

## Sunway Construction Group Berhad

**TP: RM6.15 (+45.0%)**
*Stronger Earnings Expected in 2H24*
*Last Traded: RM4.24*
**BUY (ESG: ★★★★★)**

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### Results Review

- SUNCON reported core net earnings of RM69.5mn for 1HFY24, accounting for 35.6% and 38.4% of our and consensus full-year estimates, respectively. We deem these results to be in line with expectations, as we anticipate stronger earnings momentum in 2H due to accelerated revenue recognition from recent construction projects.
- YoY, 1HFY24 revenue and PBT grew by 11.5% and 15.1% to RM1.3bn and RM91.9mn, respectively, driven by higher progress billing from new construction projects. However, this improvement was partly offset by a decline in the precast division, which had benefitted from higher contributions from tail-end projects in the previous financial year.
- Similarly, SUNCON's 2QFY24 revenue increased by 7.7% QoQ, mainly driven by higher turnover in the construction division. Although there was a lower contribution from the precast division due to planned production for newly secured projects that will only commence in 4Q24 and 1Q25, this was more than offset by strong performance in the construction division and higher interest income from deferred financing extended to existing clients. As a result, PBT saw a sharper increase of 20.5%.
- A first interim dividend of 3.5sen/share was declared (2QFY23: 3.0sen/share).
- YTD, SUNCON secured RM3.5bn in new contracts and is on track to meet its new order replenishment target of RM4.0bn to RM5.0bn for the year.

### Impact

- No change to our FY24-26F earnings forecasts.

### Outlook

- We remain positive on SUNCON's outlook, supported by strong earnings visibility from its current outstanding order book of RM7.4bn as of end-June, equivalent to 2.8x FY23 revenue. Potential growth is likely to be driven by an increase in data centre jobs, which typically offer higher project values with shorter lead times due to the urgent demand for data centres and other advanced technology projects (ATP) by IT giants.
- Additionally, SUNCON has realigned its focus and resources toward the ATP industry, with a robust tender book valued at RM13.7bn, all of which are ATP-related. This positions SUNCON well to capitalise on opportunities to strengthen its presence in the ATP space, leveraging its vertically integrated expertise as a construction player.

### Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	5466.9
52-wk Hi/Low (RM)	5.18/1.76
12-mth Avg Daily Vol ('000 shrs)	2736.9
Estimated Free Float (%)	26.7
Beta	1.0

### Major Shareholders (%)

Sunholdings	54.6
Sungei Way Corp Sdn Bhd	10.1
Employee Provident Fund	6.3
Amanah Saham Nasional Bhd	3.3

### Forecast Revision

	FY24	FY25
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	195.3	294.6
Consensus	181.1	261.5
TA's / Consensus (%)	107.9	112.7
Previous Rating	Buy (Maintained)	
Consensus Target Price	4.65	

### Financial Indicators

	FY24	FY25
Net Debt / Equity (%)	61.5	60.2
CFPS (sen)	(8.8)	(6.2)
Price / CFPS (x)	(47.9)	(68.4)
ROA (%)	5.7	7.0
NTA/Share (sen)	72.2	84.2
Price/NTA (x)	5.9	5.0

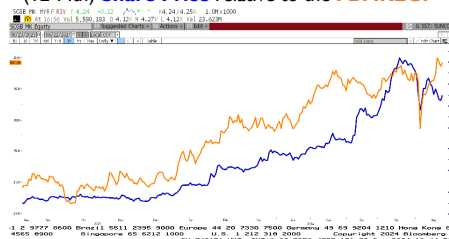
### Scorecard

	% of FY	
vs. TA	35.6	Within
vs. Consensus	38.4	Within

### Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(14.5)	1.2
3 mth	30.5	1.2
6 mth	63.1	6.2
12 mth	139.5	13.1

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



Source: Bloomberg

- Following the announcement by US-based multinational Amazon AWS to invest approximately USD6.9bn in Malaysia through 2038 to build three Availability Zones (AZ) with independent power, cooling, and physical security, we believe SUNCON stands to be a frontrunner for these new projects, given its solid track record in data centre construction. Assuming each AZ includes a 50MW facility and the construction cost is estimated at USD6mn-10mn per MW, these three AZs could contribute a gross construction value totalling approximately USD900mn-1.5bn, translating to c.RM4.0bn-6.6bn.

### Valuation

- We maintain our **Buy** call on the stock with an unchanged TP of **RM6.15**, premise 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 MRT3, 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.

**Table 1: Earnings Summary (RM mn)**

FYE Dec (RMmn)	2022	2023	2024F	2025F	2026F
Revenue	2,155.2	2,671.2	3,165.5	4,711.5	5,170.7
Gross profit	365.8	434.2	490.6	730.3	827.3
EBITDA	210.3	245.5	304.8	441.4	486.8
EBITDA margin (%)	9.8	9.2	9.6	9.4	9.4
EBIT	186.5	224.5	282.2	417.6	461.9
PBT	184.1	188.6	258.2	389.4	434.4
PAT	135.2	145.1	195.3	294.6	328.6
Core net profit	147.1	176.8	195.3	294.6	328.6
Core EPS (sen)	11.5	13.8	15.2	23.0	25.6
PER (x)	37.0	30.8	27.8	18.5	16.5
Gross dividend (sen)	5.5	6.0	7.0	11.0	12.0
Dividend yield (%)	1.3	1.4	1.7	2.6	2.8
ROE (%)	18.8	18.6	22.4	29.4	28.2

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

FYE Dec	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
Revenue	604.1	604.8	651.2	7.7	7.8	1126.2	1256.0	11.5
- Construction	535.6	543.6	597.6	9.9	11.6	1004.7	1141.2	13.6
- Precast	68.5	61.2	53.6	(12.4)	(21.7)	121.5	114.9	(5.5)
Operating profit	46.7	53.1	52.7	(0.8)	12.8	88.4	105.7	19.7
Finance income	6.7	4.7	15.3	N.M.	128.2	10.8	20.1	85.4
Finance costs	(11.5)	(16.2)	(17.8)	(9.9)	(55.3)	(19.7)	(34.0)	(72.2)
Profit before taxation	42.3	41.6	50.2	20.5	18.8	79.8	91.9	15.1
- Construction	39.0	37.9	46.9	23.7	20.0	75.3	84.7	12.6
- Precast	3.2	3.8	3.3	(11.2)	3.8	4.5	7.1	57.5
Income tax expense	(9.0)	(8.9)	(12.4)	(39.2)	(38.3)	(17.9)	(21.4)	(19.6)
Non-controlling interests	0.3	0.3	(1.1)	N.M.	N.M.	1.1	(0.8)	(173.2)
Net profit	33.0	32.4	38.9	19.9	17.8	60.8	71.3	17.2
- Construction	29.8	30.1	36.8	22.1	23.5	57.2	66.9	16.8
- Precast	3.2	2.3	2.1	(8.0)	(34.9)	3.6	4.4	22.3
<b>Core net profit</b>	<b>32.3</b>	<b>32.3</b>	<b>37.2</b>	<b>15.1</b>	<b>15.2</b>	<b>58.1</b>	<b>69.5</b>	<b>19.6</b>
Reported EPS (sen)	2.6	2.5	3.0	19.9	17.8	4.7	5.5	17.2
Core EPS (sen)	2.5	2.5	2.9	15.1	15.2	4.5	5.4	19.6
Dividend (sen)	3.0	0.0	3.5	N.M.	16.7	3.0	3.5	16.7
Margin (%):				% pts	% pts			% pts
- Operating	7.7	8.8	8.1	(0.7)	0.4	7.8	8.4	0.6
- Construction	7.5	8.5	7.8	(0.7)	0.2	7.8	8.1	0.4
- Precast	9.1	11.0	11.4	0.4	2.2	8.5	11.1	2.7
- PBT	7.0	6.9	7.7	0.8	0.7	7.1	7.3	0.2
- PAT	5.5	5.4	5.8	0.4	0.3	5.2	5.5	0.1
- Effective tax rate	21.3	21.5	24.8	3.3	3.5	22.4	23.3	0.9

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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

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★★	★★★★	★★★★★	★★★★
<b>Remark</b>	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, August 23, 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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