

UOBKH HIGHLIGHTS

Sunway Construction Group (SCGB MK/BUY/RM2.61/Target: RM2.93)

Bags An Internal Project Worth RM721m

WHAT'S NEW

- Sunway Construction Group (Suncon) announced that its subsidiary had on 21 Feb 24 accepted a letter of award worth RM721.0m from Sunway Lost World Water Park Sdn Bhd, an indirect subsidiary of its parent company Sunway Berhad. The contract entails piling, earthworks, sub-structure and main building works for the proposed development of one commercial block containing a six-floor shopping complex, cinema, shops and carpark in Mukim Hulu Kinta, Perak.
- We also note that the project will have a construction period of 35 months, and is expected to be completed by 31 Jan 27.

COMMENTS

- **On track to meet orderbook replenishment target.** The project represents the group's fourth contract win for 2024, bringing its ytd total orderbook replenishment to RM831.1m. We understand that the group had earlier secured three contracts collectively worth RM109.9m from two external clients. Based on an EBIT margin assumption of 6-7%, this project could potentially contribute a total of RM43m-55m in additional EBIT over the next three years. While feeling positive on the internal job award, our orderbook replenishment assumptions of RM3.0b for 2024 remains intact as we expect more contracts to gradually materialise in the coming months. This is following the RM2.5b orderbook replenishment in 2023, which met our earlier assumption.
- **Sustainable earnings momentum ahead.** Suncon's near-term earnings momentum is expected to remain vibrant, supported by its outstanding orderbook of RM5.3b as of end-23 (2.2x cover ratio of its 2023 construction revenue). Meanwhile, its earnings outlook is also improving rapidly as management has again raised the replenishment target for 2024 to RM3.0b (from RM2.5b previously) amid a stronger prospective pipeline of public and private projects. Its active tenderbook remains firm at RM26.0b, which mainly comprises the Mass Rapid Transit 3 (MRT3), Song Hau coal-fired power plant, as well as other smaller jobs for precast concrete, data centres, and industrial plants. In addition, the resilient internal contract flows from parent company Sunway Berhad could provide further growth opportunities amid the rising vibrancy of the property market, particularly in Johor. We earlier highlighted that potential internal projects from Sunway Berhad might include fresh property projects with a gross development value of RM2b-3b p.a. and a number of hospital expansions collectively worth around RM2b.

EARNINGS REVISION

- Our forecasts are unchanged as the contract win is well within our replenishment assumption of RM3b for 2024.

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of RM2.93.** We derive our target price by pegging a 2024F PE of 19x 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.

NEW PROJECT AWARDS AS OF YTD FEB 24

Projects (2024 new awards)	Client	Duration	Contract Sum (RM'mil)
Sunway Ipoh Mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721.0
Early Contractor Involvement (ECI) Services - Package A	Multinational Technology Company	Aug-24	3.4
Early Contractor Involvement (ECI) Services - Package B	Multinational Technology Company	Aug-24	3.4
Ulu Pandan C1 & C2	CES Engineering & Construction Ptd Ltd	Jun-27	103.4
Secured in 1Q 2024			831.1

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