

# Sunway Construction (SCGB MK)

Ending on a high note

MALAYSIA | CONSTRUCTION | RESULT

- SunCon's 2024 core net profit of RM170m (-3% YoY) beat our expectation but in line with consensus estimates
- Sequential revenue growth was driven by ramp-up in progress billings; targeting RM4.5–6bn new wins in 2025
- Tweak EPS forecasts by +2%/-3%. Upgrade to BUY rating with a higher TP of RM4.55

## Beat expectations

SunCon's 2024 revenue grew 32% YoY to RM3.5bn on progress billing ramp up for its data centre projects, offsetting the weaker precast segment. The EBITDA margin declined 2.4ppts as the RM2.9bn of new DC job wins remain at early stage of execution. Overall, 2024 core earnings of RM170m (-3% YoY) was above our estimates, but in line with consensus, accounting for 113% and 97% of our and consensus respective full-year forecasts. The positive surprise mainly arises from faster-than-expected ramp up for DC projects recognition.

## Sequential stronger profit, sustain earnings growth in 2025

Sequential 4Q24 core net profit surged 85% QoQ to RM64m on the back of strong revenue growth (+62% QoQ) from higher recognition from the Sedenak JHBX10 DC and RTS projects. SunCon's current outstanding orderbook stands at RM5.8bn, with the existing 3 DC projects making up 55% of total. We remain positive on SunCon's prospects despite the recent share price correction triggered by concerns over the Biden Administration's curbs on AI chip exports to Tier 2 countries. We opine that the sell-off is overdone, as most of SunCon's DC prospects are well-established MNCs in the US or Tier 1 markets, making them eligible for UVEU status.

## Upgrade to BUY with higher TP of RM4.55

We raise our 2025E EPS forecast by 2% to reflect higher interest income, but trim our 2026E earnings by 3% as the accelerated ramp-up of existing DC projects may lead to earlier-than-expected project completion. In line with our earnings upgrade, we raise our TP to RM4.55 (from RM4.50), based on unchanged target PE multiple of 22x on 2025E EPS. Following the recent sell-off, SunCon is trading at a more palatable valuation of 20x 2025 EPS. We upgrade SunCon to a BUY backed by a compelling 58% EPS growth for 2025E. Key risks to our call include delay in contract awards, higher-than-expected order replenishment, quicker/slower order book recognition, and margin pressures.

### Key Financials

Y/E Dec	2023	2024	2025E	2026E	2027E
Revenue (RMm)	2,671.2	3,521.7	4,507.0	4,591.8	5,276.5
EBITDA (RMm)	274.8	279.4	396.2	411.7	475.0
Pretax profit (RMm)	188.6	273.0	365.0	380.0	451.8
Net profit (RMm)	145.1	186.9	267.3	278.7	333.2
EPS (sen)	11.2	14.5	20.7	21.6	25.8
PER (x)	36.6	28.4	19.9	19.1	16.0
Core net profit (RMm)	174.7	169.5	267.3	278.7	333.2
Core EPS (sen)	13.5	13.1	20.7	21.6	25.8
Core EPS growth (%)	21.5	(2.9)	57.7	4.3	19.6
Core PER (x)	30.4	31.4	19.9	19.1	16.0
Net DPS (sen)	6.0	6.0	6.0	7.0	8.0
Dividend Yield (%)	1.5	1.5	1.5	1.7	1.9
EV/EBITDA (x)	20.6	18.0	12.9	11.9	9.9
Chg in EPS (%)			+1.6	-3.4	-
Phillip/Consensus (%)			1.0	1.0	New

Sources: Company, Bloomberg, Phillip Research forecasts

21 February 2025

## BUY (upgrade)

LAST CLOSE PRICE	RM4.12
TARGET PRICE	RM4.55
TOTAL RETURN	10.4%
(Previous TP)	RM4.50

### COMPANY DATA

BLOOMBERG TICKER	SCGB MK EQUITY
O/S SHARES (MN):	1,289
MARKET CAP (USD mn / RM mn):	1199 / 5312
52 - WK HI/LO (RM):	5.3 / 2.48
3M Average Daily T/O (mn):	5.00
NET CASH/(DEBT) (RMm)	285.10

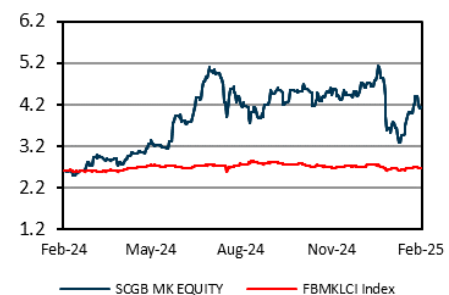
### MAJOR SHAREHOLDERS (%)

Sunway Holdings	54.6%
Sungei Way Corp	10.1%
EPF	7.3%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	12.7	(10.4)	(11.7)
FBMKLCI RETURN	1.0	(1.1)	(3.7)

### PRICE VS. FBMKLCI



Source: Bloomberg

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**Results at a glance**

Y/E Dec (RMm)	4Q23	3Q24	4Q24	QoQ % chg	YoY % chg	2023	2024	YoY % chg	Comment
Revenue	871.5	865.3	1,400.3	61.8	60.7	2,671.2	3,521.7	31.8	Higher YoY mainly driven by construction (+72% YoY) despite the weaker precast segment (-46% YoY)
Op costs	(761.2)	(808.1)	(1,310.4)	62.2	72.1	(2,396.4)	(3,242.3)	35.3	
<b>EBITDA</b>	<b>110.3</b>	<b>57.2</b>	<b>89.9</b>	<b>57.1</b>	<b>(18.5)</b>	<b>274.8</b>	<b>279.4</b>	<b>1.7</b>	
<i>EBITDA margin (%)</i>	<i>12.7</i>	<i>6.6</i>	<i>6.4</i>	<i>(0.2ppt)</i>	<i>(6.2ppt)</i>	<i>10.3</i>	<i>7.9</i>	<i>(2.4ppt)</i>	Lower margins as DC projects are at early stage of execution
Depn and amort	(5.2)	(4.5)	(3.7)	(17.2)	(28.9)	(21.0)	(17.3)	(17.8)	
<b>EBIT</b>	<b>105.1</b>	<b>52.7</b>	<b>86.2</b>	<b>63.5</b>	<b>(18.0)</b>	<b>253.8</b>	<b>262.2</b>	<b>3.3</b>	
<i>EBIT margin (%)</i>	<i>12.1</i>	<i>6.1</i>	<i>6.2</i>	<i>0.1ppt</i>	<i>(5.9ppt)</i>	<i>9.5</i>	<i>7.4</i>	<i>(2.1ppt)</i>	
Int and other inc	8.6	22.4	33.2	48.5	286.4	26.4	58.3	120.4	Higher interest income due to collection of annuity payment from the India highway project
Int expense	(15.2)	(16.6)	(14.6)	(12.6)	(4.1)	(47.9)	(65.2)	36.0	
EI	(23.3)	12.1	5.5	<i>nm</i>	<i>nm</i>	(27.9)	17.4	<i>nm</i>	RM1m reversal for receivable impairment, RM0.1m PPE/receivables written off, RM3.7m gain on PPE disposal, RM0.5m unrealised forex gain
<b>Pretax profit</b>	<b>60.8</b>	<b>70.5</b>	<b>110.6</b>	<b>56.8</b>	<b>82.0</b>	<b>188.6</b>	<b>273.0</b>	<b>44.7</b>	
<b>Core Pretax</b>	<b>84.0</b>	<b>58.4</b>	<b>105.1</b>	<b>79.9</b>	<b>25.1</b>	<b>216.5</b>	<b>255.6</b>	<b>18.0</b>	
Tax	(12.3)	(21.9)	(32.7)	49.4	164.9	(42.8)	(75.9)	77.4	
<i>Tax rate (%)</i>	<i>20.3</i>	<i>31.0</i>	<i>29.6</i>	<i>(1.5ppt)</i>	<i>9.3ppt</i>	<i>21.1</i>	<i>27.9</i>	<i>6.7ppt</i>	Higher tax rate due to underprovision in previous year
MI	0.8	(2.2)	(8.7)	<i>nm</i>	<i>nm</i>	(0.7)	(10.1)	<i>nm</i>	
<b>Net profit</b>	<b>49.3</b>	<b>46.5</b>	<b>69.2</b>	<b>48.9</b>	<b>40.4</b>	<b>145.1</b>	<b>186.9</b>	<b>28.8</b>	
EPS (sen)	3.8	3.6	5.4	48.9	40.3	11.3	14.5	28.4	
<b>Core net profit</b>	<b>72.5</b>	<b>34.4</b>	<b>63.7</b>	<b>85.4</b>	<b>(12.2)</b>	<b>174.7</b>	<b>169.5</b>	<b>(2.9)</b>	Above our expectations

Sources: Company, Phillip Research

**Segmental revenue breakdown**

Y/E Dec (RMm)	4Q23	3Q24	4Q24	QoQ % chg	YoY % chg	2023	2024	YoY % chg
Construction	785.8	831.8	1,353.9	62.8	72.3	2,381.0	3,326.9	39.7
Precast concrete	85.7	33.5	46.4	38.5	(45.8)	290.2	194.8	(32.9)
<b>Total</b>	<b>871.5</b>	<b>865.3</b>	<b>1,400.3</b>	<b>61.8</b>	<b>60.7</b>	<b>2,671.2</b>	<b>3,521.7</b>	<b>31.8</b>

**Segmental PBT breakdown**

Y/E Dec (RMm)	4Q23	3Q24	4Q24	QoQ % chg	YoY % chg	2023	2024	YoY % chg
Construction	53.0	68.5	107.2	56.4	102.1	169.9	260.4	53.3
Precast concrete	7.7	2.0	3.4	70.4	(55.8)	18.7	12.5	(33.2)
<b>Total</b>	<b>60.8</b>	<b>70.5</b>	<b>110.6</b>	<b>56.8</b>	<b>82.0</b>	<b>188.6</b>	<b>273.0</b>	<b>44.7</b>

**Segmental PBT margin**

Y/E Dec (%)	4Q23	3Q24	4Q24	QoQ ppt chg	YoY ppt chg	2023	2024	YoY ppt chg
Construction	6.7	8.2	7.9	(0.3ppt)	1.2ppt	7.1	7.8	0.7ppt
Precast concrete	9.0	6.0	7.4	1.4ppt	(1.7ppt)	6.5	6.4	(0.0ppt)
<b>Total</b>	<b>7.0</b>	<b>8.2</b>	<b>7.9</b>	<b>(0.3ppt)</b>	<b>0.9ppt</b>	<b>7.1</b>	<b>7.8</b>	<b>0.7ppt</b>

Sources: Company, Phillip Research

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