

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Driven by Stronger DC Progress

KEY INVESTMENT HIGHLIGHTS

- **Core earnings of RM44.1 in 3QFY24, an improvement of +26.7%yoy; 9MFY24 core earnings grew +22.4% to RM115.2m**
- **Construction revenue rose +40.9%yoy to RM831.8m; PBT grew +64.7%yoy to RM68.5m**
- **FY24 order book replenishment target remained unchanged at RM4.0b-RM5.0b**
- **Maintain NEUTRAL with an unchanged TP of RM4.46**

Within expectations. Sunway Construction Group Berhad's (SunCon's) core net profit for 3QFY24 came in +26.7%yoy higher at RM44.1m, bringing the cumulative 9MFY24 core earnings to RM115.2m, an increase of +22.4%yoy. At 64.5% of ours and 66.0% of consensus' full-year projections, we deem the results within estimates as we expect stronger progress billings in 4QFY24, driven by its sizeable and fast-paced data centre jobs. The group declared its second interim dividend of 2.5 sen, bringing the year-to-date dividend declared to 6 sen per share.

Construction segment. The group's construction revenue grew +40.9%yoy during the quarter to RM831.8m, generating a PBT of RM68.5m, a growth of +64.7%yoy. This was due to the continued accelerated progress of SunCon's newer projects, primarily data centres. There was an improvement in PBT margin to 8.2%, as compared to 7.8% last quarter and 7.0% in 3QFY23. We expect the margins at the current level to be sustainable, if not better in future quarters in line with revenue turnover as there is a continued minimal impact from the diesel rationalisation, stable cement prices and lower steel bar prices.

Precast segment. The group's Precast segment revenue posted a -59.6%yoy decrease in revenue during the quarter to RM33.5m. This led to a decline in the division's PBT by -69.2%yoy and -39.4%qoq to RM2.0m, as most of the projects were completed in the previous quarter, on top of staggered delivery schedules for newer projects. PBT margin remained stable at 6.0% as compared to 6.2% last quarter. In Oct-24, Singapore's Housing and Development Board (HDB) launched 8,573 Build-To-Order flats for sale. Since 90% of the group's precast segment sales are tied to Singapore HDB flats, prospects remain positive for SunCon's precast business. The division is also exploring opportunities beyond HDB projects, with two data centre projects to date.

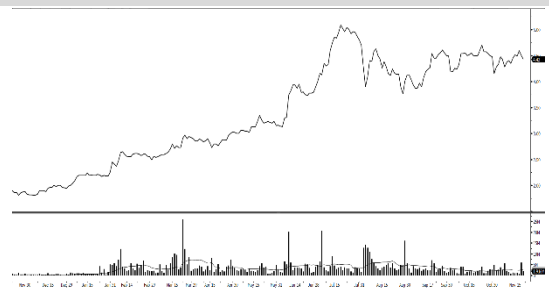
RM7.1b outstanding order book. SunCon's outstanding order book as at Sep-24 stood at RM7.07b, providing strong earnings visibility up to FY26. About 54.5% of these are data centre projects. It has secured RM4.03b of new jobs to date, and we remain optimistic that the group will be able to achieve the higher end of its RM4.0b-5.0b replenishment target for FY24. Management is actively bidding for jobs, with a tender book of RM10.6b. Jobs on the radar include data centres, warehousing and semiconductor manufacturing domains.

Maintain NEUTRAL
Unchanged Target Price: RM4.46

RETURN STATISTICS

Price @ 21 st Nov 2024 (RM)	4.43
Expected share price return (%)	+0.7
Expected dividend yield (%)	+1.8
Expected total return (%)	+2.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.6	2.0
3 months	-1.6	10.7
12 months	134.4	115.9

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	2,978.96	3,964.86	4,163.10
Operating Profit	217.27	303.69	333.05
Profit Before Tax	230.45	318.60	337.21
Core net profit	178.74	240.03	259.80
Core EPS (sen)	13.9	18.6	20.1
DPS (sen)	8.0	7.0	7.0
Dividend Yield	1.8%	1.6%	1.6%


KEY STATISTICS

FBM KLCI	1,588.68
Issue shares (m)	1292.90
Estimated free float (%)	26.71
Market Capitalisation (RM'm)	5,711.86
52-wk price range	RM1.76-RM5.18
3-mth average daily volume (m)	3.01
3-mth average daily value (RM'm)	12.84
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Wav Corp Sdn Bhd	10.08
Employees Provident Fund Board	6.43

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Earnings estimates. We keep our earnings estimates unchanged.

Target price. As such, we also maintain our **TP** for SunCon at **RM4.46**, which was derived by pegging its FY25F EPS of 18.6 sen to a PER of 24x, which is +1SD above its five-year mean.

Maintain NEUTRAL. We view that the upcoming pipeline of projects remains healthy for the sector and SunCon is expected to be among the main beneficiaries of the rise in both private and civil construction jobs. The group is now renowned for its data centre construction expertise, currently managing five data centre projects, allowing it to ride on the data centre growth in the country with more construction jobs expected in space. Our **NEUTRAL** recommendation is premised on the strong rise in SunCon's share price by 2.3x year-to-date, which we believe fairly values the group, which is now trading at 24x FY25F PER. 

SUNWAY CONSTRUCTION: 3QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	3QFY24	2QFY24	3QFY23	QoQ	YoY	9MFY24	9MFY23	YoY
Revenue	865.3	651.2	673.5	32.9%	28.5%	2,121.4	1,799.7	17.9%
Net Operating Expenses	(810.3)	(600.2)	(616.6)	-35.0%	-31.4%	(1,960.7)	(1,353.3)	-44.9%
Operating Profit	64.8	52.7	54.1	23.1%	19.7%	170.6	142.5	19.7%
Finance Income	22.4	15.3	7.0	45.9%	218.6%	42.4	17.8	137.8%
Finance Costs	(16.6)	(17.8)	(13.0)	6.4%	-27.7%	(50.6)	(32.8)	-54.5%
JV and Associates	0.0	0.0	0.0	-	-	0.0	0.3	-100.0%
Profit Before Tax	70.5	50.2	48.1	40.5%	46.6%	162.4	127.9	27.0%
Tax Expense	(21.9)	(12.4)	(12.6)	-75.9%	-73.7%	(43.3)	(30.5)	-42.0%
Minority Interest	2.2	(1.1)	0.5	297.6%	332.6%	1.4	1.6	-12.5%
Reported Net Profit	46.5	38.9	35.0	19.6%	32.7%	117.7	95.8	22.8%
Core Net Profit	44.1	38.9	34.8	13.2%	26.7%	115.2	94.1	22.4%

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	2,155.23	2,364.70	2,978.96	3,964.86	4,163.10
Net operating expenses	(1,963.75)	(2,182.91)	(2,655.54)	(3,484.59)	(3,642.71)
Operating profit	148.41	169.97	217.27	303.69	333.05
Profit before tax	184.06	193.79	230.45	318.60	337.21
Net profit	135.18	140.80	178.74	240.03	259.80
Core net profit	134.44	140.80	178.74	240.03	259.80
Core EPS (sen)	10.5	10.9	13.9	18.6	20.1
DPS (sen)	5.5	6.0	7.0	7.0	7.0

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	107.6	118.4	124.3	130.6	124.1
Other investments and assets	491.1	498.0	511.9	518.9	532.0
Non-current assets	598.7	616.3	636.2	649.6	656.1
Cash	491.6	468.2	522.1	548.3	520.8
Trade debtors	988.7	1,123.5	1,231.3	1,304.2	1,369.4
Current assets	1,637.4	1,730.1	1,905.9	2,013.5	2,051.3
Trade creditors	916.8	1,121.6	1,193.8	1,277.4	1,335.4
Short-term debt	172.2	161.6	197.5	197.6	217.3
Current liabilities	1,103.3	1,296.9	1,407.9	1,491.6	1,569.4
Long-term debt	308.5	203.6	207.6	150.6	118.3
Non-current liabilities	311.9	489.1	212.8	155.4	122.1
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	515.9	579.3	662.8	757.4	757.4
Equity	737.1	837.9	921.4	1,016.0	1,016.0

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	184.1	193.8	211.5	318.6	337.2
Depreciation & amortisation	23.8	26.1	27.4	28.8	27.4
Changes in working capital	-382.1	100.8	-64.8	-23.9	-16.7
Operating cash flow	-215.0	414.9	206.6	297.7	286.1
Capital expenditure	-1.9	-25.0	-25.0	-25.0	-30.0
Investing cash flow	423.7	-308.0	-123.2	184.8	189.8
Debt raised/(repaid)	233.4	107.6	193.7	-145.4	-145.4
Dividends paid	-90.3	-77.4	-77.4	-77.4	-77.4
Financing cash flow	142.7	30.2	116.3	-222.8	-222.8
Net cash flow	351.4	137.1	199.7	259.8	253.1
Beginning cash flow	60.6	407.7	544.8	744.4	1004.2
Ending cash flow	407.7	544.8	744.4	1004.2	1257.3

Profitability Margins	2022A	2023A	2024E	2025F	2026F
Operating profit margin	6.9%	7.2%	7.3%	7.7%	8.0%
PBT margin	8.5%	8.2%	7.7%	10.7%	11.3%
PAT margin	6.3%	6.0%	6.0%	8.1%	8.7%
Core PAT margin	5.8%	6.0%	6.0%	7.7%	8.0%

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology