

Sunway Construction (SCGB MK)

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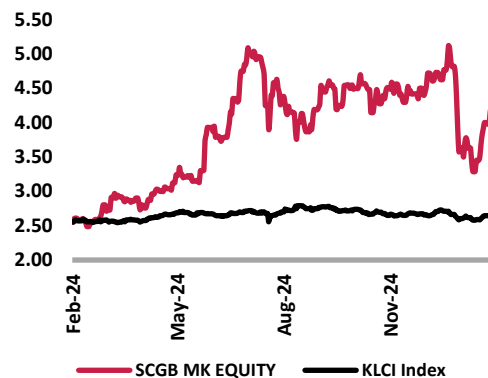
BUY

Share Price RM4.12
Target Price RM5.04 +22.3%

Expecting a stronger year ahead

- Upgrade to Buy with a higher TP of RM5.04.** SUNCON's FY24 results came in above our expectations but within consensus estimates. The deviation was due to the stronger-than-expected progress billings during the 4Q24. Management has set a more ambitious order replenishment target of RM4.5bn to RM6.0bn for FY25, compared to the RM4.2bn achieved in FY24. Given the strong active tender book of RM14.6bn as of 4Q24, we anticipate the group to achieve the higher end of this target (c.RM5.5bn). As a result, we project a 58% YoY growth in project earnings for FY25F. In view of this, we have raised our TP to RM5.04 (from RM4.12) and upgraded our rating to **Buy** (from **Hold**).
- Strong sequential growth.** SUNCON registered a sequentially stronger 4Q24 core profit of RM72.6m (+112% QoQ) driven mainly by accelerated progress in RTS Link (package 1B and package 5) and JHB1X0 data centre projects. Note that the core profit is derived after excluding exceptional items including under provisions for prior year tax identified during tax audit amounting to RM4.8m. This resulted in FY24 core profit of RM171.3m (+13.3% YoY). The full-year result came in above our expectations, accounting for 107.3% of our forecast but within consensus estimates at 101.4%. The variance against our forecast came largely from stronger-than-expected progress billings during the quarter under review.
- Dividend surprises on the upside.** A 3rd interim dividend of 2.5 sen DPS was declared, bringing the total DPS for FY24 to 8.5 sen (vs 6.0 sen in FY23), exceeding our initial expectations and reflecting a higher payout ratio of 66% (vs historical payout averaged at around 62%).
- Construction segment drives profit growth.** Segment-wise, the construction business posted a +53.3% YoY growth in pretax profit, reaching RM260.5m for FY24. This was primarily driven by a +39.7% YoY increase in revenue and an expansion in pretax margin, which rose to 7.8% (vs 7.1% in FY23). The higher profit margins from data center projects were a key contributor to this robust performance. However, the overall strong results were mitigated by the precast segment, which saw a significant decline in FY24 pretax profit, falling -33.2% YoY to RM12.5m. This drop was primarily due to a staggered delivery schedule for newly secured projects.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	17.7	(7.9)	62.0
vs FBM KLCI	17.6	(7.0)	56.0

Stock Data

ESG Rating	Good
Mkt Cap (RM mn)	5312.2
Adjusted Beta	1.4
Free float (%)	28.1
Issued shares (mn)	1289.4
52w H/L (RM)	5.3 / 2.48
3m avg daily volume	4,995,958

Major Shareholders (%)

Sunway Holdings	54.6
Sungei Way Corp	10.1
Employees Provident Fund	7.4

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- **Order replenishment target of RM4.5bn-RM6.0bn for FY25.** SUNCON met its order book replenishment target for FY24, securing RM4.2bn in new orders as of December 2024, within the range of its RM4.0 to 5.0bn target. Consequently, the group's outstanding order book stood at RM5.8bn at the end of FY24, with data centre projects comprising 55%, or RM3.2bn, of the total. Looking ahead, the management has set a higher order replenishment target of RM4.5bn to RM6.0bn for FY25 mainly driven data centre projects as well as through robust pipeline of in-house projects via its parent company, Sunway Berhad.
- **Earnings revision.** We raise our FY25F to RM271.1m (from RM232.8m) and FY26F earnings to RM314.2m (from RM312.5m), respectively, after factoring in higher job replenishment assumptions of RM5.5b p.a. (previously RM5b p.a.) and stronger progress billings.
- **Valuation.** Post earnings adjustment, we derived our **new TP of RM5.04** (from RM4.27 previously) via pegging our FY25F EPS of 21.0 sen to +0.5SD above its historical 10-year mean P/E of 24x. Valuation-wise, the stock is currently trading at a forward P/E of 16.9x which is below historical mean of 21x. Recent developments, including US AI chip export restrictions have created uncertainty in global tech markets. However, we believe that SUNCON's strong tender pipeline and the expected acceleration of data center projects position the group well. Malaysia's goal to become a regional data centre hub, supported by government initiatives and its strategic location, offers significant growth opportunities for the group. All things considered, we upgrade SUNCON to **Buy** (from **Hold** previously) premised on its strong job replenishment and attractive valuation.

Table 1: Earnings Forecasts

FYE 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Turnover	2672.2	3521.7	4761.1	5237.2	5760.9
Pre-tax profit	188.6	273.0	371.4	419.0	460.9
Core net profit	151.2	171.3	271.1	314.2	345.7
Core EPS (sen)	11.7	13.3	21.0	24.4	26.8
Core EPS growth (%)	5.2	13.3	58.2	15.9	10.0
PER (x)	13.1	31.0	19.6	16.9	15.4
DPS (sen)	6.0	8.5	11.0	13.0	14.0
Div. Yield (%)	1.3	2.0	2.6	3.1	3.3
P/B (x)	6.5	6.1	5.7	5.3	4.8
Net gearing (x)	0.4	Net Cash	Net Cash	0.2	0.2
Key Ratios (%)					
ROE	19	19	24	27	29
Pretax margin	7	6	8	8	8
Core net margin	5	5	6	6	6

Source: Company, BIMB Securities

Table 2: Results Review

Sunway Construction FYE 31 Dec (RMmn)	Quarterly			Change		Cumulative		YTD Chg	BIMB	12M/F24
	4Q23	3Q24	4Q24	QoQ	YoY	FY23	FY24			
Revenue	871.5	865.3	1,400.3	61.8%	60.7%	2,671.2	3,521.7	31.8%	2,907.0	121.1%
EBIT	81.8	64.8	91.6	41.4%	12.0%	224.3	262.2	16.9%		
Pretax Profit	60.8	70.5	110.6	56.8%	82.0%	188.6	273.0	44.7%		
Taxation	(12.3)	(21.9)	(32.7)	49.4%	164.9%	(42.8)	(75.9)	77.4%		
Net Profit	49.3	46.5	69.2	48.9%	40.4%	145.1	186.9	28.8%		
Core net profit	74.2	34.2	72.6	112.0%	-2.1%	170.2	171.3	0.7%	159.7	107.3%
				Chg (ppts)				Chg (ppts)		
EBIT margin	9.4%	7.5%	6.5%	(0.9)	(2.8)	8.4%	7.4%	(1.0)		
Pretax profit margin	7.0%	8.2%	7.9%	(0.3)	0.9	7.1%	7.8%	0.7		
Core net profit margin	8.5%	4.0%	5.2%	1.2	(3.3)	6.4%	4.9%	(1.5)		
Effective tax rate	-20.3%	-31.0%	-29.6%	1.5	(9.3)	-22.7%	-27.8%	(5.1)		

Source: Company, BIMB Securities

Table 3: Segmental Performance

Sunway Construction FYE 31 Dec (RMmn)	Quarterly			Change		Cumulative		YTD Chg	
	4Q23	3Q24	4Q24	QoQ	YoY	FY23	FY24		
Revenue									
Construction	785.8	831.8	1353.9	62.8%	72.3%	2381	3326.9	39.7%	
Precast	85.7	33.5	46.4	38.5%	-45.9%	290.2	194.8	-32.9%	
Total Revenue	871.5	865.3	1400.3	61.8%	60.7%	2671.2	3521.7	31.8%	
Pretax profit									
Construction	53	68.5	107.2	56.5%	102.3%	169.9	260.5	53.3%	
Precast	7.7	2	3.4	70.0%	-55.8%	18.7	12.5	-33.2%	
Total Pretax Profit	60.7	70.5	110.6	56.9%	82.2%	188.6	273	44.8%	
Pretax margin (%)				Chg (ppts)				Chg (ppts)	
Construction	6.7%	8.2%	7.9%	(0.3)	1.2	7.1%	7.8%	9.7%	
Precast concrete	9.0%	6.0%	7.3%	1.4	(1.7)	6.4%	6.4%	-0.4%	
Total	7.0%	8.1%	7.9%	(0.2)	0.9	7.1%	7.8%	9.8%	

Source: Company, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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