

## Sunway Construction

DC and rail work progress drove Q4 beat

SunCon's Q424 core PATAMI grew 73% y/y to RM70mn. We view this as a beat, with 2024 full-year net profit of RM185mn (+9% y/y) making up 114%/109% of JPM/consensus full-year earnings forecasts. We will be hosting the company's management for a post-result group virtual call on 24 February at 3pm HKT. Please click on the JPM Events link [here](#) if you would like to register for the call, or request dial-in details from your JPM contact.

- **Key positives:** Q424 revenue hit a record high of RM1.4bn (+61% y/y), exceeding both JPM and consensus expectations. This was driven by the accelerated progress of data centre (DC) projects, which we estimate contributed to ~60% of SunCon's Q424 revenue vs. ~47% in Q3. Furthermore, SunCon's civil works for the Johor-Singapore RTS link have progressed to the final stage, with its work progress advanced from ~55% in Q3 to ~85% in Q4.
- **Key risks:** SunCon's outstanding orderbook currently stands at RM5.8bn, 17% lower than RM7.1bn as of end of Q324. While management aims to secure more new wins in 2025 worth RM4.5-6.0bn as compared to RM4.2bn in 2024 (of which ~70% were DC projects), we await more clarity on SunCon's ongoing tenders as well as the possibility of slowing DC project pipeline moving forward.
- **Expected stock reaction:** We expect the market to react slightly positively to the results.
- **Valuation:** We derive our PT by assuming a 17x PE on FY26E normalized earnings, which is in line with SCGB's 10-year historical average.

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## Underweight

SCOG.KL, SCGB MK

Price (20 Feb 25):RM4.12

Price Target (Dec-25):RM2.50

### Malaysia Construction

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### Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top)			
		6M	1Y	3Y	5Y
Value	42	65	55	34	24
Growth	7	17	34	26	19
Momentum	42	1	11	59	71
Quality	38	44	26	59	26
Low Vol	88	86	69	49	80

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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## Price Performance



	YTD	1m	3m	12m
Abs	-11.0%	17.7%	-8.4%	57.8%
Rel	-7.1%	17.4%	-7.2%	56.4%

## Company Data

Shares O/S (mn)	1,289
52-week range (RM)	5.30-2.48
Market cap (\$ mn)	1,196
Exchange rate	4.44
Free float (%)	26.5%
3M ADV (mn)	5.00
3M ADV (\$ mn)	4.5
Volatility (90 Day)	48
Index	FBMKLCI - FTSE BURSA MALAYSIA KLCI
BBG ANR (Buy   Hold   Sell)	10 5 2

## Key Metrics (FYE Dec)

RM in millions	FY23A	FY24E	FY25E	FY26E
<b>Financial Estimates</b>				
Revenue	2,671	2,949	4,563	3,276
Adj. EBITDA	245	257	388	291
Adj. EBIT	224	236	365	267
Adj. net income	145	162	258	185
Adj. EPS	0.11	0.13	0.20	0.14
BBG EPS	0.11	0.13	0.20	0.22
Cashflow from operations	(299)	258	182	344
FCFF	(280)	255	180	342
<b>Margins and Growth</b>				
Revenue Growth Y/Y (%)	23.9%	10.4%	54.8%	(28.2%)
EBITDA margin	9.2%	8.7%	8.5%	8.9%
EBITDA Growth Y/Y (%)	16.5%	5.1%	50.6%	(24.9%)
EBIT margin	8.4%	8.0%	8.0%	8.2%
Net margin	5.4%	5.5%	5.7%	5.6%
Adj. EPS growth	7.3%	11.4%	59.6%	(28.4%)
<b>Ratios</b>				
Adj. tax rate	22.7%	24.0%	24.0%	24.0%
Interest cover	11.4	11.8	16.3	12.9
Net debt/Equity	0.5	0.3	0.2	0.0
Net debt/EBITDA	1.9	1.2	0.7	0.1
ROCE	11.7%	10.0%	14.7%	10.1%
ROE	18.6%	18.8%	26.7%	17.2%
<b>Valuation</b>				
FCFF yield	(5.3%)	4.8%	3.4%	6.4%
Dividend yield	1.5%	1.5%	2.4%	1.7%
EV/Revenue	2.1	1.8	1.2	1.6
EV/EBITDA	22.7	21.0	13.8	17.6
Adj. P/E	36.6	32.9	20.6	28.8

## Summary Investment Thesis and Valuation

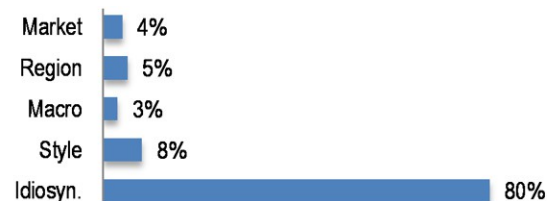
### Investment Thesis

Our UW rating on SCGB is premised on new DC project awards potentially coming to a halt, which could leave a sizeable void in SCGB's order book replenishment as DC construction projects contribute to 54% of SCGB's current outstanding orderbook and 70% of its new project wins in 2024.

### Valuation

We derive our PT by assuming a 17x PE on FY26E normalized earnings, which is in line with SCGB's 10-year historical average.

## Performance Drivers



Factors	6M Corr	1Y Corr
<b>Market:</b> MSCI Asia Pac ex JP	0.06	0.20
<b>Region:</b> Malaysia	0.41	0.22
<b>Macro:</b>		
Emerging Central Bank Rate	-0.15	-0.20
JPM EM Currency(EMCI) Fixing	0.18	0.16
JPM China A-shares Sentiment	-0.24	-0.14
<b>Quant Styles:</b>		
Growth	0.39	0.28
DivYld	-0.25	-0.24
Value	-0.26	-0.24

Figure 1: SunCon's Q424 results summary

RM '000	4Q24	4Q23	YoY	3Q24	QoQ	2024	2023	YoY
Revenue	1,400.3	871.5	61%	865.3	62%	3,522	2,671	32%
EBITDA	86.9	99.9	-13%	50.5	72%	234	231	2%
EBIT	91.6	81.8	12%	64.8	41%	262	224	17%
PBT	110.6	60.8	82%	70.5	57%	273	189	45%
PATMI	69.2	49.3	40%	46.5	49%	188	145	29%
Core PATMI	70.4	74.2	-5%	40.8	73%	185	170	9%
<b>Margin</b>			<b>Chg in ppt</b>		<b>Chg in ppt</b>			<b>Chg in ppt</b>
EBITDA	6.2%	11.5%	-5.3ppt	5.8%	0.4ppt	6.7%	8.6%	-2.0ppt
EBIT	6.5%	9.4%	-2.8ppt	7.5%	-0.9ppt	7.4%	8.4%	-1.0ppt
PBT	7.9%	7.0%	0.9ppt	8.2%	-0.3ppt	7.8%	7.1%	0.7ppt
PATMI	4.9%	5.7%	-0.7ppt	5.4%	-0.4ppt	5.3%	5.4%	-0.1ppt
Core PATMI	5.0%	8.5%	-3.5ppt	4.7%	0.3ppt	5.2%	6.4%	-1.1ppt

Source: Company data

## Investment Thesis, Valuation and Risks

### Sunway Construction *(Underweight; Price Target: RM2.50)*

#### **Investment Thesis**

Our UW rating on SCGB is premised on new DC project awards potentially coming to a halt, which could leave a sizeable void in SCGB's order book replenishment as DC construction projects contribute to 54% of SCGB's current outstanding orderbook and 70% of its new project wins in 2024.

#### **Valuation**

We derive our PT by assuming a 17x PE on FY26E normalized earnings, which is in line with SCGB's 10-year historical average.

#### **Risks to Rating and Price Target**

**Upside risk:** Easing regulation around chip sourcing, which could revive DC project awards in Malaysia. **Downside risks:** (1) Late delivery of projects, which could deter revenue recognition, limit the ability to take on new projects as well as impact the company's credibility negatively; (2) margin compression due to intensifying competition and/or higher input costs; and (3) delays in project awards for public infrastructure projects.

## Sunway Construction: Summary of Financials

Income Statement						Cash Flow Statement					
	FY22A	FY23A	FY24E	FY25E	FY26E		FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,155	2,671	2,949	4,563	3,276	Cash flow from operating activities	(215)	(299)	258	182	344
COGS	(1,789)	(2,237)	(2,454)	(3,797)	(2,721)	o/w Depreciation & amortization	24	21	22	23	24
Gross profit	366	434	495	766	555	o/w Changes in working capital	(382)	(517)	74	(100)	134
SG&A	(187)	(226)	(248)	(384)	(275)	Cash flow from investing activities	424	(63)	(20)	(20)	(20)
Adj. EBITDA	210	245	257	388	291	o/w Capital expenditure	0	0	(20)	(20)	(20)
D&A	(24)	(21)	(22)	(23)	(24)	as % of sales	0.0%	0.0%	0.7%	0.4%	0.6%
Adj. EBIT	187	224	236	365	267	Cash flow from financing activities	143	337	(81)	(129)	(92)
Net Interest	(4)	(21)	(22)	(24)	(23)	o/w Dividends paid	(90)	(71)	(81)	(129)	(92)
Adj. PBT	184	189	214	341	245	o/w Shares issued/(repurchased)	0	0	0	0	0
Tax	(45)	(43)	(51)	(82)	(59)	o/w Net debt issued/(repaid)	(1,023)	(1,010)	0	0	0
Minority Interest	(4)	(1)	(1)	(1)	(1)	Net change in cash	347	(24)	157	33	232
Adj. Net Income	135	145	162	258	185	Adj. Free cash flow to firm	(187)	(280)	255	180	342
Reported EPS	0.10	0.11	0.13	0.20	0.14	y/y Growth	(177.0%)	50.2%	(190.9%)	(29.4%)	89.9%
Adj. EPS	0.10	0.11	0.13	0.20	0.14						
DPS	0.06	0.06	0.06	0.10	0.07						
Payout ratio	52.5%	53.3%	50.0%	50.0%	50.0%						
Shares outstanding	1,289	1,289	1,289	1,289	1,290						
Balance Sheet						Ratio Analysis					
	FY22A	FY23A	FY24E	FY25E	FY26E		FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalents	492	470	627	660	892	Gross margin	17.0%	16.3%	16.8%	16.8%	16.9%
Accounts receivable	678	1,241	1,186	1,776	1,207	EBITDA margin	9.8%	9.2%	8.7%	8.5%	8.9%
Inventories	53	46	48	78	57	EBIT margin	8.7%	8.4%	8.0%	8.0%	8.2%
Other current assets	1,146	1,698	1,644	2,265	1,675	Net profit margin	6.3%	5.4%	5.5%	5.7%	5.6%
Current assets	1,637	2,239	2,342	2,995	2,638	ROE	18.8%	18.6%	18.8%	26.7%	17.2%
PP&E	108	98	96	93	89	ROA	6.6%	5.5%	5.2%	7.3%	5.1%
LT investments	223	253	253	253	253	ROCE	13.0%	11.7%	10.0%	14.7%	10.1%
Other non current assets	491	745	745	745	745	SG&A/Sales	8.7%	8.5%	8.4%	8.4%	8.4%
Total assets	2,236	3,083	3,183	3,834	3,472	Net debt/Equity	NM	0.5	0.3	0.2	0.0
Short term borrowings	172	438	438	438	438	Net debt/EBITDA	NM	1.9	1.2	0.7	0.1
Payables	716	921	941	1,461	1,005	Sales/Assets (x)	1.1	1.0	0.9	1.3	0.9
Other short term liabilities	215	342	342	342	342	Assets/Equity (x)	2.9	3.4	3.6	3.6	3.4
Current liabilities	1,103	1,702	1,721	2,242	1,786	Interest cover (x)	50.6	11.4	11.8	16.3	12.9
Long-term debt	309	488	488	488	488	Operating leverage	137.1%	84.6%	48.6%	100.2%	94.9%
Other long term liabilities	312	489	489	489	489	Tax rate	24.6%	22.7%	24.0%	24.0%	24.0%
Total liabilities	1,415	2,191	2,210	2,731	2,275	Revenue y/y Growth	24.6%	23.9%	10.4%	54.8%	(28.2%)
Shareholders' equity	737	820	901	1,030	1,122	EBITDA y/y Growth	26.1%	16.5%	5.1%	50.6%	(24.9%)
Minority interests	84	72	73	74	75	EPS y/y Growth	20.1%	7.3%	11.4%	59.6%	(28.4%)
Total liabilities & equity	2,236	3,083	3,184	3,835	3,472						
BVPS	0.57	0.64	0.70	0.80	0.87	Valuation					
y/y Growth	5.4%	11.3%	9.9%	14.3%	8.9%	P/E (x)	39.3	36.6	32.9	20.6	28.8
						P/BV (x)	7.2	6.5	5.9	5.2	4.7
Net debt/(cash)	(11)	456	298	266	34	EV/EBITDA (x)	24.3	22.7	21.0	13.8	17.6
						Dividend Yield	1.3%	1.5%	1.5%	2.4%	1.7%

Source: Company reports and J.P. Morgan estimates.

Note: RM in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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Sunway Construction (SCOG.KL, SCGB MK) Price Chart



Date	Rating	Price (RM)	Price Target (RM)
03-Sep-24	N	4.13	4.1
17-Jan-25	UW	3.58	2.5

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 03, 2024. All share prices are as of market close on the previous business day.

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