

Sunway Construction SCOG.KL SCGB MK

EQUITY: ENGINEERING & CONSTRUCTION

Datacenter orderbook surprise; upgrade to Buy

JHB1X0 project size doubled; raise TP to MYR3.90

JHB1X0 contract size revised to MYR3.2bn

Sunway Construction (SunCon) on 10 June 2024 *announced* that it has signed an amendment with Yellowwood Properties (not listed) in respect of the JHB1X0 data center project in Sedenak, Johor, with key changes being: 1) the total contract amount of the project raised to MYR3.2bn (from the original MYR1.7bn *awarded in Dec 2022*, of which MYR1.5bn was still outstanding), effectively doubling the size of remaining orderbook from this project, 2) SunCon has been notified to commence works on the project immediately, with expected completion by 1Q2026, i.e. <2 years from now. With this announcement, we expect SunCon's total orderbook replenishment for FY24F to rise to MYR3.3bn, and total outstanding orderbook to rise to MYR7.9bn.

Positive surprise; FY24-25F to see large earnings contribution from this project

We see this announcement as a major positive surprise. Recall that the progress of this data center was paused, due to the delayed finalization of an off-taker. This project was originally scheduled to complete by 3Q24F, but delays led to earnings cuts by Bloomberg consensus. We had also *downgraded* SunCon to Neutral on 9 Feb, believing that most of the data center projects are factored in the share price. However, with the surprise doubling of the size, and notice to commence works, we think that uncertainty on this project is removed. Further, the new finalized timeline suggests a MYR1.5bn revenue recognition from this job alone in each of the next two years, and based on our conservative ~6-7% net margin assumption, this can contribute ~MYR100mn to earnings annually for ~2 years.

Upgrade to Buy from Neutral with revised TP of MYR3.90, implying 18% upside

In view of today's announcement, and strong data center capex outlook, we raise our orderbook replenishment target for SunCon to MYR4.8bn/MYR3.2bn for FY24F/25F (previously MYR3.5bn/MYR 2.5bn). With revised completion timelines, we raise our FY24F/25F revenues by 11%/36%, and earnings by 7%/30%. We also roll forward our TP to FY25F, which is based on an unchanged 17x target P/E multiple (+1SD to long-term average), applied to our revised FY25F EPS of 23 sen, to arrive at our revised TP of MYR3.90, and upgrade the stock to Buy. The stock currently trades at 14.6x FY25F P/E. Likely catalysts for the stock are sharp acceleration in earnings as project progress accelerates, further phases of data center projects ECI Package A and ECI Package B (*Fig. 1*), and receivables monetization. Note that the Vietnam power plant can pose further upside to our numbers, as we are currently not building it in.

Year-end 31 Dec	FY23		FY24F		FY25F		FY26F	
	Actual	Old	New	Old	New	Old	New	
Currency (MYR)								
Revenue (mn)	2,671	3,541	3,931	3,814	5,202	3,426	3,623	
Reported net profit (mn)	145	197	211	227	294	210	216	
Normalised net profit (mn)	145	197	211	227	294	210	216	
FD normalised EPS	11.25c	15.22c	16.31c	17.52c	22.75c	16.22c	16.74c	
FD norm. EPS growth (%)	7.3	35.3	44.9	15.1	39.4	-7.5	-26.4	
FD normalised P/E (x)	29.4	-	20.3	-	14.6	-	19.8	
EV/EBITDA (x)	20.5	-	14.9	-	11.4	-	13.8	
Price/book (x)	5.2	-	4.6	-	3.9	-	3.6	
Dividend yield (%)	1.8	-	2.6	-	3.7	-	2.7	
ROE (%)	18.6	22.5	24.0	23.1	28.9	19.3	19.1	
Net debt/equity (%)	47.0	43.9	46.6	34.4	43.2	14.9	12.7	

Source: Company data, Nomura estimates

Rating
Up from Neutral **Buy**

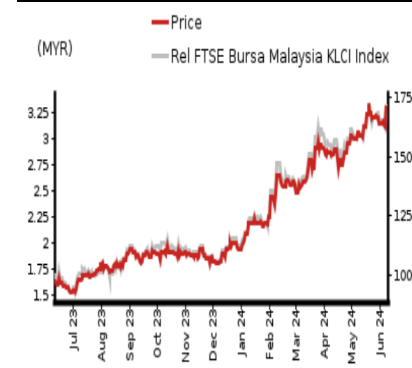
Target price
Increased from MYR 2.60 **MYR 3.90**

Closing price
10 June 2024 **MYR 3.31**

Implied upside **+17.8%**

Market Cap (USD mn) 906.9
ADT (USD mn) 2.6

Relative performance chart



Source: LSEG, Nomura

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Key data on Sunway Construction

Performance

(%)	1M	3M	12M		
Absolute (MYR)	8.9	27.8	101.8	M cap (USDmn)	906.9
Absolute (USD)	9.3	26.8	97.3	Free float (%)	35.4
Rel to FTSE Bursa Malaysia KLCI Index	7.8	22.7	84.3	3-mth ADT (USDmn)	2.6

Income statement (MYRmn)

Year-end 31 Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue	2,155	2,671	3,931	5,202	3,623
Cost of goods sold	-1,969	-2,447	-3,615	-4,787	-3,306
Gross profit	187	224	317	415	318
SG&A					
Employee share expense					
Operating profit	187	224	317	415	318
EBITDA	210	245	336	436	339
Depreciation	-24	-21	-20	-21	-22
Amortisation					
EBIT	187	224	317	415	318
Net interest expense	-4	-21	-30	-23	-25
Associates & JCEs	2	-14	-14	-14	-14
Other income					
Earnings before tax	184	189	272	377	278
Income tax	-45	-43	-60	-83	-62
Net profit after tax	139	146	212	295	216
Minority interests	-4	-1	-1	-1	0
Other items					
Preferred dividends					
Normalised NPAT	135	145	211	294	216
Extraordinary items	0	0	0	0	0
Reported NPAT	135	145	211	294	216
Dividends	-71	-77	-112	-157	-115
Transfer to reserves	64	68	98	137	101

Valuations and ratios

Reported P/E (x)	31.6	29.4	20.3	14.6	19.8
Normalised P/E (x)	31.6	29.4	20.3	14.6	19.8
FD normalised P/E (x)	31.6	29.4	20.3	14.6	19.8
Dividend yield (%)	1.7	1.8	2.6	3.7	2.7
Price/cashflow (x)	-	-	68.4	36.5	8.9
Price/book (x)	5.8	5.2	4.6	3.9	3.6
EV/EBITDA (x)	20.5	20.5	14.9	11.4	13.8
EV/EBIT (x)	23.1	22.5	15.8	12.0	14.8
Gross margin (%)	8.7	8.4	8.1	8.0	8.8
EBITDA margin (%)	9.8	9.2	8.6	8.4	9.4
EBIT margin (%)	8.7	8.4	8.1	8.0	8.8
Net margin (%)	6.3	5.4	5.4	5.7	6.0
Effective tax rate (%)	24.6	22.7	22.2	21.9	22.2
Dividend payout (%)	52.5	53.3	53.3	53.3	53.3
ROE (%)	18.8	18.6	24.0	28.9	19.1
ROA (pretax %)	10.7	9.8	11.2	13.0	10.0

Growth (%)

Revenue	24.6	23.9	47.2	32.3	-30.4
EBITDA	26.0	16.7	37.1	29.6	-22.1
Normalised EPS	20.1	7.3	44.9	39.4	-26.4
Normalised FDEPS	20.1	7.3	44.9	39.4	-26.4

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 31 Dec	FY22	FY23	FY24F	FY25F	FY26F
EBITDA	210	245	336	436	339
Change in working capital	-198	-220	-66	-212	227
Other operating cashflow	-227	-311	-208	-106	-87
Cashflow from operations	-215	-286	63	117	480
Capital expenditure	-27	-18	-19	-19	-19
Free cashflow	-242	-304	43	98	460
Reduction in investments	500	-30	14	14	14
Net acquisitions					
Dec in other LT assets	-267	-224	-117	0	0
Inc in other LT liabilities	-7	-2	0	0	0
Adjustments	265	260	104	-14	-14
CF after investing acts	250	-300	44	98	460
Cash dividends	-90	-72	-95	-135	-136
Equity issue					
Debt issue	239	421	100	20	20
Convertible debt issue					
Others	-6	0	0	0	0
CF from financial acts	143	349	5	-115	-116
Net cashflow	393	49	49	-17	344
Beginning cash	99	492	541	590	573
Ending cash	492	541	590	573	917
Ending net debt	-11	385	436	473	149

Balance sheet (MYRmn)

As at 31 Dec	FY22	FY23	FY24F	FY25F	FY26F
Cash & equivalents	492	541	590	573	917
Marketable securities					
Accounts receivable	813	1,596	1,787	2,262	1,725
Inventories	53	46	58	76	53
Other current assets	279	56	56	56	56
Total current assets	1,637	2,239	2,491	2,968	2,752
LT investments	223	253	239	225	211
Fixed assets	108	99	98	96	94
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	268	492	609	609	609
Total assets	2,236	3,083	3,436	3,898	3,665
Short-term debt	172	438	538	558	578
Accounts payable	886	1,243	1,379	1,660	1,328
Other current liabilities	45	21	21	21	21
Total current liabilities	1,103	1,702	1,938	2,240	1,927
Long-term debt	309	488	488	488	488
Convertible debt					
Other LT liabilities	3	1	1	1	1
Total liabilities	1,415	2,191	2,427	2,729	2,416
Minority interest	84	72	73	73	73
Preferred stock					
Common stock	259	259	259	259	259
Retained earnings	516	590	706	866	946
Proposed dividends					
Other equity and reserves	-37	-28	-28	-28	-28
Total shareholders' equity	737	820	936	1,096	1,176
Total equity & liabilities	2,236	3,083	3,436	3,898	3,665

Liquidity (x)

Current ratio	1.48	1.32	1.28	1.32	1.43
Interest cover	44.9	10.4	10.5	17.8	12.6

Leverage

Net debt/EBITDA (x)	net cash	1.57	1.30	1.09	0.44
Net debt/equity (%)	net cash	47.0	46.6	43.2	12.7

Per share

Reported EPS (MYR)	10.48c	11.25c	16.31c	22.75c	16.74c
Norm EPS (MYR)	10.48c	11.25c	16.31c	22.75c	16.74c
FD norm EPS (MYR)	10.48c	11.25c	16.31c	22.75c	16.74c
BVPS (MYR)	0.57	0.63	0.72	0.85	0.91
DPS (MYR)	0.05	0.06	0.09	0.12	0.09

Activity (days)

Days receivable	124.8	164.6	157.5	142.0	200.8
Days inventory	9.2	7.4	5.3	5.1	7.1
Days payable	164.8	158.8	132.7	115.9	165.0
Cash cycle	-30.7	13.3	30.0	31.3	43.0

Source: Company data, Nomura estimates

Company profile

Sunway Construction (SunCon) a pure-play construction company that provides a full range of integrated design and construction services including building, infrastructure, foundation and geotechnical engineering, mechanical, electrical and plumbing (MEP) services, manufacturing and sale of precast concrete products as well as sustainable energy services. It has presence in seven countries – Malaysia, Singapore, Philippines, UAE, Trinidad & Tobago and Myanmar. It has 2 precast plants in Malaysia and its Integrated Construction and Prefabrication Hub (ICPH) precast plant in Singapore will complete in 2022. SunCon's orderbook is also supported by its parentco Sunway Bhd (SWB MK, not rated).

Valuation Methodology

We value SunCon at a target P/E of 17x on FY25F earnings estimate of MYR294mn. We arrive at our TP of MYR3.90. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

Risks that may impede the achievement of the target price

Downside risks to our view are: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings; 4) a lack of new projects; 5) risk of project cancellation, delays or arbitration, 6) delay in monetisation of receivables.

ESG

We ascribe a score of 3.5 (out of 5.0) for SunCon's Environment-related (E) achievements and risks due to the nature of construction business which leads to some environmental impact. That said, the company is moving towards adding renewal energy projects as part of its orderbook. We ascribe a score of 4.0 (out of 5.0) for SunCon's Social-related (S) achievements and risks. We ascribe a score of 3.5 (out of 5.0) for SunCon's Governance-related (G) achievements and risks. The company is well managed with good shareholder return policy and asset-light business model which enhances return on capital and has a high dividend payout ratio. It has good long-standing customer relationships with key Malaysian project owners in both the public and private sector, which is testament to its execution capabilities.

Fig. 1: YTD 2024 orderbook replenishment

Projects (2024 new awards)	Client	Completion Date	Contract Sum (RM'mil)
Sunway Ipoh Mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721
Early Contractor Involvement (ECI) Services & Work Order 1A&1B - Package A	Multinational Technology Company	Oct-24	34
Early Contractor Involvement (ECI) Services & Work Order 1A&1B - Package B	Multinational Technology Company	Oct-24	26
Ulu Pandan C1 & C2	CES Engineering & Construction Ptd Ltd	Jun-27	103
Project Service Request	Multinational Technology Company	Apr-27	748
Bedok N2C23 - Watertanks	Precast Concrete Pte Ltd	Sep-25	3
LPS Term Contract Batch 14	Housing and Development Board	Sep-25	82
Secured in 1Q 2024			1,718
101 Neythal Road Redevelopment	Fonda Global Engineering Pte Ltd	Aug-25	6
SMC4 Phase 3 - Fit-out works	Sunway Medical Centre Sdn Bhd	Jun-26	80
JHB1X0 - Revised NTP works	Yellowwood Properties Sdn Bhd	Feb-26	1,500
Secured in 2Q 2024			1,586
TOTAL AS AT 10 JUNE 2024			3,304

Total Outstanding Order Book to-date = RM 7.9 billion

Source: Company data, Nomura research

Fig. 2: SunCon: Changes to our estimates

MYR mn	Old			New			Change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Orderbook replenishment	3,500	2,500	2,500	4,800	3,200	3,200	37%	28%	28%
External	2,500	1,500	1,500	3,500	2,200	2,200	40%	47%	47%
Internal	700	700	700	1,000	700	700	43%	0%	0%
Precast	300	300	300	300	300	300	0%	0%	0%
Revenue	3,541	3,814	3,426	3,931	5,202	3,623	11%	36%	6%
Adj PBT	254	292	270	272	377	278	7%	29%	3%
PBT margins	7.2%	7.6%	7.9%	6.9%	7.3%	7.7%	(0.3 ppt)	(0.4 ppt)	(0.2 ppt)
Adj NPAT	197	227	210	211	294	216	7%	30%	3%

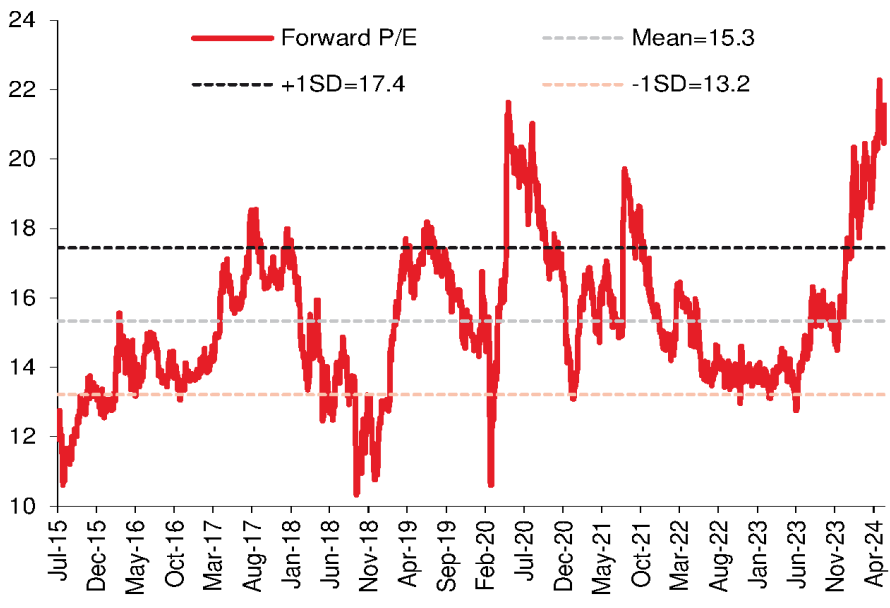
Source: Nomura estimates

Fig. 3: SunCon – Target price valuation methodology

	Dec-25
	FY25F
Normalised net profit (MYR mn)	294
FD number of shares outstanding (mn)	1,293
FD EPS (MYR/ sh)	0.23
Target FY24F P/E	17.0 x
Price target (MYR/ sh)	3.90

Source: Nomura estimates

Fig. 4: SunCon forward P/E (consensus)



Source: Bloomberg consensus, Nomura research

Appendix A-1

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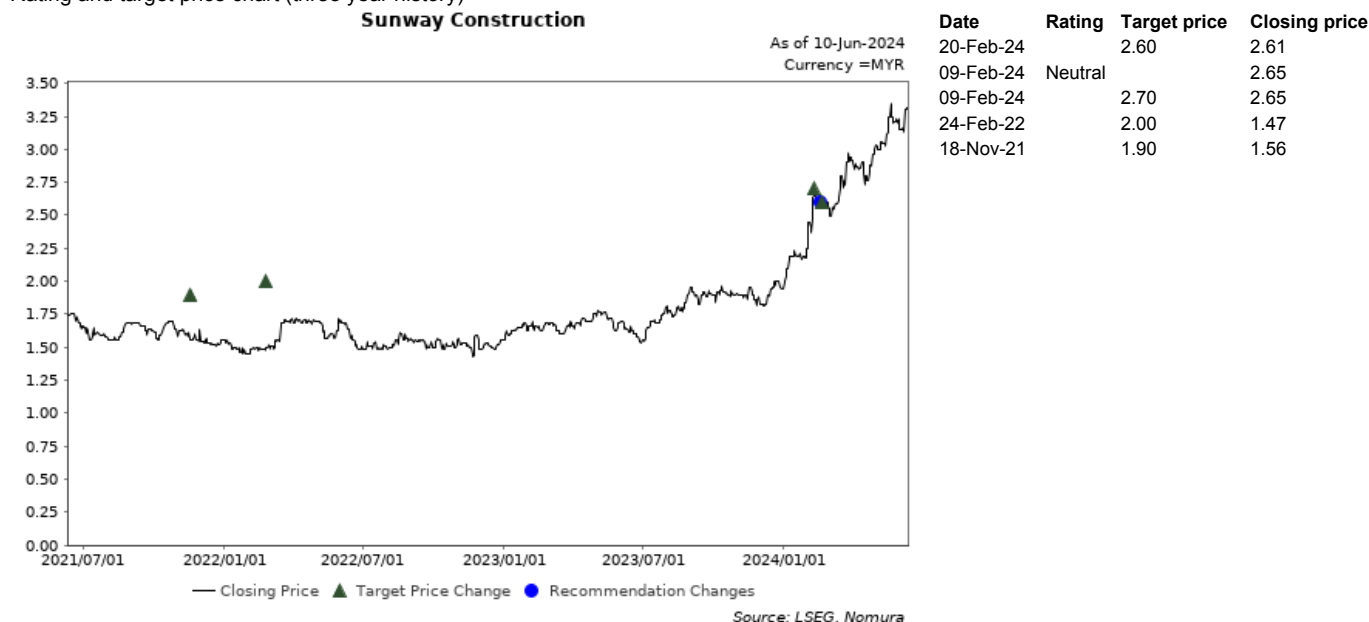
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 3.31	10-Jun-2024	Buy	N/A	

Sunway Construction (SCGB MK)

MYR 3.31 (10-Jun-2024) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

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As at 31 March 2024.

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