

# Sunway Construction Group Berhad

**TP: RM5.57 (+25.8%)**
*Disappointed 9MFY24, Outlook Remains Intact*
*Last Traded: RM4.43*
**BUY (ESG: ★★★★★)**

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## Results Review

- Excluding one-off items totaling RM14.1mn, SUNCON's 9MFY24 core earnings of RM103.6mn fell short of expectations, accounting for 53.1% and 59.3% of ours and the consensus' full-year estimates, respectively. The shortfall was largely underpinned by higher-than-expected effective tax rate and lower-than-anticipated project margins.
- YoY, the group's 9MFY24 revenue increased by 17.9%, primarily driven by a robust 23.7% YoY growth in the construction division, thanks to higher revenue recognition from data centre projects. However, this growth was partially offset by a 27.4% decline in the precast division, which was impacted by deferred deliveries for newly secured projects. Core earnings recorded a modest 7.9% growth, weighed down by higher finance costs and income tax expenses.
- QoQ, the group's 3QFY24 core net profit fell by 8.3%, despite a notable 32.9% improvement in revenue. The decline was largely due to a higher tax rate of 31% (+6.3ppt QoQ), which eroded profitability margins. Additionally, certain projects yielded thinner margins as portions of the work were subcontracted to third parties.
- A second interim dividend of 2.5sen/share was declared, which lifts the total dividend for 9MFY24 to 6.0sen/share (vs 3.0sen/share in 9MFY23), translating to a payout of 75%.

## Impact

- Given the weaker-than-expected results, we have reduced our margin assumptions for certain construction projects while accounting for the higher tax rate. Additionally, we have lowered our FY24 new job replenishment assumption from RM5bn to RM4.2bn. Consequently, our FY24/25/26F earnings estimates have been reduced by 15.8%/16.5%/11.0% to RM164.4mn/RM266.9mn/RM322.0mn, respectively.

## Outlook

- As of September 2024, SUNCON's total outstanding orderbook stood at approximately RM7.1bn, equivalent to 2.6x its FY23 revenue. Additionally, its active tender book amounting to RM10.6bn, is predominantly advanced technology facilities (ATF) related. We believe this robust pipeline provides ample earnings visibility to support growth through CY2027.
- Previously, we anticipated the potential award of a new data centre project valued at c.RM1bn by the end of this year. However, we do not rule out the possibility that the award could be deferred to early next year, considering potential slowdowns in business activities during the Christmas season.

## Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	5711.9
52-wk Hi/Lo (RM)	5.18/1.76
12-mth Avg Daily Vol ('000 shrs)	3325.2
Estimated Free Float (%)	26.7
Beta	1.0

## Major Shareholders (%)

Sunholdings	- 54.6
Sungei Way Corp Sdn Bhd	- 10.1
Employee Provident Fund	- 6.4
Amanah Saham Nasional Bhd	- 3.3

## Forecast Revision

	FY24	FY25
Forecast Revision (%)	(15.8)	(16.5)
Net profit (RMmn)	164.4	266.9
Consensus	174.6	269.6
TA's / Consensus (%)	94.1	99.0
Previous Rating	Buy (Maintained)	
Consensus Target Price	4.85	

## Financial Indicators

	FY24	FY25
Net Debt / Equity (%)	64.5	63.3
CFPS (sen)	(10.1)	(6.0)
Price / CFPS (x)	(43.8)	(74.4)
ROA (%)	4.8	6.4
NTA/Share (sen)	70.8	81.6
Price/NTA (x)	6.3	5.4

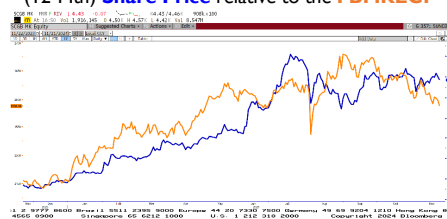
## Scorecard

	% of FY	
vs. TA	53.1	Below
vs. Consensus	59.3	Below

## Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(1.6)	(3.5)
3 mth	7.5	(2.9)
6 mth	36.3	(2.1)
12 mth	134.4	8.6

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- We maintain our positive outlook on SUNCON, confident in its ability to capitalise on the thriving ATF industry. With five data centre projects from four multinational clients already in its portfolio, SUNCON is well-positioned to secure additional data centre projects in the future. Furthermore, we believe the upcoming Malaysia's green data centre framework could serve as a significant catalyst for the company. Leveraging its expertise in advanced data centre construction, SUNCON is poised to benefit from growing demand for ESG-compliant, large-scale storage solutions.

### Valuation

- Following the earnings revision, we adjusted our target price lower to **RM5.57** from RM6.68, based on 26x CY25 EPS and 3% ESG premium given our 4-star rating. We continue to like SUNCON due to:- (i) SUNCON's strong position as a contender for mega infrastructure projects, namely Johor ART and Penang LRT, (ii) strong earnings visibility on the back of a robust outstanding order book, and (iii) its leading position in securing more jobs in the thriving ATP industry. Maintain **Buy** recommendation on the stock.

**Table I: Earnings Summary (RM mn)**

FYE Dec (RMmn)	2022	2023	2024F	2025F	2026F
Revenue	2,155.2	2,671.2	3,152.7	4,581.5	5,276.7
Gross profit	365.8	434.2	409.8	710.1	844.3
EBITDA	210.3	245.5	276.3	414.9	491.2
EBITDA margin (%)	9.8	9.2	8.8	9.1	9.3
EBIT	186.5	224.5	253.7	391.1	466.2
PBT	184.1	188.6	229.4	362.4	437.2
PAT	135.2	145.1	164.4	266.9	322.0
Core net profit	147.1	176.8	164.4	266.9	322.0
Core EPS (sen)	11.5	13.8	12.8	20.8	25.1
PER (x)	38.6	32.1	34.6	21.3	17.6
Gross dividend (sen)	5.5	6.0	6.0	10.0	12.0
Dividend yield (%)	1.2	1.4	1.4	2.3	2.7
ROE (%)	18.8	18.6	19.0	27.3	28.5

Source: TA Research

**Table 2: 3QFY24 Results Analysis (RMmn)**

FYE Dec	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue	673.5	651.2	865.3	32.9	28.5	1799.7	2121.4	17.9
- Construction	590.6	597.6	831.8	39.2	40.9	1595.2	1973.0	23.7
- Precast	83.0	53.6	33.5	(37.5)	(59.6)	204.5	148.4	(27.4)
Operating profit	54.1	52.7	64.8	23.1	19.7	142.5	170.6	19.7
Finance income	7.0	15.3	22.4	45.9	N.M.	17.8	42.4	137.8
Finance costs	(13.0)	(17.8)	(16.6)	6.4	(27.7)	(32.8)	(50.6)	(54.5)
Profit before taxation	48.1	50.2	70.5	40.5	46.6	127.9	162.4	27.0
- Construction	41.6	46.9	68.5	46.2	64.6	116.9	153.3	31.1
- Precast	6.5	3.3	2.0	(40.1)	(69.1)	11.0	9.1	(17.2)
Income tax expense	(12.6)	(12.4)	(21.9)	(75.9)	(73.7)	(30.5)	(43.3)	(42.0)
Non-controlling interests	0.5	(1.1)	2.2	N.M.	N.M.	1.6	1.4	(12.5)
Net profit	35.0	38.9	46.5	19.6	32.7	95.8	117.7	22.8
- Construction	31.7	36.8	45.0	22.4	42.0	88.9	111.8	25.8
- Precast	3.3	2.1	1.5	(29.4)	(55.4)	6.9	5.9	(15.1)
<b>Core net profit</b>	<b>37.9</b>	<b>37.2</b>	<b>34.1</b>	<b>(8.3)</b>	<b>(10.0)</b>	<b>96.0</b>	<b>103.6</b>	<b>7.9</b>
Reported EPS (sen)	2.7	3.0	3.6	19.6	32.7	7.4	9.1	22.8
Core EPS (sen)	2.9	2.9	2.6	(8.3)	(10.0)	7.4	8.0	7.9
Dividend (sen)	0.0	3.5	2.5	(28.6)	N.M.	3.0	6.0	100.0
Margin (%):				% pts	% pts			% pts
- Operating	8.0	8.1	7.5	(0.6)	(0.5)	7.9	8.0	0.1
- Construction	7.6	7.8	7.2	(0.6)	(0.3)	7.7	7.8	0.1
- Precast	11.4	11.4	13.7	2.4	2.3	9.7	11.7	2.1
- PBT	7.1	7.7	8.2	0.4	1.0	7.1	7.7	0.5
- PAT	5.3	5.8	5.6	(0.2)	0.3	5.3	4.9	0.2
- Effective tax rate	26.2	24.8	31.0	6.3	4.8	23.8	26.6	2.8

Source: TA Research

**Table 3: YTD Job Wins for FY24**

Projects	Client	Expected Completion Date	Contract Sum (RM mn)
Sunway ipoh mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721.0
Early contractor involvement & enabling works - package A	Multinational Technology Company	Oct-24	34.3
Early contractor involvement & enabling works - package B	Multinational Technology Company	Oct-24	25.8
Ulu pandan C1 & C2	Ces Engineering & Construction Pte Ltd	Jun-27	103.4
Project service request	Multinational Technology Company	Apr-27	747.8
Bedok N2C23 - watertanks	Precast Concrete Pte Ltd	Sep-25	3.4
LPS term contract batch 14	Housing And Development Board	Sep-25	82.1
101 Neythal road redevelopment	Fonda Global Engineering Pte Ltd	Aug-25	5.9
Sunmed phase 3 - fit-out works	Sunway Medical Centre Sdn Bhd	Jun-26	80.0
JHBIX0 - revised NTP works	Yellowwood Properties Sdn Bhd	Feb-26	1,500.0
Kallang whampoa CS3	Newcon Builders Pte Ltd	Jul-27	100.4
Project C - site 1	Fonda Global Engineering Pte Ltd	May-26	22.6
Project C - site 2	Fonda Global Engineering Pte Ltd	Dec-26	40.2
Tanglin halt C2	Newcon Builders Pte Ltd	Oct-27	57.5
JHBIX0 - tenant improvement works (TIW)	Yellowwood Properties Sdn Bhd	Feb-26	82.5
Sunmed ipoh PH2 fit out	Sunway Medical Ipoh Sdn Bhd	Apr-25	18.2
9 Sty nursing home at Jelapang road	Zheng Keng Engineering & Construction Pte Ltd	Apr-26	11.3
7 Sty nursing home at Tampines street 42	Vigcon Construction Pte Ltd	Apr-26	10.6
Sunmed damansara PH2 fit out	Paradigm Fairview Sdn Bhd	May-25	9.0
JHBIX0 - tenant improvement works 4 - 13 (TIW 4 - 13)	Yellowwood Properties Sdn Bhd	Feb-26	264.8
Tengah Brickland C2 MSCP LPS	Ces Engineering & Construction Pte Ltd	Sep-25	4.0
JHBIX0 - tenant improvement works (TIW)	Yellowwood Properties Sdn Bhd	Feb-26	103.0
		<b>Total</b>	<b>4,027.8</b>

Source: Company

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### Sector Recommendation Guideline

**OVERWEIGHT:** The total return of the sector, as per our coverage universe, exceeds 12%.

**NEUTRAL:** The total return of the sector, as per our coverage universe, is within the range of 7% to 12%.

**UNDERWEIGHT:** The total return of the sector, as per our coverage universe, is lower than 7%.

### Stock Recommendation Guideline

**BUY :** Total return of the stock exceeds 12%.

**HOLD :** Total return of the stock is within the range of 7% to 12%.

**SELL :** Total return of the stock is lower than 7%.

**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return of the stock** includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Total Return of the sector** is market capitalisation weighted average of total return of the stocks in the sector.

### ESG Scoring & Guideline

Scoring	Environmental	Social	Governance	Average
	★★★★	★★★★	★★★★★	★★★★
Remark	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build A Home, which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions. +5% premium to target price
- ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions. +3% premium to target price
- ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions. No changes to target price
- ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient. -3% discount to target price
- ★ (<20%) : Minimal or no integration of ESG factors in operations and management. -5% discount to target price

#### Disclaimer

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As of Friday, November 22, 2024, the analyst, Raymond Ng Ing Yeow, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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