

Sunway Construction

Q3: Taking prudent steps in recognizing data centre projects' progress

SunCon's Q324 reported PATAMI was up 33% y/y to RM46m. However, after stripping out non-core items such as reversal of receivable impairment and tax adjustments, core PATAMI came in at RM41m (+14% y/y). We view this result as a miss, with 9M24 core net profit of RM111m (+16% y/y) making up 65%/64% of JPM/consensus' full-year earnings forecasts. Notable additions to SunCon's outstanding orderbook in Q324 (RM7.1bn in total) include the variation orders worth RM347m for one of SunCon's existing data centre projects in Johor.

- Key positives:** Q324 revenue was broadly in line with expectations, with construction revenue (93% of total revenue) growing 41% y/y and 33% q/q, which was driven by accelerated progress of its data centre projects. We estimate that data centre projects contributed to ~47% of SunCon's Q324 revenue vs. ~23% in Q224. Its current outstanding orderbook stands at RM7.1bn (+22% y/y; -3% q/q), of which 55% is made up of data centre projects. SunCon also earlier announced ([see here](#)) that it has accepted RM347m worth of variation orders for the JHB1X0 data centre project in Johor. In its disclosures, the company said that it is still actively pursuing other data centre opportunities, as well as participating in tenders for warehouse and semiconductor manufacturing facility projects.
- Key negatives:** Despite the pick up in data centre revenue, SunCon's profit margin has weakened slightly on a sequential basis to ~7% after stripping out the non-core items. We believe SunCon is taking a more prudent approach in its profit recognition at the early stage of data centre projects, as data centre projects typically yield a better profit margin as compared to its conventional infrastructure and building projects.
- Expected stock reaction.** We expect a slight negative reaction from the market on the result. We will seek clarification on the company's ability to meaningfully improve margin in Q4; we are hosting the company's management for a post-result group virtual call on 22 November, at 4.30pm HKT. Please click on the JPM Events link [here](#) if you would like to register for the call, or request for dial-in details from your JPM contact.
- Valuation.** Our Dec-25 PT of RM4.10 is derived using a target PE of 21x (+2SD above the company's historical mean) on SunCon's FY2026E earnings.

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Neutral

SCOG.KL, SCGB MK
Price (21 Nov 24):RM4.43
Price Target (Dec-25):RM4.10

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Style Exposure

Quant Factors	Current	Hist %Rank (1=Top)			
	%Rank	6M	1Y	3Y	5Y
Value	59	48	38	42	27
Growth	1	33	57	46	64
Momentum	1	9	16	83	16
Quality	31	33	38	55	48
Low Vol	88	68	53	46	77

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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Price Performance



	YTD	1m	3m	12m
Abs	128.4%	-1.6%	7.5%	134.4%
Rel	118.5%	1.3%	9.8%	125.2%

Company Data

Shares O/S (mn)	1,289
52-week range (RM)	5.18-1.76
Market cap (\$ mn)	1,277
Exchange rate	4.47
Free float (%)	26.7%
3M ADV (mn)	3.01
3M ADV (\$ mn)	2.9
Volatility (90 Day)	48
Index	FBMKLCI - FTSE BURSA MALAYSIA KLCI
BBG ANR (Buy Hold Sell)	8 8 1

Key Metrics (FYE Dec)

RM in millions	FY23A	FY24E	FY25E	FY26E
Financial Estimates				
Revenue	2,671	3,105	4,372	5,009
Adj. EBITDA	245	269	373	421
Adj. EBIT	224	247	350	397
Adj. net income	145	170	247	283
Adj. EPS	0.11	0.13	0.19	0.22
BBG EPS	0.11	0.13	0.21	0.23
Cashflow from operations	(299)	252	202	294
FCFF	(280)	248	200	291
Margins and Growth				
Revenue Growth Y/Y (%)	23.9%	16.3%	40.8%	14.6%
EBITDA margin	9.2%	8.7%	8.5%	8.4%
EBITDA Growth Y/Y (%)	16.5%	9.7%	39.0%	12.8%
EBIT margin	8.4%	8.0%	8.0%	7.9%
Net margin	5.4%	5.5%	5.7%	5.7%
Adj. EPS growth	7.3%	17.3%	45.2%	14.5%
Ratios				
Adj. tax rate	22.7%	24.0%	24.0%	24.0%
Interest cover	11.4	12.3	15.7	18.6
Net debt/Equity	0.5	0.3	0.2	0.1
Net debt/EBITDA	1.9	1.2	0.7	0.3
ROCE	11.7%	10.5%	14.1%	14.9%
ROE	18.6%	19.7%	25.5%	25.8%
Valuation				
FCFF yield	(4.9%)	4.3%	3.5%	5.1%
Dividend yield	1.4%	1.5%	2.2%	2.5%
EV/Revenue	2.1	1.8	1.3	1.1
EV/EBITDA	23.3	20.7	14.7	12.7
Adj. P/E	39.4	33.6	23.1	20.2

Summary Investment Thesis and Valuation

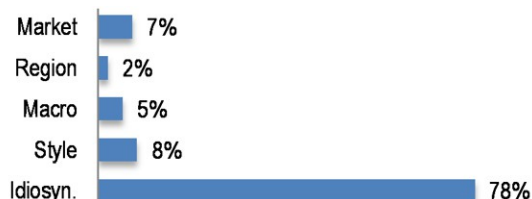
Investment Thesis

We believe SunCon's earnings growth in the next three years will be driven by DC projects primarily. We expect DC projects secured in 2023-24 to translate into a revenue contribution of ~70% from 2025 onwards as compared to ~25% currently. However, we believe SunCon's potential to secure more sizeable new orders (including DCs) is largely priced in, and consensus forecasts imply new order wins of RM4bn per annum in FY24-25, as compared to RM3.5bn secured in 1H24 (64% of which are DC projects), which we think is fair. Financial and execution constraints potentially limit SunCon's ability to secure more new order wins.

Valuation

Our Dec-25 PT of RM4.10 is derived using a target PE of 21x (+2SD above the company's historical mean) on SunCon's FY2026E earnings.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.38	0.26
Region: Malaysia	-0.27	-0.12
Macro:		
JPM Forecast Revision EM	-0.08	-0.15
Citi Economic Surprise - EM	-0.07	-0.14
Emerging Central Bank Rate	-0.37	-0.12
Quant Styles:		
Quality	0.04	0.16
LowVol	-0.38	-0.15
Value	-0.37	-0.09

Figure 1: Peer comparison

Company	Ticker	Price (LC)	Rating	PT (LC)	Market cap (USD mn)	3M ADTV (USD mn)	EPS CAGR CY23-25E	P/E (x)		P/B (x)	ROE (%)	
								CY24E	CY25E	CY24E	CY24E	CY25E
Gamuda	GAM MK	8.87	OW	9.30	5,608	19.5	25%	22.6	17.5	2.0	8.2	8.0
IJM Corp	IJM MK	2.94	OW	3.60	2,310	6.0	21%	22.1	19.0	1.0	5.0	6.1
Sunway Constructions	SCGB MK	4.43	N	4.10	1,280	2.9	33%	33.6	23.1	6.3	19.7	25.5

Source: Bloomberg Finance L.P., J.P. Morgan estimates. Data as of 21 November 2024.

Figure 2: Results summary

RM 'm	3Q24	3Q23	YoY	2Q24	QoQ	9M24	9M23	YoY
Revenue	865.3	673.5	28%	651.2	33%	2,121	1,800	18%
EBITDA	50.5	51.7	-2%	46.9	8%	148	131	13%
EBIT	64.8	54.1	20%	52.7	23%	171	142	20%
PBT	70.5	48.1	47%	50.2	40%	162	128	27%
PATMI	46.5	35.0	33%	38.9	20%	118	96	24%
Core PATMI	40.8	35.9	14%	37.3	9%	111	96	16%
Margin			Chg in ppt		Chg in ppt			Chg in ppt
EBITDA	5.8%	7.7%	-1.8ppt	7.2%	-1.4ppt	7.0%	7.3%	-0.3ppt
EBIT	7.5%	8.0%	-0.5ppt	8.1%	-0.6ppt	8.0%	7.9%	0.1ppt
PBT	7.0%	7.1%	-0.1ppt	7.7%	-0.7ppt	7.7%	7.1%	0.5ppt
PATMI	5.4%	5.2%	0.2ppt	6.0%	-0.6ppt	5.6%	5.3%	0.3ppt
Core PATMI	4.7%	5.3%	-0.6ppt	5.7%	-1.0ppt	5.2%	5.3%	-0.1ppt
Segmental revenue								
Construction	831.8	590.6	41%	597.6	39%	1,973	1,595	24%
Precast Concrete	33.6	83.0	-60%	53.6	-37%	148	204	-27%
PBT by segment								
Construction	68.5	41.6	65%	46.9	46%	153	117	31%
Precast Concrete	2.1	6.5	-67%	3.3	-36%	9	11	-17%
PBT margin			Chg in ppt		Chg in ppt			Chg in ppt
Construction	8.2%	7.0%	1.2ppt	7.8%	0.4ppt	7.8%	7.3%	0.4ppt
Precast Concrete	6.3%	7.8%	-1.5ppt	6.2%	0.1ppt	6.1%	5.4%	0.8ppt

Source: Company data

Investment Thesis, Valuation and Risks

Sunway Construction *(Neutral; Price Target: RM4.10)*

Investment Thesis

We believe SunCon's earnings growth in the next three years will be driven by DC projects primarily. We expect DC projects secured in 2023-24 to translate into a revenue contribution of ~70% from 2025 onwards as compared to ~25% currently. However, we believe SunCon's potential to secure more sizeable new orders (including DCs) is largely priced in, and consensus forecasts imply new order wins of RM4bn per annum in FY24-25, as compared to RM3.5bn secured in 1H24 (64% of which are DC projects), which we think is fair. Financial and execution constraints potentially limit SunCon's ability to secure more new order wins.

Valuation

Our Dec-25 PT of RM4.10 is derived using a target PE of 21x (+2SD above the company's historical mean) on SunCon's FY2026E earnings.

Risks to Rating and Price Target

Downside risks: (1) late delivery of projects, which could deter revenue recognition, limit the ability to take on new projects as well as impact the company's credibility negatively; (2) margin compression due to intensifying competition and/or higher input costs; and (3) delays in project awards for public infrastructure projects. **Upside risks:** (1) a better-than-expected DC project pipeline; and (2) potential regional penetration for building technology facilities in ASEAN.

Sunway Construction: Summary of Financials

Income Statement						Cash Flow Statement					
	FY22A	FY23A	FY24E	FY25E	FY26E		FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,155	2,671	3,105	4,372	5,009	Cash flow from operating activities	(215)	(299)	252	202	294
COGS	(1,789)	(2,237)	(2,585)	(3,636)	(4,170)	o/w Depreciation & amortization	24	21	22	23	24
Gross profit	366	434	520	735	838	o/w Changes in working capital	(382)	(517)	59	(69)	(15)
SG&A	(187)	(226)	(261)	(367)	(421)	Cash flow from investing activities	424	(63)	(20)	(20)	(20)
Adj. EBITDA	210	245	269	373	421	o/w Capital expenditure	0	0	(20)	(20)	(20)
D&A	(24)	(21)	(22)	(23)	(24)	as % of sales	0.0%	0.0%	0.6%	0.5%	0.4%
Adj. EBIT	187	224	247	350	397	Cash flow from financing activities	143	337	(85)	(124)	(142)
Net Interest	(4)	(21)	(22)	(24)	(23)	o/w Dividends paid	(90)	(71)	(85)	(124)	(142)
Adj. PBT	184	189	225	327	374	o/w Shares issued/(repurchased)	0	0	0	0	0
Tax	(45)	(43)	(54)	(78)	(90)	o/w Net debt issued/(repaid)	(1,023)	(1,010)	0	0	0
Minority Interest	(4)	(1)	(1)	(1)	(1)	Net change in cash	347	(24)	147	59	132
Adj. Net Income	135	145	170	247	283	Adj. Free cash flow to firm	(187)	(280)	248	200	291
Reported EPS	0.10	0.11	0.13	0.19	0.22	y/y Growth	(177.0%)	50.2%	(188.5%)	(19.3%)	45.2%
Adj. EPS	0.10	0.11	0.13	0.19	0.22						
DPS	0.06	0.06	0.07	0.10	0.11						
Payout ratio	52.5%	53.3%	50.0%	50.0%	50.0%						
Shares outstanding	1,289	1,289	1,289	1,289	1,290						
Balance Sheet						Ratio Analysis					
	FY22A	FY23A	FY24E	FY25E	FY26E		FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalents	492	470	617	675	807	Gross margin	17.0%	16.3%	16.8%	16.8%	16.7%
Accounts receivable	678	1,241	1,249	1,702	1,846	EBITDA margin	9.8%	9.2%	8.7%	8.5%	8.4%
Inventories	53	46	50	75	87	EBIT margin	8.7%	8.4%	8.0%	8.0%	7.9%
Other current assets	1,146	1,698	1,710	2,187	2,343	Net profit margin	6.3%	5.4%	5.5%	5.7%	5.7%
Current assets	1,637	2,239	2,396	2,933	3,222	ROE	18.8%	18.6%	19.7%	25.5%	25.8%
PP&E	108	98	96	93	89	ROA	6.6%	5.5%	5.4%	7.0%	7.2%
LT investments	223	253	253	253	253	ROCE	13.0%	11.7%	10.5%	14.1%	14.9%
Other non current assets	491	745	745	745	745	SG&A/Sales	8.7%	8.5%	8.4%	8.4%	8.4%
Total assets	2,236	3,083	3,238	3,771	4,056	Net debt/Equity	NM	0.5	0.3	0.2	0.1
Short term borrowings	172	438	438	438	438	Net debt/EBITDA	NM	1.9	1.2	0.7	0.3
Payables	716	921	991	1,400	1,541	Sales/Assets (x)	1.1	1.0	1.0	1.2	1.3
Other short term liabilities	215	342	342	342	342	Assets/Equity (x)	2.9	3.4	3.7	3.6	3.6
Current liabilities	1,103	1,702	1,772	2,180	2,321	Interest cover (x)	50.6	11.4	12.3	15.7	18.6
Long-term debt	309	488	488	488	488	Operating leverage	137.1%	84.6%	62.1%	102.9%	91.3%
Other long term liabilities	312	489	489	489	489	Tax rate	24.6%	22.7%	24.0%	24.0%	24.0%
Total liabilities	1,415	2,191	2,261	2,669	2,810	Revenue y/y Growth	24.6%	23.9%	16.3%	40.8%	14.6%
Shareholders' equity	737	820	905	1,029	1,170	EBITDA y/y Growth	26.1%	16.5%	9.7%	39.0%	12.8%
Minority interests	84	72	73	74	75	EPS y/y Growth	20.1%	7.3%	17.3%	45.2%	14.5%
Total liabilities & equity	2,236	3,083	3,238	3,772	4,056	Valuation					
BVPS	0.57	0.64	0.70	0.80	0.91	P/E (x)	42.3	39.4	33.6	23.1	20.2
y/y Growth	5.4%	11.3%	10.4%	13.6%	13.7%	P/BV (x)	7.7	7.0	6.3	5.6	4.9
Net debt/(cash)	(11)	456	309	251	119	EV/EBITDA (x)	24.9	23.3	20.7	14.7	12.7
						Dividend Yield	1.2%	1.4%	1.5%	2.2%	2.5%

Source: Company reports and J.P. Morgan estimates.

Note: RM in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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Sunway Construction (SCOG.KL, SCGB MK) Price Chart



Date	Rating	Price (RM)	Price Target (RM)
03-Sep-24	N	4.13	4.1

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 03, 2024. All share prices are as of market close on the previous business day.

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