

Sunway Construction SCOG.KL SCGB MK

EQUITY: ENGINEERING & CONSTRUCTION

More data center projects up next

Significant earnings ramp-up in FY25F expected; maintain Buy, raise TP to MYR4.80

Key highlights from 2Q24 results

SunCon's 2Q24 earnings of MYR39mn was up 20% q-q/18% y-y, as newly won projects started to be billed, and interest on an India highway project receivable has started to accrue after the project commenced concession period. Its 1H24 earnings of MYR71mn amounted to just 38%/39% of our revised forecast/consensus estimate for FY24, as the newly secured/greenlit data center contracts in Johor and Klang Valley are yet to see significant progress, being in preliminary stages as of June. 1H24 new order wins stood at a strong MYR3.5bn, along with an active tenderbook of MYR13.7bn, mostly comprising data center jobs. Precast segment earnings in 2Q24 were down 11% q-q at MYR3mn, with PBT margin of 6.2%.

We expect significant earnings ramp-up in FY25F...

Given the relatively short completion timeline of some data center projects, such as the MYR2.9bn outstanding Yellowwood data center in Sedenak (completion deadline: 1Q26F), we expect earnings to ramp-up very fast from 2H24 onwards, with 4Q24F-4Q25F periods seeing a high progress billing run-rate to keep pace with the project timeline. As a result, we expect sharp y-y earnings growth throughout FY25F.

... and more data center contract awards in the coming months

With global hyperscale and cloud data center players now moving on to new phases of their data center capex in Malaysia, we see opportunities for SunCon to secure new contracts for data center projects, along with upsizing opportunity for existing clients. Some of these awards might materialise in the next few months itself, as SunCon meets the milestones in its existing orderbook. Note that SunCon is guiding for MYR4-5bn of new jobs in total for FY24F, and believes that FY25F might be another strong year as well, especially after the finalisation of new data center guidelines by the government.

Maintain Buy, raise TP to MYR4.80, implying 15% upside

We adjust our FY24F/25F/26F earnings by -11%/+11%/-4% after adjusting for completion timeline of the data center projects. We also raise our target multiple on SunCon to 19x (vs 17x earlier), which is slightly above +1SD of its long-term average, to capture optimism surrounding project awards. Applying this to our FY25F revised EPS of 25sen, we arrive at our revised TP of MYR4.80 (vs MYR3.90 earlier), and maintain Buy rating. The stock currently trades at 16.4x FY25F P/E. Likely catalysts for the stock are sharp acceleration in earnings as project progress accelerates, further phases of data center projects, and receivables monetization.

Year-end 31 Dec	FY23		FY24F		FY25F		FY26F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New	
Revenue (mn)	2,671	3,931	3,465	5,202	5,843	3,623	3,448	
Reported net profit (mn)	145	211	187	294	327	216	207	
Normalised net profit (mn)	145	211	187	294	327	216	207	
FD normalised EPS	11.25c	16.31c	14.46c	22.75c	25.29c	16.74c	16.04c	
FD norm. EPS growth (%)	7.3	44.9	28.5	39.4	74.8	-26.4	-36.6	
FD normalised P/E (x)	37.0	-	28.8	-	16.4	-	25.9	
EV/EBITDA (x)	25.2	-	20.1	-	13.0	-	17.7	
Price/book (x)	6.6	-	5.9	-	5.0	-	4.8	
Dividend yield (%)	1.4	-	2.1	-	3.6	-	2.3	
ROE (%)	18.6	24.0	21.6	28.9	32.7	19.1	18.7	
Net debt/equity (%)	47.0	46.6	44.7	43.2	51.9	12.7	15.4	

Source: Company data, Nomura estimates

Rating Remains **Buy**

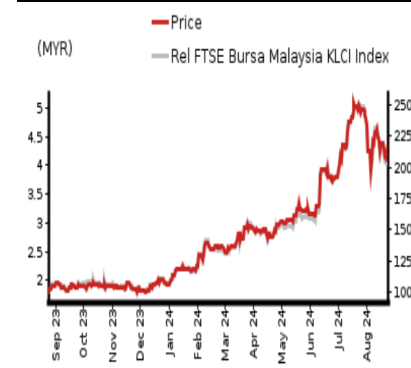
Target price Increased from MYR 3.90 **MYR 4.80**

Closing price 23 August 2024 **MYR 4.16**

Implied upside **+15.4%**

Market Cap (USD mn) 1,230.2
ADT (USD mn) 4.2

Relative performance chart



Source: LSEG, Nomura

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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 an Integrated Construction and Prefabrication Hub (ICPH) precast plant in Singapore. 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 19x on FY25F earnings estimate of MYR327mn. We arrive at our TP of MYR4.80. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

Risks that may impede the achievement of the target price

Downside risk 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.

2Q24 results: data center projects about to ramp up

Results snapshot: SunCon's 1Q24 net income of MYR39mn was up 18% y-y and 20% q-q. We believe that the sequential growth in earnings was driven by acceleration in new projects, along with start of recognition of interest income on receivables related to India highway projects (booked in the interest income line). 1H24 net income formed 34%/39% of our previous/Bloomberg consensus' FY24 estimates, but this was expected because 1Q24 had festival holidays, and the company's most recently won data center projects have yet to pick up pace as they are in early stages. SunCon's net gearing ratio currently stands at 0.41x vs a net cash position of MYR55mn as of end-2022 and net gearing of 0.51x as of end-2023, due to receivables from Indian highways and LSS4 projects which have deferred payment terms. SunCon declared an interim dividend of 3.5sen/share, which implies a 63% payout ratio.

Construction segment review: Construction revenue for 2Q24 was MYR598mn, up 10% q-q. PBT was up 24% q-q, with PBT margin up 1pp q-q. New orderbook replenishment in YTD 2024 is at MYR3.5bn. The company's outstanding orderbook currently stands at MYR7.4bn, while the active tender book stands at MYR13.7bn (up from MYR9.4bn as of end-1Q24). During a call with investors, management highlighted that most of the tenderbook comprises data center projects, along with some E&E factory projects. That said, management does not seem very optimistic about infrastructure projects at the moment, due to delayed rollout in Malaysia. SunCon's orderbook replenishment target for FY24E is now at MYR4-5bn.

The company reported strong operating cash flows (OCF) of MYR149mn vs negative MYR11mn in 1Q24. Long-term receivables balance reduced to MYR437mn vs MYR450mn as of end-1Q24 on its balance sheet. These receivables relate 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 terms 3-6 months after commercial operations date (COD)).

SunCon received commercial operation date for one of the India highway projects (Meensurutti - Chidambarm) in mid-Feb'24, and signed a settlement agreement for the other TJ (Thorapalli Jittandahalli) highway project in India, which removes uncertainty about the status of the project, and sets a definite timeline for the project conclusion, which can pave the way for monetising receivables by 2025.

SunCon continues to bid for more data centre projects in Malaysia and is also exploring potential projects in Advanced Technology Facilities (ATF), which comprise data center/semiconductor factories in other ASEAN countries along with local JV partners. Also note that the Song Hau 2 power plant project in Vietnam has been terminated by the Vietnam Government ([link](#)). This project was not a part of our orderbook replenishment assumption MYR4.8bn for FY24F.

According to management, the impact of diesel subsidy rationalisation and higher raw material prices is minimal and has already been incorporated in the new project tenders.

Precast segment review: Precast revenue/PBT for 2Q24 came in at MYR54mn/MYR3mn (-12%/ -11% q-q). PBT margin was flat q-q.

Fig. 1: SunCon – 1H24 results snapshot

MYR mn	1H24	NMR FY24F	as % of NMR	Cons FY24F	as % of cons
Revenue	1,256	3,465	36%	3,252	39%
Adj PBT	92	242	38%	237	39%
Adj NPATAMI	71	187	38%	184	39%
Reported NPATAMI	71	187	38%	190	38%

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

Fig. 2: SunCon – 2Q24 results review

MYR mn	2Q24	2Q23	% chg y-y	1Q24	% chg q-q	1H24	1H23	% chg y-y	FY24F new	as % of FY24F new
Revenues	651	604	8%	605	8%	1,256	1,126	12%	3,465	36%
Construction	598	536	12%	544	10%	1,141	1,005	14%	3,077	37%
Precast concrete	54	69	(22%)	61	(12%)	115	122	(5%)	388	30%
Operating profit	53	47	13%	53	(1%)	106	88	20%	286	37%
Construction	47	40	15%	46	0%	93	78	19%		
Precast concrete	6	6	(3%)	7	(9%)	13	10	24%		
Adjusted Pretax profit	50	42	19%	42	21%	92	80	15%	242	38%
Construction	47	39	20%	38	24%	85	75	13%	220	38%
Precast concrete	3	3	4%	4	(11%)	7	5	57%	21	33%
Core PAT	38	33	14%	33	15%	70	62	14%	188	38%
Core PAT - equityholders	39	33	18%	32	20%	71	61	17%	187	38%
Other one-off charges	0	0	NM	0	NM	0	0	NM	0	NM
Headline NPAT - equityholders	39	33	18%	32	20%	71	61	17%	187	38%
Adj Pretax margins	7.7%	7.0%	1 ppt	6.9%	1 ppt	7.3%	7.1%	0 ppt	7.0%	
Construction	7.8%	7.3%	1 ppt	7.0%	1 ppt	7.4%	7.5%	0 ppt	7.2%	
Precast concrete	6.2%	4.7%	2 ppt	6.1%	0 ppt	6.2%	3.7%	2 ppt	5.5%	

Source: Company data, Nomura estimates

Fig. 3: SunCon's outstanding orderbook

As of end-2Q24

MYR mn	Contract Sum	Outstanding order book
Infrastructure/Piling		
RTS Link Package 1B and 5	605	347
Building		
Oxley Tower + VO	76	27
Daiso	298	254
Data Centre		
JHB1X0 - Data Centre	3,200	2,911
K2 Datacentre	190	29
K2 Datacentre (CIMC)	99	36
ECl and Work order - MNC	60	57
PSR - MNC	748	737
India		
Thorapalli Agraharam - Jittandahalli	508	191
Renewable energy		
Cgpp - Green	46	46
Internal		
Sunway Belfield	428	65
South Quay Square - Superstructure + VO	1,164	649
Sw Carnival Mall - Refurbishment	253	138
Sunway Velocity 2B	276	31
Smc Damansara	240	44
Smc Ipoh + VO	217	29
SW Flora	278	191
SMC Fit-out	70	70
SMC4 Phase 3 - Fit-out	80	80
SW Ipoh Mall	721	708
Singapore		
Precast	584	374
External - New order 2024	358	358
Total	10,499	7,375
Orderbook burn rate (FY23, including internal)		3,499
Implied earnings visibility (years)		2.1

Source: Company data, Nomura research

Fig. 4: YTD 2024 orderbook replenishment

Project	Duration	Contract Sum (MYR mn)
Sunway Ipoh Mall	Jan-27	721
Early Contractor Involvement (ECI) Services - Package A	Aug-24	34
Early Contractor Involvement (ECI) Services - Package B	Aug-24	26
Ulu Pandan C1 & C2	Jun-27	103
Project Service Request	Apr-27	748
Bedok N2C23 - Watertanks	Sep-25	3
LPS Term Contract Batch 14	Sep-25	82
101 Neythal Road Redevelopment	Aug-25	6
Sunmed Phase 3 - Fit out works	Jun-26	80
JHB1X0 - Revised NTP works	Feb-26	1,500
Kallang Whampoa C53	Jul-27	100
Project C - Site 1	May-26	23
Project C - Site 2	Dec-26	40
Total		3,467

Source: Company data, Nomura research

Fig. 5: SunCon: Changes to our estimates

MYR mn	Old			New			Change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Orderbook replenishment	4,800	3,200	3,200	4,800	3,200	3,200	0%	0%	0%
External	3,500	2,200	2,200	3,500	2,200	2,200	0%	0%	0%
Internal	1,000	700	700	1,000	700	700	0%	0%	0%
Precast	300	300	300	300	300	300	0%	0%	0%
Revenue	3,931	5,202	3,623	3,465	5,843	3,448	(12%)	12%	(5%)
Adj PBT	272	377	278	242	419	267	(11%)	11%	(4%)
PBT margins	6.9%	7.3%	7.7%	7.0%	7.2%	7.7%	0.1 ppt	(0.1 ppt)	0.1 ppt
Adj NPAT	211	294	216	187	327	207	(11%)	11%	(4%)

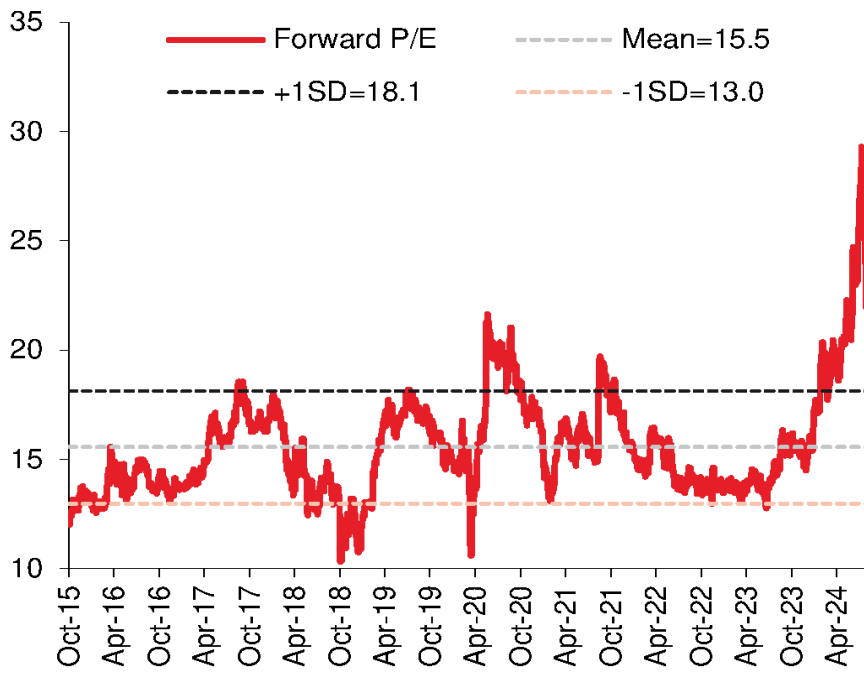
Source: Nomura estimates

Fig. 6: SunCon – Target price valuation methodology

	Dec-25
	FY25F
Normalised net profit (MYR mn)	327
FD number of shares outstanding (mn)	1,293
FD EPS (MYR/ sh)	0.25
Target FY25F P/E	19.0 x
Price target (MYR/ sh)	4.80

Source: Nomura estimates

Fig. 7: SunCon forward P/E (consensus)



Source: Bloomberg Finance L.P. consensus, Nomura research

Appendix A-1

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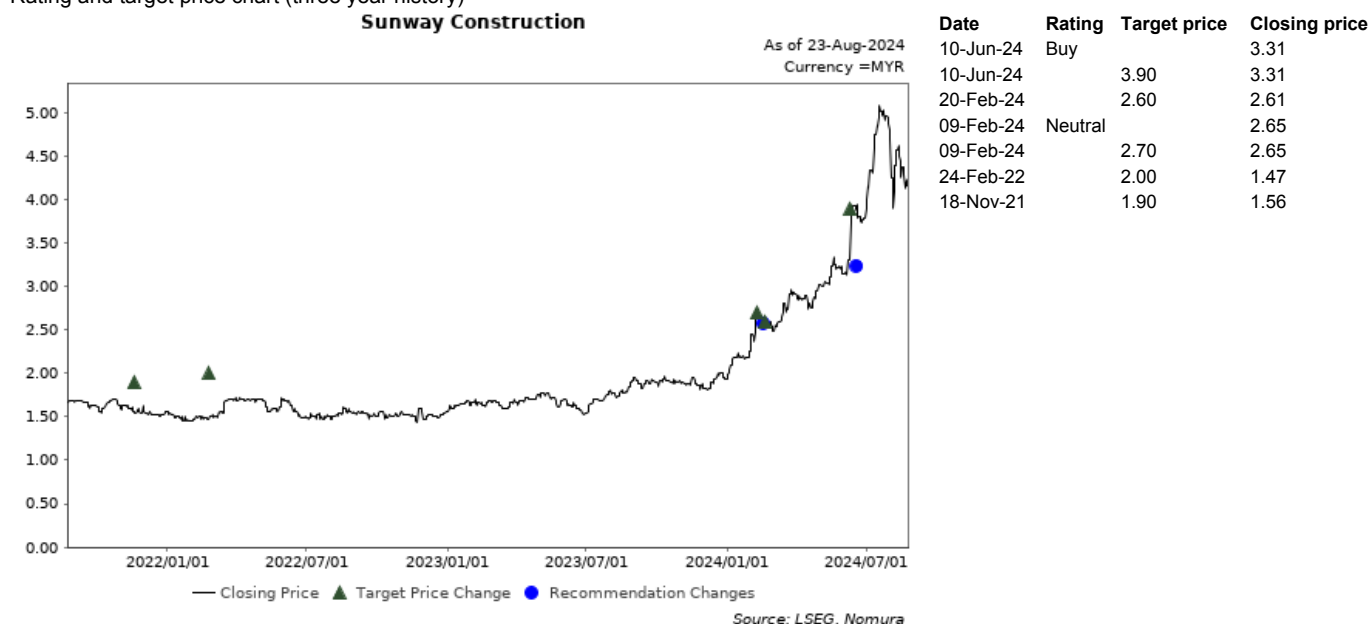
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 4.16	23-Aug-2024	Buy	N/A	

Sunway Construction (SCGB MK)

MYR 4.16 (23-Aug-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 30 June 2024.

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