Sunway Construction Group

First of Many: More Wins to Come

By Teh Kian Yeong I tehky@kenanga.com.my

SUNCON has secured the highly anticipated Rapid Transit System Transport Oriented Development (RTS TOD) worth RM1.5b from its parent company SUNWAY (UP; TP: RM3.35). We view it positively as the contract value exceeds our previous assumption of RM1.04b. In line with the company's guidance of RM6.0b new job wins for FY25, we have raised our FY25 job replenishment target to RM6b, and thus upgraded FY25-26F earnings by 8-9%. Maintain OP with a higher TP of RM5.31.

RM1.5b contraction work for RTS TOD project. Yesterday, SUNCON announced that it has accepted a Letter of Award issued by **SUNWAY** for the construction works related to RTS TOD at Bukit Chagar. Details are as follows:

- Part A Construction and completion of a multi-storey park and ride building for the RTS TOD Project, drop-off and pick-up facility, immigration customs and quarantine complex connection, perimeter ring road and retaining walls. The commencement date is 5 March 2025, with the section expected to be completed by November 2026 and overall completion by November 2027.
- Part B Construction and completion of a retail mall, podium and the topside property at Bukit Chagar Station. The commencement and completion dates for Part B will be confirmed at a later date.

First major project in FY25. While the award was highly anticipated following **SUNWAY's** receipt of development rights for the RTS development from MRT Corp last month, we view this announcement positively as the contract value exceeded our previous assumption of RM1.04b. This increased SUNCON's YTD contract wins to RM1.7b, representing 43% of our FY25 job win assumption of RM4b. The YTD contract wins also account for 28% of the company's newly guided order book target of RM6b for FY25, up from the RM4.5b target revealed two weeks ago. The PBT margin for this RTS TOD project falls within the typical range of 5% to 8%.

Outlook. We understand that SUNCON has tendered for four data centre projects currently with a potential additional VO from its K2 data centre project. Outcome for these tenders are expected to be concluded soon in 1HFY25. Typically, data centre building jobs can fetch a PBT margin that is at the higher end of the range of 5% to 8% for building jobs, thereby improving its blended margin in the future. Other projects in the pipeline are Penang LRT Package 2 and 3, beside in-house projects within the SUNWAY Group. With this contract win, its outstanding order book is increased to RM7.6b.

Forecasts. We raised our job win assumption to RM6b (align with company's target) for FY25 from RM4b following this contract win while maintain FY26's assumption unchanged at RM4b. We also increased our EBIT margin assumption to 7.7%-8.2% from 7.5%-8.0% as we expect higher data centre jobs to improve overall blended margin higher. As a result, we upgraded FY25-26F earnings by 8-9%. However, we keep our annual NDPS projection at 8.5 sen for both FY25 and FY26.

Valuations. Post earnings revision and a roll-over valuation base-year to FY26 from FY25, our TP is increased 17% to RM5.31, from RM4.52, which is based on unchanged PER of 22x, which is in-line with our valuation for big cap construction companies, i.e. GAMUDA (OP; TP: RM5.46) and IJM (OP; TP: RM3.00). Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by us (see Page 4).



OUTPE	
Price:	RM4.24

Target Price:

RM5.31 ↑



YTD KLCI cng -4.7% YTD stock price chg -8.4%

Stock Information

Share Price Performance

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	5,466.9
Shares Outstanding	1,289.4
52-week range (H)	5.30
52-week range (L)	2.51
3-mth avg. daily vol.	5,573,858
Free Float	26%
Beta	1.4

Major Shareholders

Sunway Holdings Sdn	54.6%
Sungei Way Corp Sdn	10.1%
Employees Provident	6.9%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Turnover	3522	4730	4850
EBIT	262	370	402
PBT	273	370	402
Net Profit	187	272	297
Core Net Profit	162	272	297
Consensus	-	271	294
Earnings Revision (%)	-	+7.9	+9.0
Core EPS (sen)	12.6	21.1	23.0
Core EPS Growth (%)	-4.9	68.2	8.8
NDPS (sen)	8.5	8.5	8.5
BVPS (RM)	0.68	0.83	0.97
NTA/share (RM)	0.68	0.83	0.97
PER (x)	36.9	20.1	18.4
PBV (x)	6.80	5.13	4.36
P/NTA (x)	6.80	5.13	4.37
Net Gearing (x)	N Cash	N Cash	N Cash
Net Div. Yield (%)	1.8	2.1	2.1

06 March 2025

Investment case. We like SUNCON for: (i) strong job prospects of the sector as a whole with the roll-out of key public infrastructure projects, (ii) its strong earnings visibility underpinned by RM7.6b outstanding order book and recurring jobs from parent and sister companies, and (iii) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works. **OUTPERFORM** reaffirmed.

Risks to our recommendation include: (i) weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F	FY Dec (RM m)	2022A	2023A	2024A	2025F	202
Revenue	2155	2671	3522	4730	4850	Growth (%)					
EBITDA	210	245	279	389	421	Revenue	24.6	23.9	31.8	34.3	2
Depreciation	-24	-21	-17	-19	-19	EBITDA	26.0	16.7	13.9	39.2	8
Operating Profit	187	224	262	370	402	Operating Income	33.8	20.2	16.9	40.9	8
Interest Incomes	14	26	76	49	68	Pre-tax Income	20.9	2.5	44.7	35.4	ł
Interest Expense	-18	-48	-65	-55	-43	Net Income	20.1	7.3	28.8	45.7	ł
Associate	4	1	0	0	0	Core Net Income	0.7	18.2	-4.9	68.2	
Exceptional	0	0	0	0	0		0.1.			00.2	
PBT			273	370	402	Profitability (%)					
Taxation	184	189				EBITDA Margin	0.0	0.0	7.0	0.0	
	-45	-43	-76	-89	-97		9.8	9.2	7.9	8.2	ł
Minority Interest	-4	-1	-10	-8	-9	Operating Margin	8.7	8.4	7.4	7.8	ł
Net Profit	135	145	187	272	297	PBT Margin	8.5	7.1	7.8	7.8	1
Core Net Profit	144	170	162	272	297	Net Margin	6.3	5.4	5.3	5.8	
						Core Net Margin	6.7	6.4	4.6	5.8	_
Balance Sheet						Effective Tax Rate	24.6	22.7	27.8	24.0	2
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F	ROE	7.3	7.4	5.5	9.1	
Fixed Assets	108	98	85	88	85	ROA	18.8	18.6	22.0	27.7	2
Associates	0	0	0	0	0						
JV	223	253	224	236	240	DuPont Analysis					
ntangibles	0	1	0	1	1	Net margin (%)	6.7	6.4	4.6	5.8	
Other FA	268	492	364	382	390	Assets Turnover (x)	1.0	0.9	1.0	1.0	
nventories	53	46	43	71	85	Leverage Factor (x)	3.0	3.8	4.1	4.3	
Receivables	813	1410	1843	2717	2785	ROE (%)	19.5	20.8	18.4	25.6	2
Other CA	279	312	20	21	22						
Cash	492	470	1016	1101	1180	Leverage					
Total Assets	2236	3083	3596	4618	4786	Debt/Asset (x)	0.21	0.30	0.20	0.16	0
						Debt/Equity (x)	0.65	1.13	0.83	0.70	0
Payables	886	1193	1913	2670	2724	Net Debt/(Cash)	11	-456	285	351	5
ST Borrowings	172	438	731	355	319	Net Debt/Equity (x)	-0.01	0.56	-0.32	-0.33	-0
Other ST Liability	45	70	13	67	68		0.01	0.00	0.02	0.00	0
LT Borrowings	309	488	0	395	356	Valuations					
Other LT Liability	3	-00	1	1	1	Core EPS (sen)	11.2	13.2	12.6	21.1	2
Minority Int.	84	72	61	64	65	NDPS (sen)	5.5	6.0	8.5	8.5	2
Net Assets		820	878		1253	BV/share (RM)	0.57				
NEL A35615	737	020	0/0	1066	1255			0.64	0.68	0.83	0
01	050	050	050	050	050	NTA/share (RM)	0.57	0.64	0.68	0.83	0
Share Capital	259	259	259	259	259	Core PER (x)	15.6	15.2	36.9	20.1	1
Reserves	479	562	619	808	994	Net Div. Yield (%)	3.2	3.0	1.8	2.0	
Equity	737	820	878	1066	1253	PBV (x)	3.04	3.16	6.80	5.13	4
						P/NTA (x)	3.04	3.16	6.80	5.13	4
Cashflow Stateme						EV/EBITDA (x)	10.6	12.4	20.3	13.2	13
Y Dec (RM m)	2022A	2023A	2024A	2025F	2026F						
Operating CF	-142	-294	729	298	283						
nvesting CF	580	-66	119	-20	-20						
Financing CF	-41	338	-303	-193	-185						
Change In Cash	397	-22	545	86	78						
Free CF	438	-360	848	278	263						
	450	-300	040	270	203						

06 March 2025

Peer Table Comparison

Name		Last Price (RM)	Target Price (RM)	ce Upside	Market Cap (RM m)			Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV ROE (x)		Net. Div. (sen)	Net Div Yld
						Compliant		1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	4.24	5.46	28.8%	24,184.4	Y	07/2025	23.8	29.6	47.0%	24.5%	17.8	14.3	2.0	11.4%	10.0	2.4%
IJM	OP	2.07	3.00	44.9%	7,257.8	Y	03/2025	11.7	13.6	-17.1%	17.0%	17.8	15.2	0.7	4.2%	8.0	3.9%
KERJAYA	MP	2.08	2.10	1.0%	2,623.0	Y	12/2025	16.7	18.1	29.7%	8.0%	12.4	11.5	1.7	14.0%	12.0	5.8%
KIMLUN	OP	0.910	1.36	49.5%	321.6	Y	12/2025	7.7	11.8	56.8%	53.6%	11.9	7.7	0.4	3.4%	2.0	2.2%
SUNCON	OP	4.24	5.31	25.2%	5,466.9	Y	12/2025	21.1	22.9	68.2%	8.8%	20.1	18.5	5.1	28.0%	8.5	2.0%
WCT	OP	0.645	1.29	100.0%	1,005.5	Y	12/2025	5.0	5.6	67.4%	12.7%	12.9	11.5	0.3	2.1%	0.5	0.8%
SECTOR AGGREGATE					40,859.2					36.1%	19.8%	17.4	14.5	1.4	8.1%		2.8%

Source: Kenanga Research

This section is intentionally left blank

06 March 2025

Stock ESG Ratings:

	Criterion			Rating	9	
	Earnings Sustainability & Quality	*	*	*	☆	
F	Corporate Social Responsibility	*	*	*	*	
2	Management/Workforce Diversity	*	*	*	*	
GENERAL	Accessibility & Transparency	*	*	*	*	☆
ы	Corruption-Free Pledge	*	*	*	*	
	Carbon-Neutral Initiatives	*	*	*	*	☆
	Migrant Worker Welfare	*	*	*	*	
C	Waste Disposal/Pollution Control	*	*	*	*	
Ē	Work Site Safety	*	*	*	*	
SPECIFIC	Environmentally Friendly Construction Technology	*	*	*	*	
S	Supply Chain Auditing	*	*	*	*	
	Energy Efficiency	*	*	*	*	
	OVERALL	*	*	*	*	

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

***Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia Telephone: (603) 2172 0880 Website: <u>www.kenanga.com.my</u> E-mail: <u>research@kenanga.com.my</u>

