Sunway Construction Group

HLIB Research
PP 9484/12/2012 (031413)

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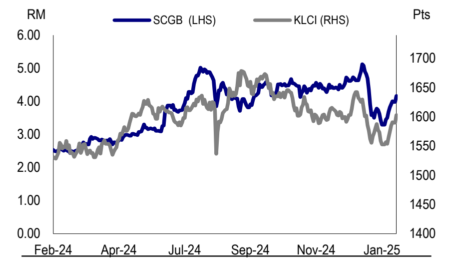
BUY (Maintain)

Target Price:	**RM4.80**
Previously:	**RM4.32**
Current Price:	**RM4.12**

Capital upside	16.5%
Dividend yield	2.2%
Expected total return	18.7%

Sector coverage: Construction
Company description: SunCon is involved in construction and precast products.

Share price



Historical return (%)	1M	3M	12M
Absolute	17.7	-8.4	57.9
Relative	17.4	-7.1	56.5

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	5,482
3-mth average volume ('000)	4331
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Sunway Berhad	54.6%
EPF	7.3%

Earnings summary

FYE (Dec)	FY24	FY25f	FY26f
PATMI - core (RM m)	172.9	268.1	333.6
EPS - core (sen)	13.4	20.7	25.8
P/E (x)	30.8	19.9	16.0

Raising targets

SunCon reported FY24 earnings of RM173m meeting our and consensus expectations. Billings from its key DC projects accelerated in the current quarter. Management raised FY25 replenishment target to RM4.5-6bn and introduced a stretched case of RM6-8bn. We view this renewed optimism as indicative of still robust activities in the DC space. We take comfort from positive tangible developments in the wake of the "AI diffusion rule". Tweak FY25f/26f core PATAMI forecasts by -5.4%/+11.2% post lifting replenishment assumptions. Maintain BUY with higher TP of RM4.80.

Within expectations. SunCon reported 4QFY24 results with revenue of RM1.4bn (61.8% QoQ, 60.7% YoY) and core PATAMI of RM73.6m (123.0% QoQ, 42.0% YoY). This brings FY24 core PATAMI to RM172.9m, increasing by 14.8%. Results were within our/consensus expectations at 101%/102% of full year forecast.

EIs. 4QFY24 core PATAMI was adjusted for reversal of receivables impairment (RM1.1m), gain from PPE disposal (RM3.7m), provision arising from settlement scheme (RM4.3m) and prior year tax audit (RM4.8m).

Dividends. DPS of 2.5 sen going ex. on 13-Mar-25 was declared (FY24: 8.5 sen; FY23: 6.0 sen)

QoQ. Core PATAMI increased by 123.0% lifted by a strong surge in revenue of 61.8%. Key contributing factor was stronger sequential performance from the construction segment (Revenue: +62.8%; PBT: +56.5%) while precast improvements, though substantial, were minor in absolute magnitude. We attribute the construction surge to accelerated progress at key DC & RTS projects. Normalised effective tax rates this quarter helped bump up bottom-line further.

YoY. Likewise, core PATAMI growth of 42.0% came from a significantly stronger construction segment with revenue and PBT rising by 72.3% and 102.3% respectively. As anticipated, billings acceleration for DC projects were instrumental, more than making up for weaker performance at precast (Revenue: -45.9%; PBT: -55.8%). Nevertheless, weaker numbers for precast has been guided by management as bulk of new orders secured in 2024 were scheduled for delivery in 2025.

YTD. Core PATAMI came in higher by 14.8% bolstered by higher turnover of 31.8%, which was construction driven.

Orderbook. Latest unbilled orderbook stands at RM5.8bn (1.7x cover on FY23 revenue).

Guidance raised. Along with the earnings release, SunCon is increasing its base case FY25 replenishment target to RM4.5-6bn from RM4-5bn previously. Adding to this, management is also introducing a stretched case wins target of RM6-8bn. We believe the increased optimism came from: (i) internal pipeline clarity and (ii) robust flow of DC jobs even post "AI diffusion rule". Increasingly, we foresee a clearer path towards its target of RM4.5-6bn target in 2025 (vs HLIB's estimates of RM3.2bn). We reckon that the recent development agreement between Sunway and MRT Corp for the integrated RTS mixed development could yield slightly more than RM1bn to SunCon. By our estimates, including: (i) potentially another RM1bn of internal jobs (ii) ~RM3.7bn from DCs and (iii) ~RM300m of precast orders, would take wins to RM6bn. Encouragingly, SunCon's tenders on a QoQ basis have grown by 38% to RM14.6bn at the latest (70% DCs).

DC landscape looks better than feared. While the dust is still settling since the Framework for AI Diffusion was introduced on 13-Jan, we observe several tangible positive signals after the initial meltdown: (i) 30-40% growth in global capex guidance by Big 3 Tech (ii) Microsoft's continued Johor land acquisition in Jan-25 & Feb-25 amounting to RM814m and (iii) AirTrunk's launch of second phase DC development of 270MW. Additionally, SunCon's feedback from existing clients are BAU while there has been a healthy flow of sizeable DC tenders in the past few weeks.

Forecast. We raise FY25 orderbook win assumptions to RM5bn from RM3.25bn previously due to the factors explained above. As such, our FY25f/26f core PATAMI forecasts is tweaked by -5.4%/+11.2%. The lower forecast for FY25 is a result of tapering down expectations of steep project ramp-up from newly secured projects.

Maintain BUY, TP: RM4.80. Maintain BUY with higher TP of RM4.80 (from RM4.32). Our TP is derived by pegging FY26 EPS to 18.6x P/E multiple based on +0.5SD over the 3 year range. In our view, this is justified considering SunCon's prospects moving forward are considerably better, return to net cash position (NCPS: RM0.22) and projected upshift in already superior ROEs (~27%). Downside risks include: costs inflation, AI crackdown & DC project execution.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Revenue	871.5	865.3	1,400.3	61.8	60.7	2,671.2	3,521.7	31.8
EBIT	84.3	51.3	96.0	87.1	13.9	229.8	248.2	8.0
Finance income	8.6	22.4	33.2	48.5	286.4	26.4	75.7	186.1
Finance cost	(15.2)	(16.6)	(14.6)	(12.6)	(4.1)	(47.9)	(65.2)	36.0
PBT	63.3	57.0	115.0	101.6	81.7	194.2	259.0	33.4
PAT	50.9	35.2	82.3	134.0	61.5	151.4	183.0	20.9
Core PATMI	51.8	33.0	73.6	123.0	42.0	150.6	172.9	14.8
Reported PATMI	49.3	46.5	69.2	48.9	40.4	145.1	186.9	28.8
Core EPS (sen)	4.0	2.6	5.7	123.0	42.0	11.6	13.4	14.8
EBIT margin (%)	9.7	5.9	6.9			8.6	7.0	
PBT margin (%)	7.3	6.6	8.2			7.3	7.4	
PATMI margin (%)	5.9	3.8	5.3			5.6	4.9	

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Figure #2 Financial forecast s

FYE Dec (RM m)	FY22	FY23	FY24	FY25f	FY26f
Revenue	2,155.2	2,671.2	3,521.7	4,030.9	4,732.8
EBITDA	219.0	251.8	265.4	398.9	484.1
EBIT	195.2	230.8	248.2	371.1	454.9
PBT	192.8	195.1	259.0	352.5	438.7
PAT	147.4	152.3	183.0	274.9	342.2
PATMI – Core	143.9	151.6	172.9	268.1	333.6
PATMI – Reported	135.2	145.1	186.9	268.1	333.6
HLIB/ Consensus (%) – Core PATMI	NA	NA	NA	NA	NA
Core EPS (sen)	11.1	11.7	13.4	20.7	25.8
P/E (x)	37.0	35.1	30.8	19.9	16.0
EV/EBITDA (x)	25.5	22.2	21.1	14.0	11.5
DPS (sen)	5.5	6.0	8.5	9.1	11.4
Yield (%)	1.3%	1.5%	2.1%	2.2%	2.8%
BVPS (RM/share)	0.6	0.6	0.7	0.8	1.0
P/B (x)	7.2	6.5	5.7	4.9	4.2
ROE (%)	20%	19%	19%	27%	28%
Net Gearing (%)	CASH	56%	CASH	CASH	CASH

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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