.4
Inventory Days	10.68	8.64	5.76	4.98	5.16
Accounts Payables Days	193.9	186.8	168.9	159.3	165.0
ROIC (%)	139%	38%	25%	28%	28%
ROCE (%)	18.6%	16.0%	15.0%	16.5%	17.2%
Return On Average Assets	7.49%	6.29%	6.46%	6.95%	6.98%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
New order wins	150.0	180.0	3,900.0	4,900.0	4,900.0
Construction revenue	1,973.6	2,381.0	3,261.4	4,027.7	4,475.0
Precast revenue	181.6	290.2	252.0	307.0	387.0
Construction EBIT margins	8.5	7.5	7.4	7.3	7.2
Precast EBIT margins	9.9	15.5	14.0	14.0	15.0

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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

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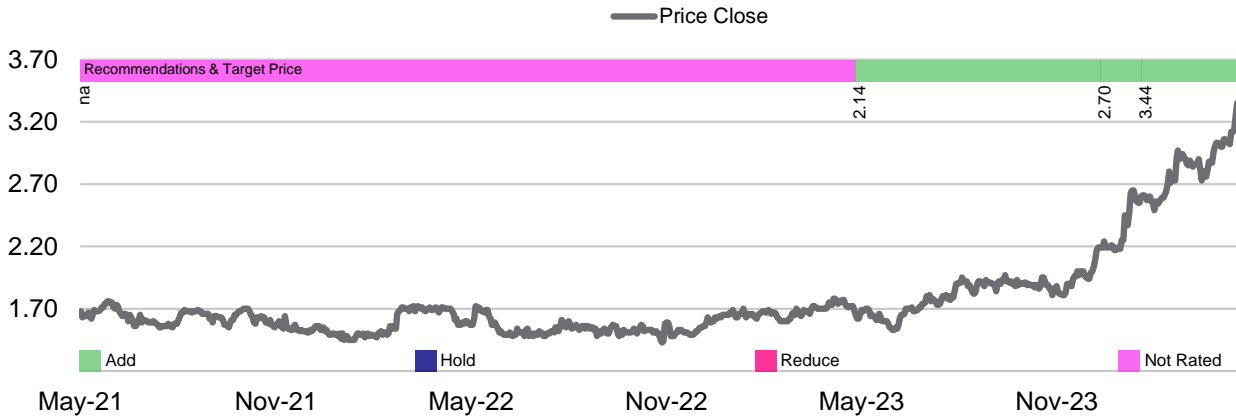
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	Rating Distribution (%)	Investment Banking clients (%)
Add	65.5%	1.3%
Hold	24.1%	0.2%
Reduce	10.4%	0.3%

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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