

UOBKH HIGHLIGHTS**Sunway Construction Group (SCGB MK/BUY/RM3.31/Target: RM4.32)**

Revised Scopes And Value For Project JHB1X0: Largest Single Contract Historically

WHAT'S NEW

- Sunway Construction Group (Suncon) and its client Yellowwood Properties Sdn Bhd have on 10 Jun 24 entered into an amendment deed related to the data centre project in Sedenak Tech Park Johor (Project JHB1X0).
- Following the amendment deed, the project was revised to include new scopes and value of works for notice to proceed 4 (NTP 4) which subsequently raised the total contract value from the initial RM1.7b to RM3.2b.
- We also gather that the project completion date is now extended to 1Q26 (from 3Q24 initially) with the inclusion of new scopes under NTP 4 that would likely take around 20 months to complete.

COMMENTS

- **On course for a record-breaking year again.** With this, the group's ytd orderbook replenishment increased substantially to RM3.3b, outpacing our assumptions of RM3.0b for 2024 (which was also the management's guided replenishment rate). The outstanding orderbook now stands at an all-time high level of RM7.9b, providing promising earnings growth over the next three years. Thus, we revise 2024 replenishment assumptions to RM4.5b for 2024 and RM4b for 2025-26.
- **Sustainable earnings momentum ahead.** Suncon's near-term earnings momentum is expected to remain vibrant, supported by its robust orderbook. Its active tenderbook remains firm at RM9.4b, which mainly comprises the Song Hau coal-fired power plant, as well as other smaller jobs for precast concrete, data centres and industrial plants. In addition, we also foresee sustainable internal project flows supported by: a) Sunway's new property launches of RM2b-3b p.a. in the coming years, b) multiple capacity expansions of medical centres which are guided to cost around RM2b, and c) potential renovation and refurbishment works for Sunway's existing hotels and malls.

EARNINGS REVISION

- We increased 2024/25/26 earnings forecasts by 4%/30%/34% respectively upon revising our replenishment assumption upward.

VALUATION/RECOMMENDATION

- **Upgrade from HOLD to BUY with a higher target price of RM4.32**, following the increase in earnings projections. Our target PE is based on 19x 2025F PE which is 0.5SD above its five-year mean of 17x. The group's fundamentals remain robust, supported by its proven capability to clinch a balanced mix of external and internal projects which will ultimately lead to decent earnings visibility for the next two to three years.

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