

# Sunway Construction (SCGB MK)

Main drag from higher tax

MALAYSIA | CONSTRUCTION | RESULT

- SunCon 9M24 core net profit of RM106m (+10% YoY) missed ours and consensus expectations
- Sequential revenue grew on the back of higher project progress billings, but earnings dragged by lower margins and higher tax rate
- Maintain HOLD rating with unchanged target price at RM4.50

## Results below expectations

SunCon's 9M24 core earnings came in at RM106m (+10% YoY) on the back of higher revenue of RM2.1bn (+18% YoY). This is largely attributable to the acceleration in the progress of some newer projects, particularly data center jobs, which helped offset the weaker performance in the precast segment (-27% YoY) caused by the completion of several projects and the slower delivery schedule for new projects. EBITDA margin declined 1ppts to 8.1% with DC jobs at early execution stages. Overall, 9M24 results missed ours and consensus estimates, representing 65% and 61% of both respective forecasts. The deviation was primarily due to higher-than-expected tax recognized in 3Q24, arising from under-provisioning in the previous year from its India operations. SunCon announced a second interim dividend of 2.5sen, bringing YTD DPS to 6sen.

## Sequential stronger momentum expected in 4Q24

Sequential 3Q24 revenue surged 33% QoQ to RM865m, driven by higher project recognition of its Sedenak JHBX10 DC, RTS Link, and Sunway-related projects. EBITDA margin fell 2ppts to 6.6% as DC projects remain in the early execution stages. The weaker margins and higher tax impact dragged 3Q24 core earnings lower to RM34m (-9% YoY). We expect a sequential stronger 4Q24 earnings trajectory, supported by its RM7.1bn outstanding order book, with 54% of DC projects. Notably, the largest RM3.5bn Sedenak JHBX10 DC contract in its order book is guided to achieve 45% completion in 4Q24 (3Q24: c.20%), with the project slated to be handed over by the end of 2025.

## Maintain HOLD with unchanged TP of RM4.50

We trim our 2024E earnings by 9% to account for lower project margins and a higher effective tax rate. We reiterate our HOLD rating and target price of RM4.50, based on a target 22x PE multiple on 2025E EPS. Key risks to our call include delay in contract awards, higher-than-expected order replenishment, quicker/slower order book recognition, and margin pressures.

### Key Financials

Y/E Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	2,155.2	2,671.2	3,022.7	4,507.0	4,830.3
EBITDA (RMm)	218.9	270.4	257.7	402.3	438.0
Pretax profit (RMm)	184.1	188.6	204.2	347.0	380.7
Net profit (RMm)	135.2	145.1	149.5	263.0	288.6
EPS (sen)	10.5	11.2	11.6	20.4	22.4
PER (x)	42.3	39.4	38.3	21.7	19.8
Core net profit (RMm)	143.8	170.2	149.5	263.0	288.6
Core EPS (sen)	11.1	13.2	11.6	20.4	22.4
Core EPS growth (%)	(0.6)	18.4	(12.2)	76.0	9.7
Core PER (x)	39.8	33.6	38.3	21.7	19.8
Net DPS (sen)	5.5	6.0	6.0	6.0	7.0
Dividend Yield (%)	1.2	1.4	1.4	1.4	1.6
EV/EBITDA (x)	25.9	22.5	24.1	15.5	13.5
Chg in EPS (%)			-8.8	-	-
Phillip/Consensus (%)			0.9	1.0	1.0

Sources: Company, Bloomberg, Phillip Research forecasts

22 November 2024

## HOLD (maintain)

LAST CLOSE PRICE	RM4.43
TARGET PRICE	RM4.50
TOTAL RETURN	1.6%

### COMPANY DATA

BLOOMBERG TICKER	SCGB MK EQUITY
O/S SHARES (MN):	1,289
MARKET CAP (USD mn / RM mn):	1279 / 5712
52 - WK HI/LO (RM):	5.18 / 1.76
3M Average Daily T/O (mn):	3.01
NET CASH/(DEBT) (RMm)	(297.30)

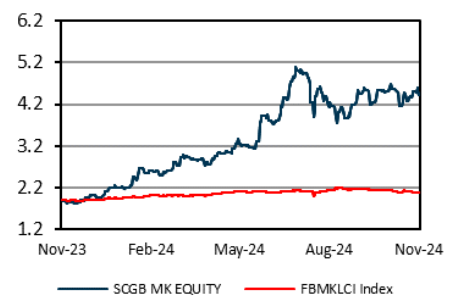
### MAJOR SHAREHOLDERS (%)

Sunway Holdings	54.6%
Sungei Way Corp	10.1%
EPF	6.4%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.1	9.4	136.6
FBMKLCI RETURN	(2.8)	(1.0)	14.3

### PRICE VS. FBMKLCI



Source: Bloomberg

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**Results at a glance**

Y/E Dec (RMm)	3Q23	2Q24	3Q24	QoQ % chg	YoY % chg	9M23	9M24	YoY % chg	Comment
Revenue	673.5	651.2	865.3	32.9	28.5	1,799.7	2,121.4	17.9	Higher YoY mainly driven by construction (+24% YoY) despite the weaker precast segment (-27% YoY)
Op costs	(612.0)	(595.2)	(808.1)	35.8	32.0	(1,641.0)	(1,949.2)	18.8	
<b>EBITDA</b>	<b>61.5</b>	<b>56.1</b>	<b>57.2</b>	<b>2.0</b>	<b>(7.0)</b>	<b>158.8</b>	<b>172.2</b>	<b>8.5</b>	
<i>EBITDA margin (%)</i>	<i>9.1</i>	<i>8.6</i>	<i>6.6</i>	<i>(2.0ppt)</i>	<i>(2.5ppt)</i>	<i>8.8</i>	<i>8.1</i>	<i>(0.7ppt)</i>	Lower EBITDA margin due to early stage DC projects
Depn and amort	(5.2)	(4.6)	(4.5)	(1.9)	(14.0)	(15.8)	(13.6)	(14.1)	
<b>EBIT</b>	<b>56.3</b>	<b>51.5</b>	<b>52.7</b>	<b>2.3</b>	<b>(6.3)</b>	<b>143.0</b>	<b>158.6</b>	<b>11.0</b>	
<i>EBIT margin (%)</i>	<i>8.4</i>	<i>7.9</i>	<i>6.1</i>	<i>(1.8ppt)</i>	<i>(2.3ppt)</i>	<i>7.9</i>	<i>7.5</i>	<i>(0.5ppt)</i>	
Int and other inc	7.0	15.3	22.4	45.9	218.6	17.8	42.4	137.8	
Int expense	(13.0)	(17.8)	(16.6)	(6.4)	27.7	(32.8)	(50.6)	54.5	Higher finance costs YoY due to financing for on-going projects
EI	(2.2)	1.1	12.1	<i>nm</i>	<i>nm</i>	(0.2)	11.9	<i>n.m</i>	RM9.8m reversal of provision, RM3.7m gain on disposal, RM0.1m receivable and PPE write off, RM0.4m fair value loss, RM0.8m unrealised forex loss
<b>Pretax profit</b>	<b>48.1</b>	<b>50.2</b>	<b>70.5</b>	<b>40.5</b>	<b>46.6</b>	<b>127.9</b>	<b>162.4</b>	<b>27.0</b>	
<b>Core Pretax</b>	<b>50.3</b>	<b>49.1</b>	<b>58.4</b>	<b>19.1</b>	<b>16.2</b>	<b>128.1</b>	<b>150.4</b>	<b>17.5</b>	
Tax	(12.6)	(12.4)	(21.9)	75.9	73.7	(30.5)	(43.3)	42.0	
<i>Tax rate (%)</i>	<i>26.2</i>	<i>24.8</i>	<i>31.0</i>	<i>6.3ppt</i>	<i>4.8ppt</i>	<i>23.8</i>	<i>26.6</i>	<i>2.8ppt</i>	
MI	(0.5)	1.1	(2.2)	<i>n.m</i>	<i>n.m</i>	(1.6)	(1.4)	(12.5)	
<b>Net profit</b>	<b>35.0</b>	<b>38.9</b>	<b>46.5</b>	<b>19.6</b>	<b>32.7</b>	<b>95.8</b>	<b>117.7</b>	<b>22.8</b>	
EPS (sen)	2.7	3.0	3.6	19.6	32.4	7.4	9.1	22.3	
<b>Core net profit</b>	<b>37.2</b>	<b>37.7</b>	<b>34.4</b>	<b>(8.9)</b>	<b>(7.5)</b>	<b>96.0</b>	<b>105.8</b>	<b>10.2</b>	Below expectations

Sources: Company, Phillip Research

**Segmental revenue breakdown**

Y/E Dec (RMm)	3Q23	2Q24	3Q24	QoQ % chg	YoY % chg	9M23	9M24	YoY % chg
Construction	590.6	597.6	831.8	39.2	40.9	1,595.2	1,973.0	23.7
Precast concrete	83.0	53.6	33.5	(37.5)	(59.6)	204.5	148.4	(27.4)
<b>Total</b>	<b>673.5</b>	<b>651.2</b>	<b>865.3</b>	<b>32.9</b>	<b>28.5</b>	<b>1,799.7</b>	<b>2,121.4</b>	<b>17.9</b>

**Segmental PBT breakdown**

Y/E Dec (RMm)	3Q23	2Q24	3Q24	QoQ % chg	YoY % chg	9M23	9M24	YoY % chg
Construction	41.6	46.9	68.5	46.2	64.6	116.9	153.3	31.1
Precast concrete	6.5	3.3	2.0	(40.1)	(69.1)	11.0	9.1	(17.2)
<b>Total</b>	<b>48.1</b>	<b>50.2</b>	<b>70.5</b>	<b>40.5</b>	<b>46.6</b>	<b>127.9</b>	<b>162.4</b>	<b>27.0</b>

**Segmental PBT margin**

Y/E Dec (%)	3Q23	2Q24	3Q24	QoQ ppt chg	YoY ppt chg	9M23	9M24	YoY ppt
Construction	7.0	7.8	8.2	0.4ppt	1.2ppt	7.3	7.8	0.4ppt
Precast concrete	7.8	6.2	6.0	(0.3ppt)	(1.8ppt)	5.4	6.1	0.8ppt
<b>Total</b>	<b>7.1</b>	<b>7.7</b>	<b>8.2</b>	<b>0.4ppt</b>	<b>1.0ppt</b>	<b>7.1</b>	<b>7.7</b>	<b>0.5ppt</b>

Sources: Company, Phillip Research

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