

# Sunway Construction (SCGB MK)

Higher revised value for Yellowwood's DC contract

MALAYSIA | CONSTRUCTION | UPDATE

- SunCon announced an increase in Yellowwood's Sedenak data centre (DC) contract value to RM3.2bn (from RM1.7bn)
- YTD contract wins reached RM3.3bn, surpassing both ours and management internal forecast
- We raise our orderbook replenishment target, earnings forecast and TP to RM3.60. Subsequently, we upgrade SunCon to HOLD rating (from SELL)

11 June 2024

## HOLD (upgrade)

LAST CLOSE PRICE	RM3.31
TARGET PRICE	RM3.60
TOTAL RETURN	8.8%
(Previous TP)	RM2.90

### COMPANY DATA

BLOOMBERG TICKER	SCGB MK EQUITY
O/S SHARES (MN):	1,289
MARKET CAP (USD mn / RM mn):	904 / 4268
52 - WK HI/LO (RM):	3.42 / 1.53
3M Average Daily T/O (mn):	4.09
NET CASH/(DEBT) (RMm)	(524.00)

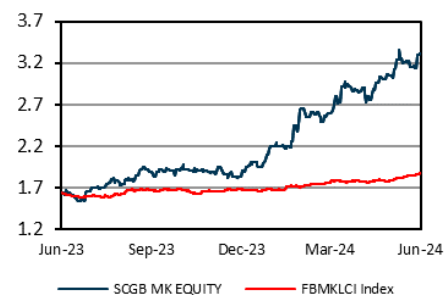
### MAJOR SHAREHOLDERS (%)

Sunway Holdings Sdn	54.6%
Sungei Way Corp Sdn	10.1%
Employees Provident	6.6%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	7.8	29.8	72.0
FBMKLCI RETURN	0.8	7.3	13.4

### PRICE VS. FBMKLCI



Source: Bloomberg

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## Increase in Yellowwood's Sedenak contract value by 88% to RM3.2bn

Sunway Construction (SunCon) entered into an amendment deed with Yellowwood for the Sedenak data centre. The contract value has been increased from RM1.7bn to RM3.2bn, after taking into account additional scope of work for NTP 4. The project is now expected to be completed by 1Q26 (previously 3Q24).

## YTD new wins have surpassed our target

This revised contract brings YTD contract wins to RM3.3bn, surpassing both management's and our orderbook replenishment assumption of RM3bn. Based on 8% PBT margin, we anticipate the additional work scope to contribute c.RM120m PBT across the contract period. We estimate that DC projects now comprise c.50% of SunCon's RM7.9bn outstanding orderbook, positioning them as a key contractor in the DC space. We understand that SunCon is in discussion with other DC operators for similar work scope expansions worth c.RM1.5bn. Management is also tendering for 3–4 DC contracts, expected to roll out earliest by end24.

## Raise our orderbook replenishment target and TP to RM3.60

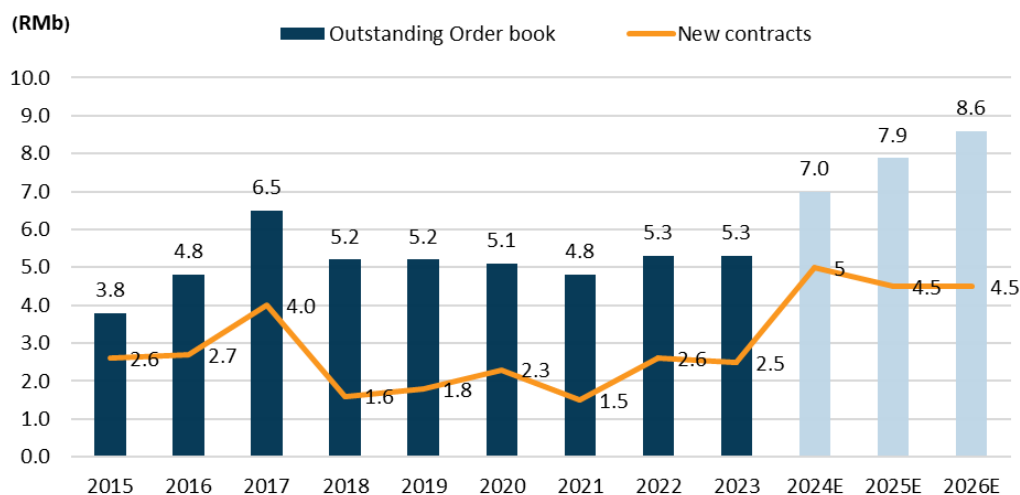
We raise our 2024–26E EPS forecast by 1–16% after factoring in higher orderbook replenishment targets of RM5bn/RM4.5bn/RM4.5bn (from RM3bn/RM3.5bn/RM3.5bn). Despite increase in 2024 replenishment target, our earnings forecast remains relatively unchanged as we anticipate contract wins to be announced towards end24, with earnings contribution from 2025E onwards. Post earnings upgrade, we lift our 12-months target price to RM3.60 (from RM2.90) based on a higher 20x (from 18x) target PE multiple on 2025E EPS to reflect positive contract win momentum. We upgrade to HOLD rating (from SELL). Key re-rating catalysts include securing the RM6.2bn (nett 55% stake) Song Hau 2 Vietnam power plant project and quicker rollout of DC projects. Downside risk include slower-than-expected orderbook recognition and margin pressures.

### Key Financials

Y/E Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	2,155.2	2,671.2	3,319.2	4,011.0	4,385.3
EBITDA (RMm)	218.9	270.4	295.4	362.3	401.0
Pretax profit (RMm)	184.1	188.6	241.9	307.6	346.2
Net profit (RMm)	135.2	145.1	183.1	233.0	262.4
EPS (sen)	10.5	11.2	14.2	18.1	20.3
PER (x)	31.6	29.4	23.3	18.3	16.3
Core net profit (RMm)	143.8	170.2	183.1	233.0	262.4
Core EPS (sen)	11.1	13.2	14.2	18.1	20.3
Core EPS growth (%)	(0.6)	18.4	7.6	27.3	12.6
Core PER (x)	29.7	25.1	23.3	18.3	16.3
Net DPS (sen)	5.5	6.0	6.0	6.0	7.0
Dividend Yield (%)	1.7	1.8	1.8	1.8	2.1
EV/EBITDA (x)	19.3	17.1	16.2	13.0	11.7
Chg in EPS (%)			+0.7	+12.0	+15.5
Phillip/Consensus (%)			1.0	1.1	1.1

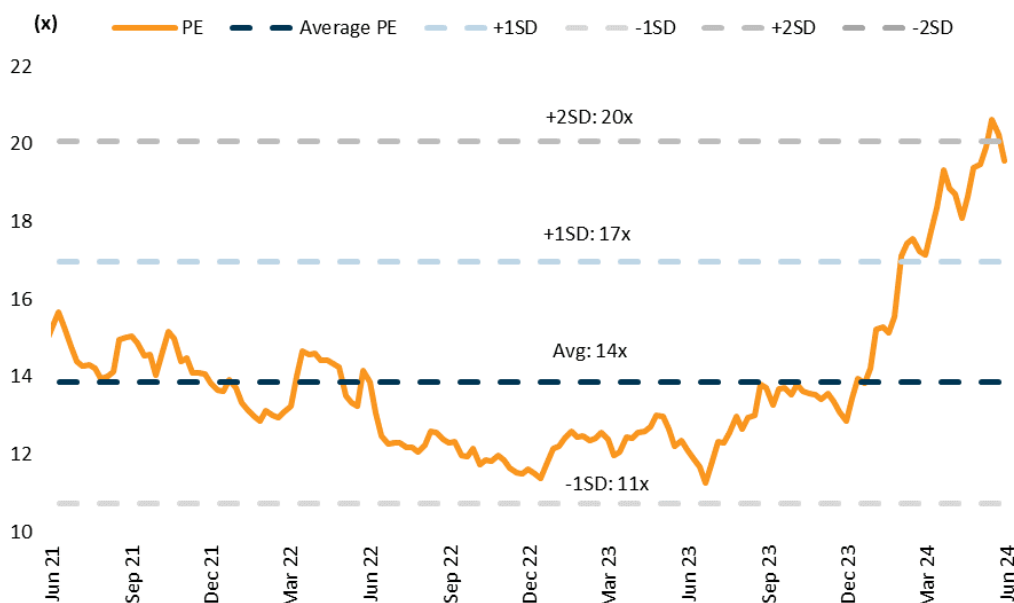
Sources: Company, Bloomberg, Phillip Research forecasts

**Table 1: Orderbook replenishment and target new wins**



Source: Bloomberg, Phillip Research forecasts

**Table 2: SunCon's 3-year PE**



Source: Bloomberg, Phillip Research forecasts

# FINANCIALS

## Income Statement

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
<b>Revenue</b>	<b>2,155.2</b>	<b>2,671.2</b>	<b>3,319.2</b>	<b>4,011.0</b>	<b>4,385.3</b>
Operating expenses	(1,936.4)	(2,400.9)	(3,023.9)	(3,648.7)	(3,984.3)
<b>EBITDA</b>	<b>218.9</b>	<b>270.4</b>	<b>295.4</b>	<b>362.3</b>	<b>401.0</b>
Depreciation	(23.8)	(21.0)	(23.5)	(24.0)	(24.5)
<b>EBIT</b>	<b>195.1</b>	<b>249.3</b>	<b>271.9</b>	<b>338.3</b>	<b>376.5</b>
Net int income/(expense)	(4.2)	(21.5)	(31.0)	(31.7)	(31.3)
Associates' contribution	1.7	(14.1)	1.0	1.0	1.0
Forex gain/(loss)	2.1	(1.7)	0.0	0.0	0.0
Exceptional gain/(loss)	(10.7)	(23.4)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>184.1</b>	<b>188.6</b>	<b>241.9</b>	<b>307.6</b>	<b>346.2</b>
Tax	(45.3)	(42.8)	(58.0)	(73.8)	(83.1)
Minority interest	(3.6)	(0.7)	(0.7)	(0.7)	(0.7)
<b>Net profit</b>	<b>135.2</b>	<b>145.1</b>	<b>183.1</b>	<b>233.0</b>	<b>262.4</b>
<b>Core net profit</b>	<b>143.8</b>	<b>170.2</b>	<b>183.1</b>	<b>233.0</b>	<b>262.4</b>

## Balance Sheet

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
<b>Fixed assets</b>	<b>107.6</b>	<b>98.0</b>	<b>124.5</b>	<b>110.5</b>	<b>95.9</b>
Other long term assets	491.1	745.6	805.4	865.1	924.9
<b>Total non-current assets</b>	<b>598.7</b>	<b>843.6</b>	<b>929.9</b>	<b>975.6</b>	<b>1,020.8</b>
<b>Cash and equivalents</b>	<b>535.3</b>	<b>582.2</b>	<b>426.9</b>	<b>466.4</b>	<b>483.7</b>
Stocks	53.4	46.4	80.9	73.0	95.2
Debtors	960.0	1,410.2	1,499.8	2,016.7	1,827.9
Other current assets	88.6	200.3	228.7	260.7	288.3
<b>Total current assets</b>	<b>1,637.4</b>	<b>2,239.2</b>	<b>2,236.3</b>	<b>2,816.8</b>	<b>2,695.2</b>
<b>Creditors</b>	<b>916.8</b>	<b>1,193.3</b>	<b>1,171.1</b>	<b>1,686.0</b>	<b>1,437.8</b>
Short term borrowings	172.2	441.1	441.1	397.0	397.0
Other current liabilities	14.4	67.4	67.4	67.4	67.4
<b>Total current liabilities</b>	<b>1,103.3</b>	<b>1,701.8</b>	<b>1,679.6</b>	<b>2,150.4</b>	<b>1,902.2</b>
Long term borrowings	311.9	488.7	488.7	488.7	488.7
Other long term liabilities	0.0	0.3	0.3	0.3	0.3
<b>Total long term liabilities</b>	<b>311.9</b>	<b>489.1</b>	<b>489.1</b>	<b>489.1</b>	<b>489.1</b>
<b>Shareholders' Funds</b>	<b>737.1</b>	<b>820.2</b>	<b>925.7</b>	<b>1,081.1</b>	<b>1,253.0</b>
<b>Minority interests</b>	<b>83.7</b>	<b>71.8</b>	<b>71.8</b>	<b>71.8</b>	<b>71.8</b>

## Cash Flow Statement

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
<b>EBIT</b>	<b>195.1</b>	<b>249.3</b>	<b>271.9</b>	<b>338.3</b>	<b>376.5</b>
Depreciation & amortisation	23.8	21.0	23.5	24.0	24.5
Working capital changes	(382.1)	(166.7)	(146.1)	5.9	(81.8)
Cash tax paid	(50.8)	(42.8)	(58.0)	(73.8)	(83.1)
Others	(0.9)	(82.2)	(59.9)	(64.1)	(60.4)
<b>Cashflow from operation</b>	<b>(215.0)</b>	<b>(21.3)</b>	<b>31.3</b>	<b>230.2</b>	<b>175.7</b>
Capex	(1.9)	(77.0)	(50.0)	(10.0)	(10.0)
Disposal/(purchases)	425.6	(59.0)	(59.0)	(59.0)	(59.0)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>423.7</b>	<b>(136.0)</b>	<b>(109.0)</b>	<b>(69.0)</b>	<b>(69.0)</b>
Debt raised/(repaid)	250.0	448.1	0.0	(44.1)	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	1.0
Net interest income/(exp)	(0.4)	0.0	0.0	0.0	0.0
Dividends paid	(90.3)	(77.6)	(77.6)	(77.6)	(90.5)
Others	(524.5)	0.0	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(365.3)</b>	<b>370.5</b>	<b>(77.6)</b>	<b>(121.7)</b>	<b>(89.5)</b>
<b>Free Cash Flow</b>	<b>(216.9)</b>	<b>(98.3)</b>	<b>(18.7)</b>	<b>220.2</b>	<b>165.7</b>

Source: Company, Phillip Research forecasts

## Financial Ratios and Margins

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
<b>Growth</b>					
Revenue (%)	24.6	23.9	24.3	20.8	9.3
EBITDA (%)	10.0	23.5	9.3	22.7	10.7
Core net profit (%)	(0.6)	18.4	7.6	27.3	12.6
<b>Profitability</b>					
EBITDA margin (%)	10.2	10.1	8.9	9.0	9.1
PBT margin (%)	8.5	7.1	7.3	7.7	7.9
Net profit margin (%)	6.3	5.4	5.5	5.8	6.0
Effective tax rate (%)	24.6	24.0	24.0	24.0	24.0
ROA (%)	3.0	2.4	2.6	2.9	3.1
Core ROE (%)	20.0	21.9	21.0	23.2	22.5
ROCE (%)	42.6	27.0	21.0	23.1	23.9
Dividend payout ratio (%)	52.6	53.5	42.4	33.3	34.5
<b>Liquidity</b>					
Current ratio (x)	1.5	1.3	1.3	1.3	1.4
Op. cash flow (RMm)	(215.0)	(21.3)	31.3	230.2	175.7
Free cashflow (RMm)	(216.9)	(98.3)	(18.7)	220.2	165.7
FCF/share (sen)	(16.8)	(7.6)	(1.4)	17.0	12.8
<b>Asset management</b>					
Debtors turnover (days)	162.6	192.7	164.9	183.5	152.1
Stock turnover (days)	9.0	6.3	8.9	6.6	7.9
Creditors turnover (days)	155.3	163.1	128.8	153.4	119.7
<b>Capital structure</b>					
Net gearing (%)	(7.4)	42.3	54.2	38.7	32.0
Interest cover (x)	NA	NA	NA	NA	NA

## Quarterly Profit & Loss

Y/E Dec (RMm)	1Q23	2Q23	3Q23	4Q23	1Q24
<b>Revenue</b>	<b>522.1</b>	<b>604.1</b>	<b>673.5</b>	<b>871.5</b>	<b>604.8</b>
Operating expenses	(477.2)	(552.5)	(611.3)	(759.7)	(547.3)
<b>EBITDA</b>	<b>44.9</b>	<b>51.6</b>	<b>62.2</b>	<b>111.8</b>	<b>57.5</b>
Depreciation	(5.6)	(5.3)	(5.3)	(5.2)	(5.2)
<b>EBIT</b>	<b>39.7</b>	<b>46.3</b>	<b>57.0</b>	<b>106.6</b>	<b>53.0</b>
Net int income/(expense)	(4.2)	(4.7)	(6.0)	(6.6)	(11.4)
Associates' contribution	0.0	0.0	0.0	(14.5)	0.0
Forex gain/(loss)	0.2	0.6	(0.9)	(1.6)	0.0
Exceptional items	1.8	0.1	(2.0)	(23.2)	0.1
<b>Pretax profit</b>	<b>37.5</b>	<b>42.3</b>	<b>48.1</b>	<b>60.8</b>	<b>41.6</b>
Tax	(8.9)	(9.0)	(12.6)	(12.3)	(8.9)
Minority interest	(0.8)	(0.3)	(0.5)	0.8	(0.3)
<b>Net profit</b>	<b>27.8</b>	<b>33.0</b>	<b>35.0</b>	<b>49.3</b>	<b>32.4</b>
<b>Core net profit</b>	<b>25.8</b>	<b>32.3</b>	<b>37.9</b>	<b>74.1</b>	<b>32.3</b>
<b>Margins (%)</b>					
EBITDA	8.6	8.5	9.2	12.8	9.5
PBT	7.2	7.0	7.1	7.0	6.9
Net profit	5.3	5.5	5.2	5.7	5.4

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