

2024 order wins kick off, DC contracts begin

Quick Note

- On 21 Feb, Sunway Construction (SunCon) announced that it has started its 2024 orderbook replenishment cycle with the award of Sunway Ipoh Mall earthworks, piling and building works (internal job from the parentco Sunway Bhd, SWB MK, nor rated) worth MYR721mn. It also announced the award of precast works in Singapore (Ulu Pandan C1 and C2) worth MYR103.4mn. Both these jobs are expected to finish in 2027.
- More interestingly, we also noted that in the announcement slides, SunCon mentioned the award of two Early Contractor Involvement (ECI) Services packages (package A and B) for data center works, with the client being an unnamed "multinational technology company". While each package is small, worth only MYR3.4mn, our interpretation is that this award, while small, is significant, as it likely marks the appointment of SunCon as the general contractor for two large data center packages by the tech company. Once SunCon delivers the ECI packages as per specification, larger contracts will be awarded to it, in our view.
- While today's data center packages are from the same technology company, we also understand that SunCon is bidding for more data center jobs too. However, at this stage, there has been no further announcement from the company on results of bids.
- We think today's collective awards of MYR831mn, along with confirmation of SunCon's appointment as data center contractor by one technology company is positive news. However, as explained in our note dated 9 Feb (*Catch your breath*), we believe SunCon's 58% share price rally in the last 12 months (vs KLCI +5%) has likely already priced in these upcoming data center awards. Based on our analysis in the note, a 50-100MW data center can generate general construction opportunities worth MYR400-800mn, and we had raised FY24F orderbook replenishment target to MYR3.5bn (above management's own MYR2.5-3bn target), which is inclusive of potential data center jobs.
- Our TP of MYR2.60 values the stock at FY24F P/E of 17.0x (current: 17.1x), and our earnings estimates for FY24F/25F are 12%/14% above consensus. We maintain Neutral on the stock for this reason.
- Upside risks to our view are: SunCon winning the MRT3 CMC02 package or the Song Hau 2 power plant achieving financial close, and translating into SunCon's orderbook. Downside risks 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 cancellations or arbitration.
- See our recent reports here -
 - [Sunway Construction \(SCGB MK\) \(Neutral\) - 4Q sees seasonal ramp-up in billings](#)
 - [Sunway Construction \(SCGB MK\) \(Neutral\) - Catch your breath](#)

Rating Remains	Neutral
Target price Remains	MYR 2.60
Closing price 21 February 2024	MYR 2.61

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Fig. 1: SunCon: YTD 2024 project awards

Projects (2024 new awards)	Client	Duration	Contract Sum (RM'mil)
Sunway Ipoh Mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721.0
Early Contractor Involvement (ECI) Services - Package A	Multinational Technology Company	Aug-24	3.4
Early Contractor Involvement (ECI) Services - Package B	Multinational Technology Company	Aug-24	3.4
Ulu Pandan C1 & C2	CES Engineering & Construction Ptd Ltd	Jun-27	103.4
Secured in 1Q 2024			831.1

Source: Company data, Nomura research

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Appendix A-1

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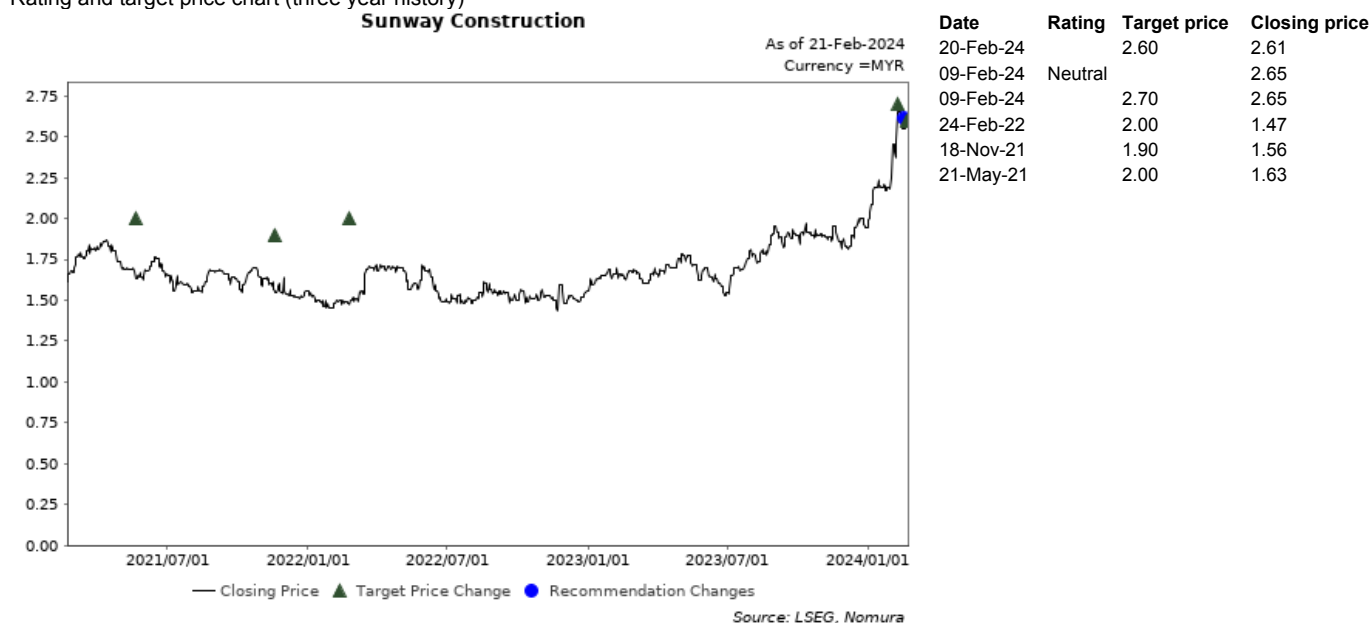
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 2.61	21-Feb-2024	Neutral	N/A	

Sunway Construction (SCGB MK)

MYR 2.61 (21-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)

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.

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As at 31 December 2023.

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