

COMPANY RESULTS

Sunway Construction (SCGB MK)

3Q24: Hitting A Bumper; Prudent Progress Billing and Margins Recognition

Suncon's 3Q24 earnings were below expectations, reflecting slower-than-expected progress billings of DC projects and conservative recognition of margins. Despite still anticipating much stronger 2025 earnings premised on accelerated DC projects' delivery and robust orderbook replenishment, 4Q24 earnings will likely only chart a marginal qoq improvement. Valuations also appear fair at close to +1SD above mean based on 2025F earnings. Maintain HOLD with a lower TP of RM4.54.

3Q24 RESULTS

Year to 31 Dec (RMm)	3Q24	qoq % chg	yoy % chg	9M24	yoy % chg	Comments
Revenue	865.3	32.9	28.5	2,121.4	17.9	Improved progress billing
- Construction	831.8	39.2	40.9	1,973.0	23.7	Accelerated progress in DC projects
- Precast Concrete	33.5	(37.5)	(59.6)	148.4	(27.4)	High base in 3Q23
Operating profit	64.8	23.0	19.7	170.5	19.7	
- Construction	60.2	29.2	34.7	153.1	24.8	
- Precast Concrete	4.6	(24.6)	(51.3)	17.4	(12.0)	
Pre-tax Profit	70.5	40.5	46.6	162.4	27.0	Reversal of impairment boosted margin
PATAMI	46.5	19.6	32.7	117.7	22.8	
Core PATAMI	34.2	(8.0)	(9.7)	103.8	8.0	Prudent profit recognition as few projects' in beginning stage
Margins	%	+/-ppt	+/-ppt	%	+/-ppt	
EBIT:	7.5	(0.6)	(0.6)	8.0	0.1	
- Construction	7.2	(0.6)	(0.3)	7.8	0.1	
- Precast Concrete	13.7	2.4	2.3	11.7	2.1	
PBT	8.2	0.4	1.0	7.7	0.5	Boosted by reversal of impairments
Core PATMI	4.0	(1.8)	(1.7)	4.9	(0.4)	Declined on prudent margin recognitions

Source: Sunway Construction, UOB Kay Hian

RESULTS

- Soft 9M24, below expectations.** Sunway Construction's (Suncon) 3Q24 core net profit came in lower at RM34.2m (-8.0% qoq, -9.7% yoy) despite higher revenue of RM865.3m (+32.9% qoq, +28.5% yoy), after stripping off exceptional items including a RM9m reversal of impairment losses on receivables. 9M24 earnings made up only 57% and 60% of our and consensus full-year estimates. That said, 4Q24 should see a marginal improvement on accelerated progress billings for data centre (DC) jobs secured in 1H24

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,155	2,671	2,965	4,642	4,857
EBITDA	210	245	259	397	422
Operating profit	187	224	240	377	398
Net profit (rep./act.)	135	145	170	279	298
Net profit (adj.)	144	170	170	279	298
EPS (sen)	11.2	13.2	13.2	21.6	23.1
PE (x)	39.7	33.6	33.6	20.5	19.2
P/B (x)	7.7	7.0	6.4	5.7	5.1
EV/EBITDA (x)	29.3	25.2	23.9	15.5	14.6
Dividend yield (%)	1.2	1.4	1.8	3.0	3.2
Net margin (%)	6.3	5.4	5.7	6.0	6.1
Net debt/(cash) to equity (%)	9.9	66.1	43.4	40.8	24.5
Interest cover (x)	50.7	11.4	12.6	24.4	35.5
ROE (%)	18.8	18.6	19.9	29.6	28.3
Consensus net profit	-	-	175	270	292
UOBKH/Consensus (x)	-	-	0.97	1.03	1.02

Source: Sunway Construction, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM4.43
Target Price	RM4.54
Upside	+2.5%
(Previous TP)	RM4.95

COMPANY DESCRIPTION

A leading construction company in Malaysia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,289.4
Market cap (RMm):	5,711.9
Market cap (US\$m):	1,279.8
3-mth avg daily t'over (US\$m):	2.9

Price Performance (%)

52-week high/low RM5.13/RM1.72

1mth	3mth	6mth	1yr	YTD
(1.6)	8.5	37.5	139.2	133.0

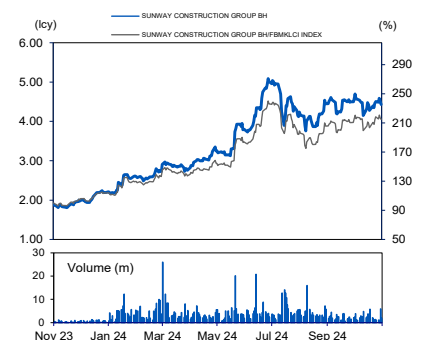
Major Shareholders

	%
Sunway Holdings Sdn Bhd	54.6
Sungei Way Corp Sdn Bhd	10.1
Employees Provident Fund Board	6.4

FY24 NAV/Share (RM) 0.69

FY24 Net Debt/Share (RM) 0.30

PRICE CHART



Source: Bloomberg

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• **Construction segment: Significant improvement in progress billing.** The construction division's operating profit (EBIT) surged to RM60.2m (+29% qoq, +35% yoy) on higher revenue of RM865m (+33% qoq, +29% yoy) in 3Q24. The qoq revenue growth was largely driven by accelerated progress for DC projects (Sedenak DC progress billing achieved 17% on upsized RM3.65b contract value; 1H24: 6.8%). Meanwhile, EBIT was also lifted by overall higher business volume. Nevertheless, EBIT margin slightly contracted qoq (-0.7%), presumably reflecting more prudent profit recognition for DC projects which are still at the beginning stages (potential recalibration of margins upward near completion). Meanwhile, higher building material prices and sales & service tax (from 6% to 8%) also attributed to compressed margins.

• **Precast segment: Normalising from high base.** In 3Q24, the precast segment delivered a lower revenue of RM33.5m (-38% qoq, -60% yoy) which presumably reflects contracted contributions from Integrated Construction & Prefabrication Hub (ICPH) projects. As a result, EBIT dropped to RM4.6m (-25% qoq, -51% yoy) despite a slightly better margin (+2.3ppt yoy). Moving forward, we expect the utilisation rate and price outlook for Suncon's precast concrete products, particularly in the ICPH segment, to stay flat throughout 4Q24-1Q25. An inflection point for the segment requires a ramp-up in the launch of Singapore's Housing and Development Board (HDB) flats which typically contribute >90% of Suncon's precast sales.

STOCK IMPACT

• **Robust orderbook replenishment...** Suncon presented solid ytd new job wins of around RM4.1b following recent upsizing of its DC project in Sedenak Tech Park Johor (Project JHB1X0) to RM3.65b. 2025-26 earnings growths remain supercharged, leveraging on an impressive outstanding orderbook on hand of around RM7.1b (1.5x revenue cover). Management has also further revised its 2024 orderbook target to RM4b-5b (initially RM2.5b-3b), which is highly attainable in our opinion.

• **...with an abundance of upsizing opportunities.** While Suncon's current tenderbook stands at c.RM10.6b, we remain optimistic that the group is well-positioned to clinch more contracts for the rest of 2024 and 2025. Notable contracts in the pipeline include: a) Penang Light Rail Transit (PLRT); b) internal project flows from parent company Sunway Berhad (potentially RM4b-6b); c) upsizing of existing DC works (RM2b-3b); and d) various precast orders (c.RM1.5b).

• **Opportunities from DC space pose upside risk to our assumptions.** While Suncon is still bidding for a few DC projects (estimated value of RM2b-3b) which may be awarded in 4Q24-1H25, our orderbook replenishment assumptions of RM4b-4.5b for 2024-25F partially take into account potential wins in these biddings. Upside risk to our forecasts will be Suncon clinching more than two greenfield DC projects with shorter construction periods and better profit margins.

EARNINGS REVISION/RISK

• **Reduced our 2024-25 net profit forecasts by 11% and 7% respectively,** as we recalibrated earnings for slower progress billing and margins recognition for the construction segment.

VALUATION/RECOMMENDATION

• **Maintain HOLD with a lower target price of RM4.54,** as the ytd share price rally has already priced in most positives at this juncture. Our target price implies 21x 2025F PE (+1SD above five-year mean of 17x).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

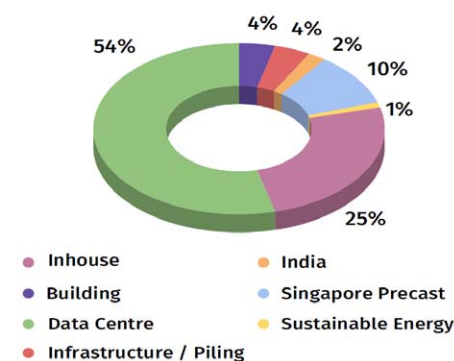
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Mitigate emissions, biodiversity impact, waste disposal and pollution. • Social <ul style="list-style-type: none"> - Work with local authorities and communities to ensure projects' success. • Governance <ul style="list-style-type: none"> - Independent directors (four out of seven) comprise the majority of the board.

OUTSTANDING ORDERBOOK AS OF END-3Q24

Projects	(RMm)
STeP Data Centre	1,079
STeP Data Centre (Revised NTP)	1,950
RTS Link Package 1B & 5	265
K2 Data Centre	38
Daiso Warehouse	229
PSR -MNC	739
ECI & Work Order - MNC	45
India Highways	180
Solar Projects	46
Others	28
Total External (A)	4,596
Sunway Square Superstructure+VO	544
SW Flora	161
Sunway Carnival Mall Refurbishment	113
Sunway Belfield	29
SW Ipoh Mall	694
Others	256
Total Internal (B)	1,761
Precast Concrete (C)	711
Grand Total (A+B+C)	7,068

Source: Suncon

ORDERBOOK BREAKDOWN



Source: Suncon

SEGMENTAL FORECASTS

(RMm)	2024F	2025F	2026F
Revenue	2,965	4,642	4,857
- Construction	2,757	3,963	4,163
- Precast Concrete	208	679	694
Operating profit	240	377	398
- Construction	217	302	321
- Precast Concrete	23	75	76
Orderbook replenishment assumptions			
- Construction	4,500	4,000	4,000
- Precast Concrete	400	400	400

Source: Suncon, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	2,671	2,965	4,642	4,857
EBITDA	245	259	397	422
Deprec. & amort.	21	19	20	24
EBIT	224	240	377	398
Associate contributions	0	0	0	(0)
Net interest income/(expense)	(21)	(21)	(16)	(12)
Pre-tax profit	189	221	363	388
Tax	(43)	(49)	(80)	(85)
Minorities	(1)	(3)	(4)	(5)
Net profit	145	170	279	298
Net profit (adj.)	170	170	279	298

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	(286)	291	195	364
Pre-tax profit	189	221	363	388
Tax	(43)	(49)	(80)	(85)
Deprec. & amort.	21	19	20	24
Associates	14	(2)	(2)	(2)
Working capital changes	(498)	101	(106)	39
Other operating cashflows	31	0	(0)	0
Investing	(88)	(30)	(46)	(49)
Capex (growth)	(18)	(30)	(46)	(49)
Proceeds from sale of assets	2	0	0	0
Others	(73)	0	0	0
Financing	349	(153)	(220)	(232)
Dividend payments	(71)	(103)	(170)	(182)
Proceeds from borrowings	421	(50)	(50)	(50)
Others/interest paid	(1)	0	0	0
Net cash inflow (outflow)	(25)	107	(71)	84
Beginning cash & cash equivalent	408	384	491	420
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	384	491	420	503

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	99	110	136	160
Other LT assets	745	747	749	751
Cash/ST investment	384	491	420	503
Other current assets	1,855	1,594	2,316	2,353
Total assets	3,083	2,942	3,620	3,767
ST debt	438	350	330	310
Other current liabilities	1,264	1,103	1,719	1,795
LT debt	488	526	496	466
Other LT liabilities	1	1	1	1
Shareholders' equity	820	887	995	1,112
Minority interest	72	74	79	83
Total liabilities & equity	3,083	2,942	3,620	3,767

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	9.2	8.7	8.6	8.7
Pre-tax margin	7.1	7.5	7.8	8.0
Net margin	5.4	5.7	6.0	6.1
ROA	5.5	5.6	8.5	8.1
ROE	18.6	19.9	29.6	28.3
Net profit (adj.)	9.2	8.7	8.6	8.7
Leverage				
Debt to total capital	50.9	47.7	43.5	39.4
Debt to equity	112.9	98.8	83.0	69.8
Net debt/(cash) to equity	66.1	43.4	40.8	24.5
Interest cover (x)	11.4	12.6	24.4	35.5

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