

### COMPANY RESULTS

## Sunway Construction (SCGB MK)

2Q24: Slower Half Of The Year; Picking Up In 2H24

2Q24 earnings growth came in slower but within expectations, as we anticipate a much stronger 2H24 premised on accelerated progress billings and better margins from newly-secured data centre works. While Suncon further revised its orderbook replenishment target with catalysts such as potential awards of mega projects and more data centre-related private job flows, valuations appear fair at close to +1SD above mean based on 2025 earnings. Maintain HOLD and target price of RM4.78.

### 2024 RESULTS

Year to 31 Dec (RMm)	qoq		yoy		Comments
	2024	% chg	% chg	1H24	
Revenue	651.2	7.1	7.8	1,256.0	Improved progress billings
- Construction	597.6	9.0	11.6	1,141.2	
- Precast Concrete	53.6	(14.1)	(21.7)	114.9	High base in 2Q23
Operating profit	52.7	(0.8)	12.8	105.7	
- Construction	46.6	0.4	15.2	92.9	
- Precast Concrete	6.1	(10.1)	(2.8)	12.8	
Pre-tax Profit	50.2	17.0	18.8	91.9	Revenue & margin improved
PATAMI	38.9	16.6	17.8	71.3	
Core PATAMI	37.2	13.1	15.2	69.5	
<b>Margins</b>	<b>%</b>	<b>+/-ppt</b>	<b>+/-ppt</b>	<b>%</b>	<b>+/-ppt</b>
EBIT:	8.1	(0.7)	0.4	8.4	0.6
- Construction	7.8	(0.7)	0.2	8.1	0.4
- Precast Concrete	11.4	0.4	2.2	11.1	2.7
PBT	7.7	0.8	0.7	7.3	0.2
Core PATMI	5.7	0.4	0.4	5.5	0.4

Source: Sunway Construction, UOB Kay Hian

### RESULTS

• **Soft 1H24, but within expectations.** Sunway Construction's (Suncon) 2Q24 core net profit came in higher at RM37.2m (+13.1% qoq, +15.2% yoy) on a revenue of RM651.2m (+7.1% qoq, +7.8% yoy). Despite 1H23 earnings making up only 34% and 38% of our and consensus full-year estimates, we deem this within expectations as we foresee higher earnings in 2H24 on the back of accelerated progress billings and better profitability margins. This will be largely catalysed by new contracts secured in 1H24, especially data centre jobs with shorter completion period and command higher margins.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,155	2,671	3,391	4,560	4,987
EBITDA	210	245	306	417	471
Operating profit	187	224	287	396	447
Net profit (rep./act.)	135	145	206	293	336
Net profit (adj.)	144	170	206	293	336
EPS (sen)	11.2	13.2	16.0	22.8	26.0
PE (x)	38.0	32.1	26.5	18.6	16.3
P/B (x)	7.4	6.7	6.1	5.4	4.8
EV/EBITDA (x)	28.4	24.3	19.5	14.3	12.6
Dividend yield (%)	1.3	1.4	2.3	3.3	3.7
Net margin (%)	6.3	5.4	6.1	6.4	6.7
Net debt/(cash) to equity (%)	9.9	66.1	46.7	38.5	23.1
Interest cover (x)	50.7	11.4	14.9	25.7	39.6
ROE (%)	18.8	18.6	24.0	30.6	31.1
Consensus net profit	-	-	181	262	280
UOBKH/Consensus (x)	-	-	1.14	1.12	1.20

Source: Sunway Construction, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM4.24
Target Price	RM4.78
Upside	+12.7%

### 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):	5,466.9
Market cap (US\$m):	1,248.7
3-mth avg daily t'over (US\$m):	4.4

### Price Performance (%)

52-week high/low RM5.09/RM1.79

1mth	3mth	6mth	1yr	YTD
(14.5)	30.5	63.1	139.5	118.6

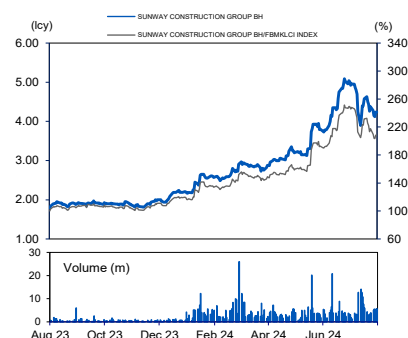
### Major Shareholders

Sunway Holdings Sdn Bhd	54.6
Sungei Way Corp Sdn Bhd	10.1
Employees Provident Fund Board	6.2

FY24 NAV/Share (RM) 0.70

FY24 Net Debt/Share (RM) 0.33

### PRICE CHART



Source: Bloomberg

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• **Construction segment: Improved progress billings.** The construction division's operating profit (EBIT) surged to RM46.6m (+0.4% qoq, +15.2% yoy) on higher revenue of RM597.6m (+9.0% qoq, +11.6% yoy) in 2Q24. The qoq revenue growth was largely driven by accelerated progress for newer projects, as well as a ramp-up in progress to achieve scheduled milestones for certain projects. Meanwhile, EBIT was also lifted by overall higher business volume. Nevertheless, EBIT margin contracted slightly qoq (-0.7%), presumably reflecting impact from higher building material prices and sales & service tax (from 6% to 8%).

• **Precast segment: Normalised from high base.** In 2Q24, the precast segment delivered a lower revenue of RM53.6m (-14.1% qoq, -24.7% yoy) which presumably reflects contracted contributions from integrated construction & prefabrication hub (ICPH) projects. As a result, EBIT dropped to RM6.1m (-10.1% qoq, -2.8% yoy) despite a slightly better margin (+2.2ppt yoy). That said, we expect an improving utilisation rate and price outlook for Suncon's precast concrete products particularly in the ICPH segment throughout 2H24-2025. This will be boosted by 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 RM3.5b following the recent revision of its data centre project in Sedenak Tech Park Johor (Project JHB1X0), bringing outstanding orderbook on hand to around RM7.4b (2x revenue cover). Management has also further revised its 2024 orderbook target to RM4b-5b (initially RM2.5b-3.0b), which is highly attainable in our opinion.

• **...with abundance of upsizing opportunities.** While Suncon's current tenderbook stands at around RM14b, 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) domestic mega infrastructure projects such as Mass Rapid Transit 3 (MRT3) and Penang Light Rail Transit (PLRT); b) internal project flows from parent company Sunway Berhad (potentially RM4b-6b); c) upsizing of existing data centre works (RM2b-3b); and d) various precast orders (around RM1.5b).

• **Opportunities from data centre space pose upside risk to our assumptions.** While we understand that Suncon is still bidding for few data centre projects (estimated value of RM2b-3b) which may be awarded in 2H24-1H25, our orderbook replenishment assumptions of RM4.0b-4.5b in 2024-25 partially take into account potential wins in these biddings. Upside risk to our forecasts will be Suncon successfully clinching more than two greenfield data centre projects with shorter construction periods and better profit margins.

### VALUATION/RECOMMENDATION

• **Maintain HOLD and target price of RM4.78**, as 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

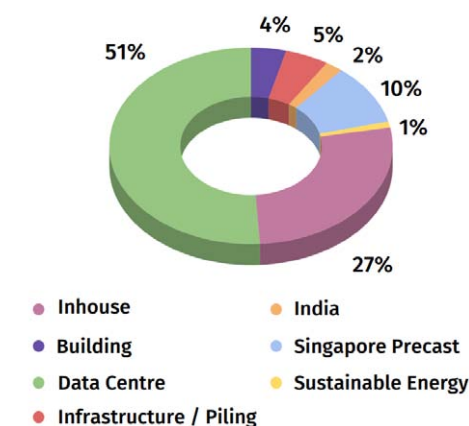
<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- Mitigate emissions, biodiversity impact, waste disposal and pollution.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- Work with local authorities and communities to ensure projects' success.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Independent directors (four out of seven) comprise the majority of the board.</li> </ul> </li> </ul>
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### OUTSTANDING ORDERBOOK AS OF END-2024

Projects	(RMm)
STeP Data Centre	1,450
STeP Data Centre (Revised NTP)	1,461
RTS Link Package 1B & 5	347
K2 Data Centre	65
Daiso Warehouse	254
PSR -MNC	737
ECI & Work Order - MNC	57
India Highways	191
Solar Projects	46
Others	28
<b>Total External (A)</b>	<b>4,636</b>
Sunway Square Superstructure+VO	649
SW Flora	191
Sunway Carnival Mall Refurbishment	138
Sunway Belfield	65
SW Ipoh Mall	708
Others	256
<b>Total Internal (B)</b>	<b>2,007</b>
<b>Precast Concrete (C)</b>	<b>732</b>
<b>Grand Total (A+B+C)</b>	<b>7,375</b>

Source: Suncon

### ORDERBOOK BREAKDOWN



Source: Suncon

### SEGMENTAL FORECASTS

(RMm)	2024F	2025F	2026F
<b>Revenue</b>	<b>2,884</b>	<b>4,456</b>	<b>4,682</b>
- Construction	2,586	3,735	4,099
- Precast Concrete	298	721	583
<b>Operating profit</b>	<b>256</b>	<b>400</b>	<b>423</b>
- Construction	223	321	358
- Precast Concrete	33	79	64
<b>Orderbook replenishment assumptions</b>			
- 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	3,391	4,560	4,987
EBITDA	245	306	417	471
Deprec. & amort.	21	19	21	25
EBIT	224	287	396	447
Associate contributions	(14)	2	2	2
Net interest income/(expense)	(21)	(21)	(16)	(12)
Pre-tax profit	189	269	382	437
Tax	(43)	(59)	(84)	(96)
Minorities	(1)	(3)	(4)	(5)
Net profit	145	206	293	336
Net profit (adj.)	170	206	293	336

### CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	(286)	281	254	381
Pre-tax profit	189	269	382	437
Tax	(33)	(59)	(84)	(96)
Deprec. & amort.	21	19	21	25
Associates	14	(2)	(2)	(2)
Working capital changes	(498)	54	(63)	18
Other operating cashflows	21	0	0	0
Investing	(88)	(34)	(46)	(50)
Capex (growth)	(18)	(34)	(46)	(50)
Proceeds from sale of assets	2	0	0	0
Others	(73)	0	0	0
Financing	349	(176)	(229)	(254)
Dividend payments	(71)	(126)	(179)	(204)
Proceeds from borrowings	421	(50)	(50)	(50)
Others/interest paid	(1)	0	0	0
Net cash inflow (outflow)	(25)	71	(20)	77
Beginning cash & cash equivalent	408	384	455	435
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	384	455	435	512

### BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	99	114	138	164
Other LT assets	745	747	749	751
Cash/ST investment	384	455	435	512
Other current assets	1,855	1,793	2,278	2,410
<b>Total assets</b>	<b>3,083</b>	<b>3,108</b>	<b>3,600</b>	<b>3,836</b>
ST debt	438	350	330	310
Other current liabilities	1,264	1,255	1,678	1,827
LT debt	488	526	496	466
Other LT liabilities	1	1	1	1
Shareholders' equity	820	901	1,016	1,147
Minority interest	72	75	79	85
<b>Total liabilities &amp; equity</b>	<b>3,083</b>	<b>3,108</b>	<b>3,600</b>	<b>3,836</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	9.2	9.0	9.1	9.5
Pre-tax margin	7.1	7.9	8.4	8.8
Net margin	5.4	6.1	6.4	6.7
ROA	5.5	6.7	8.7	9.0
ROE	18.6	24.0	30.6	31.1
Net profit (adj.)	18.3	21.3	42.2	14.4
<b>Leverage</b>				
Debt to total capital	50.9	47.3	43.0	38.7
Debt to equity	112.9	97.2	81.3	67.7
Net debt/(cash) to equity	66.1	46.7	38.5	23.1
Interest cover (x)	11.4	14.9	25.7	39.6

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