

23 August 2024

# Sunway Construction Group

## Strong Prospects but Fairly Valued

By Teh Kian Yeong | [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

SUNCON's 1HFY24 result met expectations with core profit rising 11% YoY to RM64.2m on higher revenue. 2HFY24 earnings are set to be stronger as data centre projects accelerate. Its prospects remain strong underpinned by a record order backlog and promising jobs prospects from both public and private projects. We maintain our forecasts and TP of RM4.28 but cut our call to MP as it is fairly valued at 20x FY25 PER after its recent solid share price performance.

SUNCON's 1HFY24 core profit of RM64.2m came in at only 36%/34% of house/street's full-year estimates. However, we consider the results within expectations as we expect strong 2HFY24 ahead as progress billings (especially from data centre projects) accelerate. It declared 1<sup>st</sup> interim NDPS of 3.5 sen (ex-date: 11 Sep; payment date: 26 Sep) in 2QFY24, which is higher than that of 3.0 sen paid in 2QFY23.

YoY, its 1HFY24 core profit rose 11% to RM64.2m on the back of 12% hike in revenue due to the peak construction progress in several projects. The earnings were partly softened by a higher finance cost (+72% or RM14.3m) which was largely to fund its India project.

QoQ, its 2QFY24 core income jumped 38% to RM37.2m owing to higher revenue (+8% due to the acceleration progress in building and data centre projects) as well as improved construction margin.

**Outlook.** We expect a significant revitalisation of the construction sector backed by: (i) the roll-out of the RM45b MRT3 project in 2024/2025, RM10b Bayan Lepas LRT and several flood mitigation projects reportedly to be worth RM13b, 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, MRT3 and Penang LRT Mutiara Line work packages, and contracts from parent and sister companies.

**Forecasts.** Maintained. We assume annual job wins of RM4.5b for FY24 and RM4.0b for FY25 vs. its guided RM4b-RM5b per year.

**Valuations.** We maintain our TP of RM4.28 based on 20x FY25F PER, which is in-line with our valuation for big cap construction companies, i.e. **GAMUDA (UP; TP: RM7.29)** and **IJM (MP; TP: RM3.00)**. Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by 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. However, the stock is fairly valued after the solid share price performance in the past two months. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

**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.

## MARKET PERFORM ↓

Price: **RM4.24**  
Target Price: **RM4.28** ↔

### Share Price Performance



KLCI 1,641.66  
YTD KLCI chg 12.9%  
YTD stock price chg 118.6%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker SCGB MK Equity  
Market Cap (RM m) 5,466.9  
Shares Outstanding 1,289.4  
52-week range (H) 5.18  
52-week range (L) 1.76  
3-mth avg. daily vol. 4,688,410  
Free Float 27%  
Beta 1.0

### Major Shareholders

Sunway Holdings Sdn Bhd 54.6%  
Sungei Way Corp Sdn Bhd 10.1%  
Employees Provident Fund 6.2%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	2671	3148	4488
EBIT	224	247	364
PBT	189	247	364
<b>Net Profit</b>	<b>145</b>	<b>181</b>	<b>263</b>
<b>Core Net Profit</b>	<b>170</b>	<b>181</b>	<b>263</b>
Consensus		184	262
Earnings Revision (%)		-	-
Core EPS (sen)	13.2	14.0	20.4
Core EPS Growth (%)	18.2	6.1	45.7
NDPS (sen)	6.0	6.0	6.0
BVPS (RM)	0.64	0.72	0.86
NTA/share (RM)	0.64	0.72	0.86
PER (x)	15.2	30.3	20.8
PBV (x)	3.16	5.92	4.93
P/NTA (x)	3.16	5.92	4.93
Net Gearing (x)	0.56	0.32	0.03
Net Div. Yield (%)	3.0	1.4	1.4

23 August 2024

Income Statement								
FY Dec (RM m)	2Q FY24	1Q FY24	Q-o-Q Chg	2Q FY23	Y-o-Y Chg	1H FY24	1H FY23	Y-o-Y Chg
Turnover	651.2	604.8	8%	604.1	8%	1,256.0	1,126.2	12%
EBITDA	57.2	57.6	-1%	52.0	10%	114.8	98.9	16%
Depreciation	-4.6	-4.5	1%	-5.3	-14%	-9.1	-10.6	-14%
EBIT	52.7	53.1	-1%	46.7	13%	105.7	88.4	20%
Interest and other incomes	15.3	4.7	224%	6.7	128%	20.1	10.8	85%
Interest expense	-17.8	-16.2	10%	-11.5	55%	-34.0	-19.7	72%
Associates	0.0	0.0	0%	0.3	N/A	0.0	0.3	N/A
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	50.2	41.6	21%	42.3	19%	91.9	79.8	15%
Taxation	-12.4	-8.9	39%	-9.0	38%	-21.4	-17.9	20%
Profit after tax	37.8	32.7	15%	33.3	14%	70.5	61.9	14%
Minority interest	1.1	-0.3	-455%	-0.3	-512%	0.8	-1.1	-173%
Net profit	38.9	32.4	20%	33.0	18%	71.3	60.8	17%
Core net profit	37.2	27.0	38%	32.3	15%	64.2	58.1	11%
EPS (sen)	2.9	2.1	38%	2.5	15%	5.0	4.5	11%
DPS (sen)	3.50	0.00	N/A	3.00	17%	3.50	3.00	17%
NTA/share (RM)	0.67	0.67	0%	0.61	10%	0.67	0.61	10%
EBITDA margin	8.8%	9.5%		8.6%		9.1%	8.8%	
EBIT margin	8.1%	8.8%		7.7%		8.4%	7.8%	
Pretax margin	7.7%	6.9%		7.0%		7.3%	7.1%	
Core net margin	5.7%	4.5%		5.3%		5.1%	5.2%	
Effective tax rate	24.8%	21.5%		21.3%		23.3%	22.4%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	2Q FY24	1Q FY24	Q-o-Q Chg	2Q FY23	Y-o-Y Chg	1H FY24	1H FY23	Y-o-Y Chg
<b>Turnover</b>								
Construction	597.6	543.6	10%	535.6	12%	1,141.2	1,004.7	14%
Precast Concrete	53.6	61.2	-12%	68.5	-22%	114.9	121.5	-5%
<b>Group Turnover</b>	<b>651.2</b>	<b>604.8</b>	<b>8%</b>	<b>604.1</b>	<b>8%</b>	<b>1,256.0</b>	<b>1,126.2</b>	<b>12%</b>
<b>Segment Results</b>								
Construction	46.9	37.9	24%	39.0	20%	84.7	75.3	13%
Precast Concrete	3.3	3.8	-11%	3.2	4%	7.1	4.5	57%
<b>Group PBT</b>	<b>50.2</b>	<b>41.6</b>	<b>21%</b>	<b>42.3</b>	<b>19%</b>	<b>91.9</b>	<b>79.8</b>	<b>15%</b>
<b>PBT Margin</b>								
Construction	7.8%	7.0%		7.3%		7.4%	7.5%	
Precast Concrete	6.2%	6.1%		4.7%		6.2%	3.7%	
<b>Group PBT Margin</b>	<b>7.7%</b>	<b>6.9%</b>		<b>7.0%</b>		<b>7.3%</b>	<b>7.1%</b>	

Source: Company

23 August 2024

<b>SUNCON's Outstanding Order Book</b>	
<b>Project</b>	<b>Outstanding Value (RM m)</b>
<b>Building</b>	
Oxley Tower (MEP) + VO	27
Daiso	254
<b>Data Centre</b>	
JHB1X0 - Data Centre	1,450
K2 – Data Centre	29
K2 DC (CIMC)	36
ECI & Work Order – MNC	57
PSR – MNC	737
JHB1X0 – Revised NTP	1,461
<b>Infrastructure/Piling</b>	
RTS Link Package 1B & Package 5	347
<b>India</b>	
Thorapalli-Jittandahalli (TJ)	191
<b>Sustainable Energy</b>	
CGPP - Green	46
<b>Singapore</b>	
Precast	374
New Order 2024 – External	358
<b>Internal – Sunway Group</b>	
Sunway Belfield	65
Sunway Square – Superstructure + VO	649
Sunway Carnival Mall – Refurbishment	138
Sunway Velocity 2B	31
SMC Damansara	44
SMC Ipoh + VO	29
Sunway Flora	191
SMC Fit-Out	70
Sunway Ipoh Mall	708
SunMed PH3 Fit-Out	80
<b>Total</b>	<b>7,375</b>

Source: Company

23 August 2024

### 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.
<b>Stocks Under Coverage</b>																	
GAMUDA	UP	7.51	7.29	-2.9%	20,943.4	Y	07/2024	40.2	50.6	29.7%	25.8%	18.7	14.8	1.8	10.0%	12.0	1.6%
IJM	MP	3.21	3.00	-6.5%	11,254.8	Y	03/2025	13.0	14.4	-8.3%	11.2%	24.8	22.3	1.2	4.8%	8.0	2.5%
KERJAYA	OP	1.93	2.24	16.1%	2,433.8	Y	12/2024	14.2	16.4	33.3%	15.4%	13.6	11.8	1.7	13.0%	10.0	5.2%
KIMLUN	OP	1.49	1.81	21.5%	526.5	Y	12/2024	11.9	14.7	493.0%	23.0%	12.5	10.2	0.7	5.5%	1.0	0.7%
SUNCON	MP	4.24	4.28	0.9%	5,466.9	Y	12/2024	14.0	20.4	6.1%	45.7%	30.3	20.8	5.9	20.7%	6.0	1.4%
WCT	UP	0.995	0.950	-4.5%	1,410.1	Y	12/2024	3.8	6.2	-78.9%	63.2%	26.3	16.1	0.5	1.8%	0.5	0.5%
<b>Sector Aggregate</b>					<b>42,035.6</b>					<b>42.6%</b>	<b>24.2%</b>	<b>20.6</b>	<b>16.6</b>	<b>1.5</b>	<b>7.4%</b>		<b>2.0%</b>

Source: Kenanga Research

*This section is intentionally left blank*

23 August 2024

**Stock ESG Ratings:**

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

☆ 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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**  
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
 Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

