

Sunway Construction Group Berhad

TP: RM5.64 (+35.4%)
FY24 Performance Within Expectations
Last Traded: RM4.12
BUY (ESG: ★★★★★)

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Results Review

- Excluding extraordinary items amounting to RM20.4mn, SUNCON's FY24 core earnings of RM166.6mn aligned with expectations, representing 101.3% of our full-year estimates and 98.6% of the consensus forecast.
- YoY, FY24 revenue surged by 31.8%, primarily driven by accelerated progress in the RTS Link Project and multiple data centre (DC) projects within the construction division. However, this substantial growth was partially offset by a decline in the precast division, which had benefitted from tail-end projects in the preceding year. Despite the strong topline growth, core earnings grew at a slower pace of 10.2%, dampened by higher finance costs and tax expenses.
- QoQ, 4QFY24 turnover jumped 61.8%, underpinned by significant improvements in both the construction division (+62.8%) and the precast division (+38.5%). As a result, core net profit nearly doubled to RM67.8mn from RM34.2mn, supported by higher net interest income and a lower effective tax rate.
- A third interim dividend of 2.5sen/share was declared, bringing the total dividend for FY24 to 8.5sen/share (vs 6.0sen/share in FY23), implying a payout of 65.9%.

Impact

- Following a review of our earnings estimates, we have revised our job replenishment assumptions from RM5bn to RM5.5bn for FY25F and from RM4bn to RM5bn for FY26F, reflecting increased potential contract wins from Sunway Bhd and the robust DC sector. As a result, our FY25/26F earnings forecasts have been adjusted upward by 1.3%/1.1% to RM270.3mn/RM325.7mn, respectively. Additionally, we introduce our FY27 earnings forecasts, projecting a net profit of RM345.7mn (+6.1% YoY), underpinned by a job replenishment assumption of RM4.5bn.

Outlook

- Following RM4.2bn in new contract wins in FY24, SUNCON's total unbilled orderbook stood at approximately RM5.8bn, equivalent to 1.7x its FY24 revenue. We anticipate earnings visibility to be fuelled by a strong tenderbook of RM14.6bn, with over 70% comprising advanced technology facilities (ATF), particularly DC projects.
- Assuming a success rate of 25%, this translates into potential new contract wins of approximately RM3.7bn in FY25, supplemented by an estimated RM2bn in potential internal jobs from Sunway Bhd's newly announced mixed development project near the Bukit Chagar RTS Station in Johor and several special-purpose building projects. This aligns with

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	5312.2
52-wk Hi/Lo (RM)	5.30/2.48
12-mth Avg Daily Vol ('000 shrs)	4187.6
Estimated Free Float (%)	26.5
Beta	1.6
Major Shareholders (%)	
	Sunholdings - 54.6
	Sungei Way Corp Sdn Bhd - 10.1
	Employee Provident Fund - 6.4
	Amanah Saham Nasional Bhd - 3.3

Forecast Revision

	FY25	FY26
Forecast Revision (%)	1.3	1.1
Net profit (RMmn)	270.3	325.7
Consensus	264.9	282.9
TA's / Consensus (%)	102.0	115.1
Previous Rating	Buy (Maintained)	
Consensus Target Price	4.57	

Financial Indicators

	FY25	FY26
Net Debt / Equity (%)	63.6	49.0
CFPS (sen)	(6.4)	5.4
Price / CFPS (x)	(64.7)	76.4
ROA (%)	6.5	6.6
NTA/Share (sen)	81.9	95.3
Price/NTA (x)	5.0	4.3

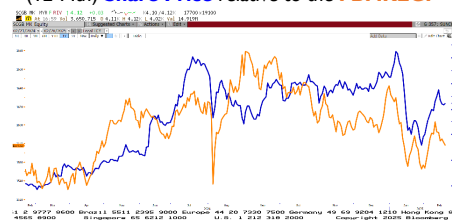
Scorecard

	% of FY	
vs. TA	101.3	Within
vs. Consensus	98.6	Within

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	17.7	0.3
3 mth	(8.4)	(1.3)
6 mth	(0.7)	(4.0)
12 mth	57.9	1.4

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

management's internal replenishment target range of RM4.5bn-RM6bn for FY25.

- We view this replenishment target as achievable, supported by the resumption of key DC projects previously delayed from December last year. Demand for new DCs in Malaysia remains strong, driven by the growing need for large-scale cloud storage. Notably, SUNCON's DC clientele predominantly comprises US-based firms, followed by companies from Singapore and China. Despite potential AI chip export restrictions imposed by the US administration, we do not anticipate any disruptions to SUNCON's DC construction progress, as Chinese DC hyperscalers are likely to secure alternative chip sources.
- Consequently, we reiterate our positive stance on SUNCON, confident in its ability to capitalise on the growing ATF sector. According to TNB's disclosure as of September 2024, it has entered into electricity supply agreements (ESAs) for six DC projects with a combined capacity of 1.1GW, while an additional 2.1GW across 15 DC projects remains at the supply-application stage, pending finalisation. With five DC projects from four multinational clients already in its portfolio, SUNCON is well-positioned to secure additional contracts in the pipeline. Furthermore, the anticipated launch of Malaysia's green DC framework could serve as a significant catalyst, driving demand for ESG-compliant, large-scale storage solutions-an area where SUNCON has proven expertise.

Valuation

- In line with the earnings revision, we raise our target price to **RM5.64** from RM5.57, based on 26x CY25 EPS and 3% ESG premium given our 4-star rating. We continue to like SUNCON due to:- (i) its strong position as a contender for mega infrastructure projects, namely Johor ART, Penang LRT, and Penang International Airport expansion, and (ii) its leading position in securing new contracts within the thriving ATP industry. Maintain **Buy** recommendation on the stock.

Table 1: Earnings Summary (RM mn)

FYE Dec (RMmn)	2023	2024	2025F	2026F	2027F
Revenue	2,671.2	3,521.7	4,638.8	5,337.8	5,789.0
Gross profit	434.2	572.4	719.0	854.0	926.2
EBITDA	245.5	279.4	419.7	496.3	520.7
EBITDA margin (%)	9.2	7.9	9.0	9.3	9.0
EBIT	224.5	262.2	395.9	471.4	494.5
PBT	188.6	273.0	367.0	442.2	469.4
PAT	145.1	186.9	270.3	325.7	345.7
Core net profit	151.1	166.6	270.3	325.7	345.7
Core EPS (sen)	11.7	12.9	21.1	25.4	27.0
PER (x)	35.2	31.9	19.5	16.2	15.3
Gross dividend (sen)	6.0	8.5	10.0	12.0	13.0
Dividend yield (%)	1.5	2.1	2.4	2.9	3.2
ROE (%)	18.6	19.0	27.6	28.7	26.4

Source: TA Research

Table 2: FY24 Results Analysis (RM mn)

FYE Dec	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Revenue	871.5	865.3	1400.3	61.8	60.7	2671.2	3521.7	31.8
- Construction	785.8	831.8	1353.9	62.8	72.3	2381.0	3326.9	39.7
- Precast	85.7	33.5	46.4	38.5	(45.8)	290.2	194.8	(32.9)
Operating profit	81.8	64.8	91.6	41.4	12.0	224.3	262.2	16.9
Finance income	8.6	22.4	33.2	48.5	N.M.	26.4	75.7	186.1
Finance costs	(15.2)	(16.6)	(14.6)	12.6	4.1	(47.9)	(65.2)	(36.0)
Profit before taxation	60.8	70.5	110.6	56.8	82.0	188.6	273.0	44.7
- Construction	53.0	68.5	107.2	56.4	102.1	169.9	260.4	53.3
- Precast	7.7	2.0	3.4	70.4	(55.8)	18.7	12.5	(33.2)
Income tax expense	(12.3)	(21.9)	(32.7)	(49.4)	(164.9)	(42.8)	(75.9)	(77.4)
Non-controlling interests	(0.8)	2.2	8.7	N.M.	N.M.	0.7	10.1	N.M.
Net profit	49.3	46.5	69.2	48.9	40.4	145.1	186.9	28.8
- Construction	44.6	45.0	65.8	46.3	47.6	133.5	177.7	33.1
- Precast	4.7	1.5	3.3	124.7	(28.6)	11.6	9.2	(20.5)
Core net profit	55.1	34.2	67.8	98.2	23.1	151.1	166.6	10.2
Reported EPS (sen)	3.8	3.6	5.4	48.9	40.4	11.3	14.5	28.8
Core EPS (sen)	4.3	2.7	5.3	98.2	23.1	11.7	12.9	10.2
Dividend (sen)	3.0	2.5	2.5	0.0	(16.7)	6.0	8.5	41.7
Margin (%):				% pts	% pts			% pts
- Operating	9.4	7.5	6.5	(0.9)	(2.8)	8.4	7.4	(1.0)
- Construction	7.2	7.2	6.4	(0.8)	(0.8)	7.5	7.2	(0.3)
- Precast	29.5	13.7	10.9	(2.8)	(18.6)	15.5	11.5	(4.0)
- PBT	7.0	8.2	7.9	(0.3)	0.9	7.1	7.8	0.7
- PAT	5.6	5.6	5.6	(0.1)	0.0	5.7	4.7	0.1
- Core PAT	6.3	4.0	4.8	0.9	(1.5)	5.7	4.7	(0.9)
- Effective tax rate	20.3	31.0	29.6	(1.5)	9.3	22.7	27.8	5.1

Source: TA Research

Table 3: YTD Job Wins for FY24

Projects	Client	Expected Completion Date	Contract Sum (RM mn)
Sunway ipoh mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721.0
Early contractor involvement & enabling works -	Multinational Technology Company	Oct-24	34.3
Early contractor involvement & enabling works -	Multinational Technology Company	Oct-24	25.8
Ulu pandan C1 & C2	Ces Engineering & Construction Pte Ltd	Jun-27	103.4
Project service request	Multinational Technology Company	Apr-27	747.8
Bedok N2C23 - watertanks	Precast Concrete Pte Ltd	Sep-25	3.4
LPS term contract batch 14	Housing And Development Board	Sep-25	82.1
101 Neythal road redevelopment	Fonda Global Engineering Pte Ltd	Aug-25	5.9
Sunmed phase 3 - fit-out works	Sunway Medical Centre Sdn Bhd	Jun-26	80.0
JHBIX0 - revised NTP works	Yellowwood Properties Sdn Bhd	Feb-26	1,500.0
Kallang whampoa C53	Newcon Builders Pte Ltd	Jul-27	100.4
Project C - site 1	Fonda Global Engineering Pte Ltd	May-26	22.6
Project C - site 2	Fonda Global Engineering Pte Ltd	Dec-26	40.2
Tanglin halt C2	Newcon Builders Pte Ltd	Oct-27	57.5
JHBIX0 - tenant improvement works (TIW)	Yellowwood Properties Sdn Bhd	Feb-26	82.5
Sunmed ipoh PH2 fit out	Sunway Medical Ipoh Sdn Bhd	Apr-25	18.2
9 Sty nursing home at Jelapang road	Zheng Keng Engineering & Construction Pte	Apr-26	11.3
7 Sty nursing home at Tampines street 42	Vigcon Construction Pte Ltd	Apr-26	10.6
Sunmed damansara PH2 fit out	Paradigm Fairview Sdn Bhd	May-25	9.0
JHBIX0 - tenant improvement works (TIW)	Yellowwood Properties Sdn Bhd	Feb-26	264.8
Tengah Brickland C2 MSCP LPS	Ces Engineering & Construction Pte Ltd	Sep-25	4.0
JHBIX0 - tenant improvement works (TIW)	Yellowwood Properties Sdn Bhd	Feb-26	103.0
JHBIX0 - tenant improvement works (TIW)	Yellowwood Properties Sdn Bhd	Feb-26	42.4
Early contractor involvement & enabling works -	Multinational Technology Company	Apr-25	18.2
Package B - Work Order			
JHBIX0 - tenant improvement works (TIW)	Yellowwood Properties Sdn Bhd	Feb-26	113.8
Bukit Panjang NIC14 & Choa Chu Kang N8C12 MSCP	Various	Various	1.3
Project service request	Multinational Technology Company	Apr-27	17.4
		Total	4,220.9

Source: Company, TA Research

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Sector Recommendation Guideline

OVERWEIGHT: The total return of the sector, as per our coverage universe, exceeds 12%.

NEUTRAL: The total return of the sector, as per our coverage universe, is within the range of 7% to 12%.

UNDERWEIGHT: The total return of the sector, as per our coverage universe, is lower than 7%.

Stock Recommendation Guideline

BUY : Total return of the stock exceeds 12%.

HOLD : Total return of the stock is within the range of 7% to 12%.

SELL : Total return of the stock is lower than 7%.

Not Rated: The company is not under coverage. The report is for information only.

Total Return of the stock includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Total Return of the sector is market capitalisation weighted average of total return of the stocks in the sector.

ESG Scoring & Guideline

Scoring	Environmental	Social	Governance	Average
Remark	★★★★ Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	★★★★ Adopted e-bidding. CSR events include Build A Home, which focuses on the welfare of the Orang Asli community.	★★★★★ Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	★★★★

★★★★★ (≥80%)	: Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.	+5% premium to target price
★★★★ (60-79%)	: Above adequate integration of ESG factors into most aspects of operations, management and future directions.	+3% premium to target price
★★★ (40-59%)	: Adequate integration of ESG factors into operations, management and future directions.	No changes to target price
★★ (20-39%)	: Have some integration of ESG factors in operations and management but are insufficient.	-3% discount to target price
★ (<20%)	: Minimal or no integration of ESG factors in operations and management.	-5% discount to target price

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As of Friday, February 21, 2025, the analyst, Raymond Ng Ing Yeow, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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