

22 November 2024

Sunway Construction Group

3QFY24 Disappoints

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SUNCON's 9MFY24 result fell short of expectations with core profit making up 55% of our FY24 forecasts, due to higher proportion of low margin in-house projects in 3QFY24. However, strong set of 4QFY24 and FY25 results are anticipated as data centre projects accelerate. We cut FY24/FY25F earnings by 11%/4% to reflect weak 3QFY24 margin. SUNCON remains MP with a lower TP of RM4.52.

3QFY24 disappointed. SUNCON reported 9MFY24 results which came below expectations with core profit of RM98.5m making up only 55%/56% of house/street's full-year estimates. This was due to lower-than-expected profit margin registered in 3QFY24 at 4.0% at core profit level as it recognised higher proportion of in-house projects which came with lower margin. On a surprising note, it declared a 2nd interim NDPS of 2.5 sen (ex-date: 10 Dec; payment date: 26 Dec) in 3QFY24 as compared to its usual half-yearly payment which in our view could be for tax planning purposes before the 2% dividend tax in 2025. This brings YTD NDPS to 6.0 sen vs. FY23 full-year of 6.0 sen as well.

Low margin in-house project impacted sequential result. Despite higher revenue by 33% QoQ to RM865.3m due to the accelerated progress of data centre projects, 3QFY24 core profit fell 8% to RM34.2m due to the higher proportion of progress recognition for in-house projects which came in with lower margin. On the other hand, high effective tax rate of 31.0% was reported vs. 24.8% in the preceding quarter, mainly due to higher Indian tax rate for its India highway projects

Stronger YoY results on higher orderbook. 9MFY24 revenue rose 18% to RM2.12b, thanks to higher progress claims on the back of record high orderbook. Its outstanding orderbook currently stands at RM7.1b with RM3.96b new jobs secured YTD, against RM5.3b outstanding orderbook as of end-2023 with a total of RM2.5b new jobs secured in 2023. However, its core profit only inched up 3% to RM98.5m given the abovementioned low margin in-house job recognition.

Outlook. We expect a significant revitalisation of the construction sector backed by: (i) the finalisation of RM10b Bayan Lepas LRT, Pan Borneo Sarawak & Sabah Highway and several flood mitigation projects, and (ii) a vibrant private sector construction market, backed by massive investment in new semiconductor foundries and data centres. SUNCON is eyeing opportunities in data centre building jobs, Penang LRT Mutiara Line work packages, and contracts from parent and sister companies.

Forecasts. We trimmed FY24 and FY25 earnings by 11% and 4%, respectively, as we adjusted (i) construction EBIT margin to 7.0% and 7.5% from 8% previously, and (ii) effective tax rate to 27% from 24% for FY24 but made no changes to FY25 of 24%. Nonetheless, our annual job wins are maintained at RM4.5b and RM4.0b, for FY24 and FY25, against guided RM4b-RM5b per year. FY24-FY25 NDPS are also maintained at 6.0 sen.

Valuations. Post earnings revision, our TP is reduced by 7% to RM4.52 from RM4.71, based on unchanged 22x FY25F PER, which is in-line with our valuation for big cap construction companies, i.e., **GAMUDA (UP; TP: RM10.80)** and **IJM (MP; TP: RM3.16)**. Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by

MARKET PERFORM ↔

Price: RM4.43
Target Price: RM4.52 ↓

Share Price Performance



KLCI 1,588.68
YTD KLCI chg 9.2%
YTD stock price chg 128.4%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SCGB MK Equity
Market Cap (RM m) 5,711.9
Shares Outstanding 1,289.4
52-week range (H) 5.18
52-week range (L) 1.76
3-mth avg. daily vol. 2,950,494
Free Float 27%
Beta 1.0

Major Shareholders

Sunway Holdings Sdn Bhd 54.6%
Sungei Way Corp Sdn Bhd 10.1%
Employees Provident Fund 7.3%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	2671	3148	4488
EBIT	224	227	342
PBT	189	227	342
Net Profit	145	160	252
Core Net Profit	170	160	252
Consensus	-	175	270
Earnings Revision (%)	-	-11.1	-4.1
Core EPS (sen)	13.2	12.4	19.6
Core EPS Growth (%)	18.2	-5.7	57.2
NDPS (sen)	6.0	6.0	6.0
BVPS (RM)	0.64	0.70	0.84
NTA/share (RM)	0.64	0.70	0.84
PER (x)	15.2	35.6	22.6
PBV (x)	3.16	6.32	5.30
P/NTA (x)	3.16	6.33	5.30
Net Gearing (x)	0.56	0.32	0.03
Net Div. Yield (%)	3.0	1.4	1.4

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us (see Page 5). For earnings and TP sensitivity, FY25F EPS would rise 2.3% and TP by 10 sen for every RM100m increase in its FY25 order book

Investment case. We like SUNCON for: (i) strong job prospects of the sector as a whole with the imminent roll-out of key public infrastructure projects, (ii) its strong earnings visibility underpinned by RM7.4b outstanding order book and recurring jobs from parent and sister companies, and (iii) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works. **MARKET PERFORM** reaffirmed.

Risks to our recommendation include: (i) weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

Income Statement								
FY Dec (RM m)	3Q FY24	1Q FY24	Q-o-Q Chg	3Q FY23	Y-o-Y Chg	1H FY24	1H FY23	Y-o-Y Chg
Turnover	865.3	651.2	33%	673.5	28%	2,121.4	1,799.7	18%
EBITDA	69.3	57.2	21%	59.3	17%	184.1	158.3	16%
Depreciation	-4.5	-4.6	-2%	-5.2	-14%	-13.6	-15.8	-14%
EBIT	64.8	52.7	23%	54.1	20%	170.6	142.5	20%
Interest and other incomes	22.4	15.3	46%	7.0	219%	42.4	17.8	138%
Interest expense	-16.6	-17.8	-6%	-13.0	28%	-50.6	-32.8	55%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.3	N/A
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	70.5	50.2	40%	48.1	47%	162.4	127.9	27%
Taxation	-21.9	-12.4	76%	-12.6	74%	-43.3	-30.5	42%
Profit after tax	48.6	37.8	29%	35.5	37%	119.1	97.4	22%
Minority interest	-2.2	1.1	-298%	-0.5	333%	-1.4	-1.6	-13%
Net profit	46.5	38.9	20%	35.0	33%	117.7	95.8	23%
Core net profit	34.2	37.2	-8%	37.9	-10%	98.5	96.0	3%
EPS (sen)	2.7	2.9	-8%	2.9	-10%	7.6	7.4	3%
DPS (sen)	2.50	3.50	-29%	0.00	N/A	6.00	3.00	100%
NTA/share (RM)	0.65	0.67	-2%	0.60	8%	0.65	0.60	8%
EBITDA margin	8.0%	8.8%		8.8%		8.7%	8.8%	
EBIT margin	7.5%	8.1%		8.0%		8.0%	7.9%	
Pretax margin	8.2%	7.7%		7.1%		7.7%	7.1%	
Core net margin	4.0%	5.7%		5.6%		4.6%	5.3%	
Effective tax rate	31.0%	24.8%		26.2%		26.6%	23.8%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	3Q FY24	1Q FY24	Q-o-Q Chg	3Q FY23	Y-o-Y Chg	9M FY24	9M FY23	Y-o-Y Chg
Turnover								
Construction	831.8	597.6	39%	590.6	41%	1,973.0	1,595.2	24%
Precast Concrete	33.5	53.6	-38%	83.0	-60%	148.4	204.5	-27%
Group Turnover	865.3	651.2	33%	673.5	28%	2,121.4	1,799.7	18%
Segment Results								
Construction	68.5	46.9	46%	41.6	65%	153.3	116.9	31%
Precast Concrete	2.0	3.3	-40%	6.5	-69%	9.1	11.0	-17%
Group PBT	70.5	50.2	40%	48.1	47%	162.4	127.9	27%
PBT Margin								
Construction	8.2%	7.8%		7.0%		7.8%	7.3%	
Precast Concrete	6.0%	6.2%		7.8%		6.1%	5.4%	
Group PBT Margin	8.2%	7.7%		7.1%		7.7%	7.1%	

Source: Company

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SUNCON's Outstanding Order Book	
Project	Outstanding Value (RM m)
Building	
Oxley Tower (MEP) + VO	25
Daiso	229
Data Centre	
JHB1X0 - Data Centre	1,079
K2 – Data Centre	21
K2 DC (CIMC)	17
ECI & Work Order – MNC	45
PSR – MNC	739
JHB1X0 – Revised NTP	1,500
JHB1X0 – TIW	450
Infrastructure/Piling	
RTS Link Package 1B & Package 5	265
India	
Thorapalli-Jittandahalli (TJ)	180
Sustainable Energy	
CGPP - Green	46
Singapore	
Precast	281
New Order 2024 – External	430
Internal – Sunway Group	
Sunway Belfield	29
Sunway Square – Superstructure + VO	544
Sunway Carnival Mall – Refurbishment	113
Sunway Velocity 2B	19
SMC Damansara	20
SMC Ipoh + VO	14
Sunway Flora	161
SMC Fit-Out	59
Sunway Ipoh Mall	694
SunMed PH3 Fit-Out	80
SunMed Ipoh PH2 Fit-Out	18
SunMed Damansara PH2 Fit-Out	9
Total	7,067

Source: Company

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	8.87	10.80	21.8%	25,028.2	Y	07/2025	47.3	58.7	48.5%	24.2%	18.8	15.1	2.0	11.3%	20.0	2.3%
IJM	MP	2.94	3.16	7.5%	10,308.1	Y	03/2025	13.0	14.4	-6.5%	11.2%	22.7	20.4	1.1	4.8%	8.0	2.7%
KERJAYA	OP	2.18	2.21	1.4%	2,749.1	Y	12/2024	14.2	17.5	33.3%	23.4%	15.4	12.4	1.9	13.0%	10.0	4.6%
KIMLUN	OP	1.34	1.69	26.1%	473.5	Y	12/2024	6.0	11.5	200.0%	91.5%	22.2	11.6	0.6	2.8%	1.0	0.7%
SUNCON	MP	4.43	4.52	2.0%	5,711.9	Y	12/2024	12.4	19.5	-5.7%	57.3%	35.7	22.7	6.3	18.6%	6.0	1.4%
WCT	OP	0.925	1.43	54.6%	1,442.0	Y	12/2024	3.8	6.2	-78.9%	63.2%	24.5	15.0	0.4	1.8%	0.5	0.5%
Sector Aggregate					45,712.8					52.1%	25.4%	20.6	16.4	1.6	7.9%		2.0%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★	☆	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	☆	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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