

EQUITY: ENGINEERING & CONSTRUCTION

4Q sees seasonal ramp-up in billings

Awaiting lumpy project awards, but shares already pricing-in some future jobs; maintain Neutral

Year-end construction rush drives revenue/earnings bump

Sunway Construction's (SunCon) 4Q23 revenue/reported earnings jumped 29%/41% q-q. Some of this is expected, as 4Q tends to be seasonally stronger as construction works ramp-up to meet internal targets. There were 2 key one-offs – a MYR23mn impairment on previous jobs, key being from a hospital project in Malaysia, and a MYR22mn gain on settlement of a long-standing legal dispute with the Indian highway authority. Netting these, adjusted profit would have been MYR50mn, not too different from reported number.

Higher orderbook guidance for FY24F, tenders in infra, DC, semiconductor, power

Key positives from the results: 1) orderbook win for the full year at MYR2.5bn exceeded original target of MYR2bn set at start of the year, 2) management aims for an even higher MYR2.5-3bn orderbook target for FY24F, this excludes the Vietnam power plant and MRT3 tenders, 3) we estimate that at least 20% of the tenderbook of MYR26bn comes from large data center and semiconductor factory jobs, and a win in any of these projects can add materially to orderbook, 4) precast revenue also picked up, along with profits.

Some concerns on balance sheet and existing data center job

On the flip side, 1) the large JB1X10 data center contract is yet to receive NTP2 and 3 (notice-to-proceed) from the client, delaying revenue recognition, 2) gearing and receivables have risen due to deferred payments from India highway and large scale solar 4 (LSS4) jobs, 3) key Malaysia infra jobs such as MRT3 has seen limited activity from the government, and the Vietnam power plant is yet to receive financial close.

Maintain Neutral, revised TP of MYR 2.60

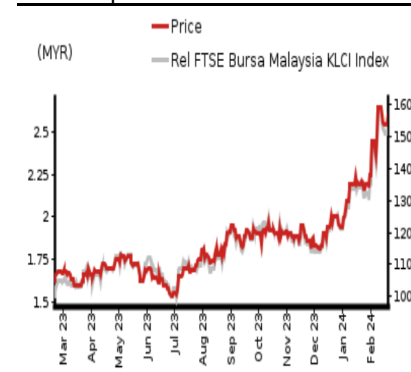
We recently downgraded SunCon to Neutral, as the stock is up 61% in the past 12 months (KLCI +5.5%), and we think current valuations are already pricing in some future jobs. Our orderbook replenishment target is higher than management's target for FY24 at MYR3.5bn/2.5bn for FY24F/25F. After a 5% each cut, FY24F/25F earnings are still 16%/24% above consensus. Our revised TP continues to value the stock at FY24F P/E of 17x (unchanged, current: 17.1x). Note that the upcoming 1Q24F might be seasonally weaker due to Chinese New Year holidays. Upside risks: 1) SunCon winning multiple large hyperscale DC projects, 2) SunCon winning the MRT3 CMC02 package or the Song Hau 2 power plant achieving financial close. Downside risks: 1) project delays/ cancellations or 2) weaker margins.

Year-end 31 Dec	FY23	FY24F		FY25F		FY26F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	2,671	3,750	3,541	3,860	3,814	0	3,426
Reported net profit (mn)	145	208	197	238	227	0	210
Normalised net profit (mn)	145	208	197	238	227	0	210
FD normalised EPS	11.25c	16.09c	15.22c	18.41c	17.52c		16.22c
FD norm. EPS growth (%)	7.3	52.3	35.3	14.4	15.1		-7.5
FD normalised P/E (x)	23.2	-	17.1	-	14.9	-	16.1
EV/EBITDA (x)	16.6	-	12.5	-	11.2	-	11.4
Price/book (x)	4.1	-	3.6	-	3.2	-	3.0
Dividend yield (%)	2.3	-	3.1	-	3.6	-	3.3
ROE (%)	18.6	24.2	22.5	24.4	23.1		19.3
Net debt/equity (%)	47.0	35.5	43.9	21.6	34.4		14.9

Source: Company data, Nomura estimates

Rating Remains	Neutral
Target price Reduced from MYR 2.70	MYR 2.60
Closing price 20 February 2024	MYR 2.61
Implied upside	-0.4%
Market Cap (USD mn)	703.7
ADT (USD mn)	0.8

Relative performance chart



Source: LSEG, Nomura

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Key data on Sunway Construction

Performance

(%)	1M	3M	12M		
Absolute (MYR)	19.2	35.9	61.1	M cap (USDmn)	703.7
Absolute (USD)	17.2	32.3	48.8	Free float (%)	35.4
Rel to FTSE Bursa Malaysia KLCI Index	15.7	30.3	56.7	3-mth ADT (USDmn)	0.8

Income statement (MYRmn)

Year-end 31 Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue	2,155	2,671	3,541	3,814	3,426
Cost of goods sold	-1,969	-2,447	-3,243	-3,487	-3,124
Gross profit	187	224	299	328	303
SG&A					
Employee share expense					
Operating profit	187	224	299	328	303
EBITDA	210	245	323	354	331
Depreciation	-24	-21	-25	-26	-28
Amortisation					
EBIT	187	224	299	328	303
Net interest expense	-4	-21	-30	-22	-19
Associates & JCEs	2	-14	-14	-14	-14
Other income					
Earnings before tax	184	189	254	292	270
Income tax	-45	-43	-57	-65	-60
Net profit after tax	139	146	198	227	210
Minority interests	-4	-1	-1	-1	0
Other items					
Preferred dividends					
Normalised NPAT	135	145	197	227	210
Extraordinary items	0	0	0	0	0
Reported NPAT	135	145	197	227	210
Dividends	-71	-77	-105	-121	-112
Transfer to reserves	64	68	92	106	98

Valuations and ratios

Reported P/E (x)	24.9	23.2	17.1	14.9	16.1
Normalised P/E (x)	24.9	23.2	17.1	14.9	16.1
FD normalised P/E (x)	24.9	23.2	17.1	14.9	16.1
Dividend yield (%)	2.1	2.3	3.1	3.6	3.3
Price/cashflow (x)	-	-	35.6	18.0	10.2
Price/book (x)	4.6	4.1	3.6	3.2	3.0
EV/EBITDA (x)	16.3	16.6	12.5	11.2	11.4
EV/EBIT (x)	18.3	18.2	13.5	12.1	12.5
Gross margin (%)	8.7	8.4	8.4	8.6	8.8
EBITDA margin (%)	9.8	9.2	9.1	9.3	9.6
EBIT margin (%)	8.7	8.4	8.4	8.6	8.8
Net margin (%)	6.3	5.4	5.6	5.9	6.1
Effective tax rate (%)	24.6	22.7	22.3	22.1	22.2
Dividend payout (%)	52.5	53.3	53.3	53.3	53.3
ROE (%)	18.8	18.6	22.5	23.1	19.3
ROA (pretax %)	10.7	9.8	10.9	11.7	10.8

Growth (%)

Revenue	24.6	23.9	32.6	7.7	-10.2
EBITDA	26.0	16.7	31.9	9.4	-6.6
Normalised EPS	20.1	7.3	35.3	15.1	-7.5
Normalised FDEPS	20.1	7.3	35.3	15.1	-7.5

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 31 Dec	FY22	FY23	FY24F	FY25F	FY26F
EBITDA	210	245	323	354	331
Change in working capital	-198	-220	-25	-80	78
Other operating cashflow	-227	-311	-204	-86	-79
Cashflow from operations	-215	-286	95	187	329
Capital expenditure	-27	-18	-25	-25	-25
Free cashflow	-242	-304	70	162	304
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	103	-14	-14
CF after investing acts	250	-300	70	162	304
Cash dividends	-90	-72	-91	-113	-116
Equity issue					
Debt issue	239	421	100	20	20
Convertible debt issue					
Others	-6	0	0	0	0
CF from financial acts	143	349	9	-93	-96
Net cashflow	393	49	79	69	208
Beginning cash	99	492	541	619	689
Ending cash	492	541	619	689	897
Ending net debt	-11	385	407	357	169

Balance sheet (MYRmn)

As at 31 Dec	FY22	FY23	FY24F	FY25F	FY26F
Cash & equivalents	492	541	619	689	897
Marketable securities					
Accounts receivable	813	1,596	1,610	1,658	1,632
Inventories	53	46	52	56	50
Other current assets	279	56	56	56	56
Total current assets	1,637	2,239	2,337	2,459	2,634
LT investments	223	253	239	225	211
Fixed assets	108	99	99	98	95
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	3,284	3,390	3,549
Short-term debt	172	438	538	558	578
Accounts payable	886	1,243	1,237	1,209	1,254
Other current liabilities	45	21	21	21	21
Total current liabilities	1,103	1,702	1,796	1,789	1,854
Long-term debt	309	488	488	488	488
Convertible debt					
Other LT liabilities	3	1	1	1	1
Total liabilities	1,415	2,191	2,285	2,278	2,343
Minority interest	84	72	73	73	73
Preferred stock					
Common stock	259	259	259	259	259
Retained earnings	516	590	696	809	903
Proposed dividends					
Other equity and reserves	-37	-28	-28	-28	-28
Total shareholders' equity	737	820	926	1,040	1,133
Total equity & liabilities	2,236	3,083	3,284	3,390	3,549

Liquidity (x)

Current ratio	1.48	1.32	1.30	1.37	1.42
Interest cover	44.9	10.4	9.9	15.0	15.9

Leverage

Net debt/EBITDA (x)	net cash	1.57	1.26	1.01	0.51
Net debt/equity (%)	net cash	47.0	43.9	34.4	14.9

Per share

Reported EPS (MYR)	10.48c	11.25c	15.22c	17.52c	16.22c
Norm EPS (MYR)	10.48c	11.25c	15.22c	17.52c	16.22c
FD norm EPS (MYR)	10.48c	11.25c	15.22c	17.52c	16.22c
BVPS (MYR)	0.57	0.63	0.72	0.80	0.88
DPS (MYR)	0.05	0.06	0.08	0.09	0.09

Activity (days)

Days receivable	124.8	164.6	165.6	156.4	175.2
Days inventory	9.2	7.4	5.5	5.6	6.2
Days payable	164.8	158.8	139.9	128.0	143.9
Cash cycle	-30.7	13.3	31.2	33.9	37.4

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 FY24F earnings estimate of MYR197mn for FY24F. We arrive at our TP of MYR2.60. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

Risks that may impede the achievement of the target price

Upside risks to our view are: 1) SunCon winning multiple large hyperscale DC projects, 2) SunCon winning the MRT3 CMC02 package or the Song Hau 2 power plant achieving financial close, and translating to SunCon's orderbook. Downside risk to our view are: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

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.

4Q23 results review

Results snapshot: SunCon's adjusted 4Q23 net income of MYR49mn, was up 8% y-y and up 41% q-q. Note that 4Q23 earnings have 2 one-offs – 1) ~MYR23mn one-off loss due to prudent impairment of receivables and 2) one-off arbitration gain from settlement with National Highways Authority of India (NHAI) of ~MYR22mn (INR 375mn). FY23 net income of MYR145mn (+7% y-y) formed 106%/104% of our /Bloomberg consensus' estimates. SunCon's net gearing ratio currently stands at 0.51x vs a net cash position of MYR55mn as at end-2022 and net gearing of 0.31x in end-3Q23, due to receivables from Indian highways and LSS4 projects which have deferred payment terms. SunCon declared second interim dividend of 3sen/share which implies full year DPS of 6sen (53% payout).

Construction segment review: Construction revenue for 4Q23 was MYR786mn, up 33% q-q mainly due to year-end ramp-up in progress in solar and internal projects. PBT was up 27% q-q, but PBT margin was down marginally to 6.7% vs 7.0% in 3Q23. New orderbook replenishment for FY23 was at MYR2.5bn. The company's outstanding orderbook currently stands at MYR5.3bn, while the active tender-book stands at MYR26.2bn. The company reported negative operating cash flows (OCF) of MYR119mn vs negative OCF of MYR131mn in 3Q23. OCF is negative due to a high long-term receivables balance of MYR482mn on its balance sheet. This relates to its two India projects (which have deferred the payment terms for 60% of the project value) and also two LSS4 (Large Scale Solar 4) projects (payment 6 months after commercial operations date (COD)). Management is also looking to monetise and sell receivables of India projects to infrastructure funds and is hopeful to conclude at least one of these in 2024.

Pre-cast segment review: Precast revenue/PBT for 4Q23 came in at MYR86mn/MYR8mn (+3%/ +19% q-q). The sequential uptick in revenue was driven by productivity improvement at the precast plant (ICPH) in Singapore, which was opened in Jan'23 (although higher depreciation affected earnings negatively) and contributions from new projects which have better margins. The combined utilisation of all three of its precast plants is currently ~50%, as per management. Losses from its JV in the precast segment in 4Q23 was because depreciation cost was taken at JV level rather than company level.

Outlook: SunCon expects MYR2.5-3bn of orderbook replenishment in 2024 (Nomura estimate: MYR3.5bn). We believe the active tenderbook of MYR26.2bn has > 20% coming from datacentre and semiconductor factory jobs, with the rest comprising MRT3, Vietnam power plant, Singapore precast and others. Note: we are currently not assuming the award of the Song Hau 2 power plant (where financial closure has been delayed several times) and MRT3 CMC02 package (where tenders have been delayed, and SunCon faces tough competition). On precast, as productivity continues to improve at its precast plant in Singapore, management believes earnings contribution from the precast division will continue to rise.

Fig. 1: SunCon – FY23 results snapshot

MYR mn	FY23	NMR FY23F	as % of NMR	Cons FY23F	as % of cons
Revenue	2,671	2,746	97%	2,571	104%
Adj PBT	189	183	103%	181	104%
Adj NPATAMI	145	137	106%	140	104%
Reported NPATAMI	145	137	106%	136	107%

Source: Company data, Bloomberg Finance L.P. consensus, Nomura estimates

Fig. 2: SunCon – 4Q23 results review

MYR mn	4Q23	4Q22	% chg y-y	3Q23	% chg q-q	FY23	FY22	% chg y-y	FY23F	as % of FY23F
Revenues	871	503	73%	674	29%	2,671	2,155	24%	2,746	97%
Construction	786	444	77%	591	33%	2,381	1,974	21%	2,468	96%
Precast concrete	86	59	44%	83	3%	290	182	60%	278	104%
Operating profit	82	64	27%	54	51%	224	187	20%	210	107%
Construction	57	54	5%	45	27%	179	169	6%		
Precast concrete	25	10	146%	9	167%	45	18	152%		
Adjusted Pretax profit	61	56	8%	48	26%	189	184	2%	183	103%
Construction	53	51	4%	42	27%	170	173	(2%)	168	101%
Precast concrete	8	5	46%	6	19%	19	11	75%	15	122%
Core PAT	48	46	6%	36	36%	146	139	5%	138	106%
Core PAT - equityholders	49	46	8%	35	41%	145	135	7%	137	106%
Other one-off charges	0	0	NM	0	NM	0	0	NM	0	NM
Headline NPAT - equityholders	49	46	8%	35	41%	145	135	7%	137	106%
Adj Pretax margins	7.0%	11.2%	-4 ppt	7.1%	0 ppt	7.1%	8.5%	-1 ppt	6.7%	
Construction	6.7%	11.5%	-5 ppt	7.0%	0 ppt	7.1%	8.8%	-2 ppt	6.8%	
Precast concrete	9.0%	8.9%	0 ppt	7.8%	1 ppt	6.5%	5.9%	1 ppt	5.5%	

Source: Company data, Nomura estimates

Fig. 3: SunCon's outstanding orderbook

As of end-4Q23

MYR mn	Contract Sum		Outstanding order book	
Infrastructure/Piling				
LRT3: Package GS07-08	2,178	1,295	1,589	10
RTS Link Package 1B and 5		605		494
LRT3: GS06		191		28
Building				
Oxley Tower + VO		77		36
JHB1X0 - Data Centre		1,700		1,460
K2 Datacentre		190		160
K2 Datacentre (CIMC)		99		99
Daiso		298		291
India				
Thorapalli Agraharam - Jittandahalli		508		237
Meensurutti - Chidambarm 32km		315		53
Renewable energy				
Solar - External		35		8
Solar - Internal		12		4
Lss4 Gopeng		200		41
Lss4 Sharp Ventures		185		39
South Quay Square Dcs		35		17
Cgpp - Green*		46		46
New Order 2023 - External		45		7
Internal				
SMC 4 + VO		612		42
Sunway Belfield		403		112
Sunway Velocity 2		352		12
South Quay Square - Superstructure		756		265
South Quay Square - Superstructure (VO)		607		607
Sw Carnival Mall - Refurbishment		253		173
Sunway Velocity 2B		253		79
Smc Damansara		240		85
Smc Ipoh + VO		217		89
SW International School (SIS)		140		6
Sunway Velocity 3C4		100		2
Big Box Office		51		5
SW Flora		278		232
SMC Fit-out		70		70
SMCSJ Fit-out		14		14
Singapore				
Precast		581		239
External - New order 2023		270		263
Total		11,030		5,325
Orderbook burn rate (FY23, including internal)			3,499	
Implied earnings visibility (years)			1.5	

Source: Company data, Nomura research

Fig. 4: 2023 orderbook replenishment

Project	Duration	Contract Sum (MYR mn)
Bidadari C17 - LPS	Dec-23	4
Precast - Watertanks	Various	9
Heliosel Solar PV System - Package L3	Dec-23	34
Heliosel Solar PV System - Package L2	Oct-23	11
Oxley Tower VO	Feb-24	9
RTS Link Package 1B and 5	Jun-25	605
South Quay Square mix development	Oct-25	607
Kallang Whampoa C23A	Dec-25	63
Carnival Mall Refurbishment	Aug-24	253
Daiso Global Distribution Centre Warehouse	2Q26	298
K2 Data Centre (Johor)	4Q24	190
Corporate Green Power Programme (CGPP)*	Dec-25	46
Bishan East	Sep-24	1
Punggol North C15	Jul-24	35
LPS Term Contract Batch 8	Jun-26	67
K2 Data Centre (Container installation and interfacing works)	Dec-24	99
Woodlands N2C19A	Jun-26	90
SMC Fit-out	Sep-25	70
SMCSJ Fit-out	Jun-24	14
Total		2,505

Source: Company data, Nomura research

Fig. 5: SunCon: Changes to our estimates

MYR mn	Old		New		% change	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Orderbook replenishment	3,500	2,500	3,500	2,500	0%	0%
External	2,500	1,500	2,500	1,500	0%	0%
Internal	700	700	700	700	0%	0%
Precast	300	300	300	300	0%	0%
Revenue	3,750	3,860	3,541	3,814	(6%)	(1%)
Adj PBT	278	316	254	292	(8%)	(8%)
PBT margins	7.4%	8.2%	7.2%	7.6%	(0.2 ppt)	(0.5 ppt)
Adj NPAT	208	238	197	227	(5%)	(5%)

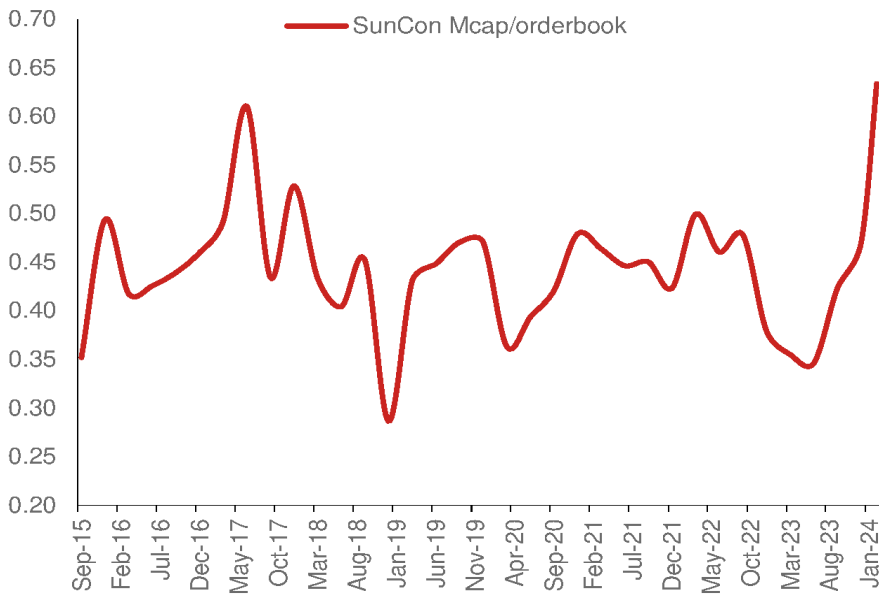
Source: Nomura estimates

Fig. 6: SunCon – Target price valuation methodology

	Dec-24
	FY24F
Normalised net profit (MYR mn)	197
FD number of shares outstanding (mn)	1,293
FD EPS (MYR/ sh)	0.15
Target FY24F P/E	17.0 x
Price target (MYR/ sh)	2.60

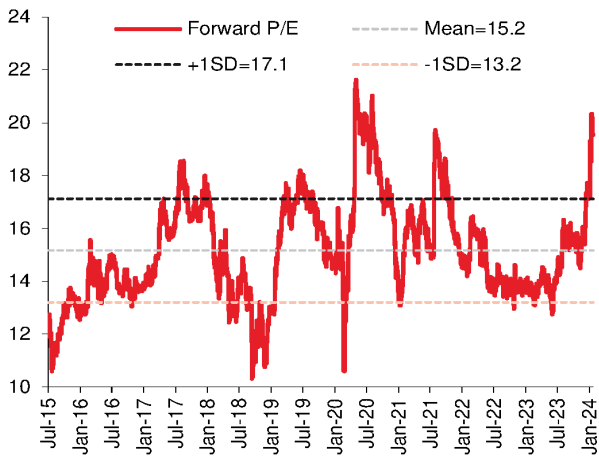
Source: Nomura estimates

Fig. 7: SunCon: Market cap to orderbook



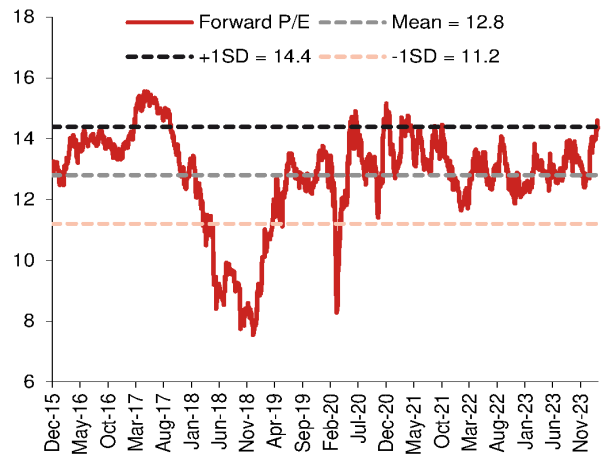
Source: Company data, Bloomberg Finance L.P., Nomura research

Fig. 8: SunCon forward P/E (consensus)



Source: Bloomberg Finance L.P., Nomura research

Fig. 9: KLCON 12M forward P/E - consensus



Source: Bloomberg Finance L.P., Nomura research

Appendix A-1

Analyst Certification

I, Tushar Mohata, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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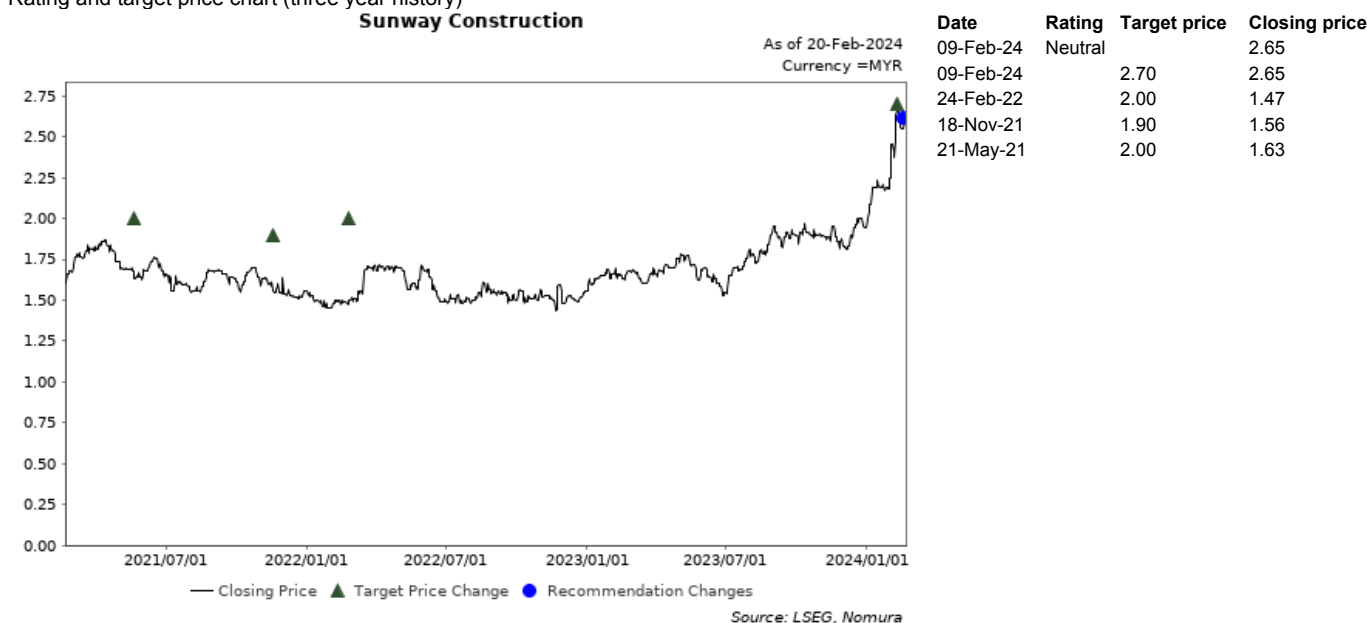
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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 2.61	20-Feb-2024	Neutral	N/A	

Sunway Construction (SCGB MK) MYR 2.61 (20-Feb-2024) Neutral (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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Risks that may impede the achievement of the target price Upside risks to our view are: 1) SunCon winning multiple large hyperscale DC projects, 2) SunCon winning the MRT3 CMC02 package or the Song Hau 2 power plant achieving financial close, and translating to SunCon's orderbook. Downside risk to our view are: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

Important Disclosures

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As at 31 December 2023.

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