

COMPANY RESULTS

Sunway Construction (SCGB MK)

4Q24: A Real DC Play

Suncon's 4Q24 earnings were within expectations, reflecting better progress billing from the construction segment, particularly from the RTS Link and DC projects. In view of its upsized tenderbook pipeline and accelerated DC project deliveries, we are positive on Suncon's robust earnings growth in 2025-26. Expect awards of more large-scale DC contracts in 2025. Upgrade to BUY with a higher target price of RM4.66.

4Q24 RESULTS

Year to 31 Dec (RMm)	4Q24	qoq % chg	yoy % chg	2024	yoy % chg	Comments
Revenue	1,400.3	61.8	60.7	3,521.7	31.8	Improved progress billings
- Construction	1,353.9	62.8	72.3	3,326.9	39.7	Accelerated progress in DC projects
- Precast Concrete	46.4	38.5	(45.8)	194.8	(32.9)	High base in 4Q23
Operating profit	91.6	41.5	12.0	262.2	16.9	
- Construction	86.6	43.9	53.2	239.7	33.7	
- Precast Concrete	5.1	10.1	(80.0)	22.5	(50.1)	
Pre-tax Profit	110.6	56.8	82.0	273.0	44.7	Higher construction earnings
PATAMI	69.2	48.9	40.4	186.9	28.8	
Core PATAMI	63.5	85.4	(14.4)	167.3	(1.7)	Better recognition from higher margin projects
Margins	%	+/-ppt	+/-ppt	%	+/-ppt	
EBIT	6.5	(0.9)	(2.8)	7.4	(1.0)	
- Construction	6.4	(0.8)	(0.8)	7.2	(0.3)	
- Precast Concrete	10.9	(2.8)	(18.6)	11.5	(4.0)	
PBT	7.9	(0.3)	0.9	7.8	0.7	
Core PATMI	4.5	0.6	(4.0)	4.8	(1.6)	

Source: Sunway Construction, UOB Kay Hian

RESULTS

- **Impressive 4Q24; within expectations.** Sunway Construction's (Suncon) 4Q24 core net profit came in at RM69.2m (+85% qoq, -14% yoy), backed by higher revenue of RM1.4b (+62% qoq, +61% yoy). 2024 earnings made up 99% of our and consensus' full-year estimates.
- **Declared third interim dividend of 2.5 sen.** This brings 2024 DPS to 8.5 sen (2023: 6 sen), which implies a payout ratio of 59% and full-year yield of 2.1%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2,671	3,522	4,792	5,062	5,202
EBITDA	245	279	408	435	437
Operating profit	224	262	388	414	416
Net profit (rep./act.)	145	187	286	308	313
Net profit (adj.)	170	167	286	308	313
EPS (sen)	13.2	13.0	22.2	23.9	24.3
PE (x)	31.2	31.8	18.6	17.3	17.0
P/B (x)	6.5	6.1	5.3	4.8	4.3
EV/EBITDA (x)	20.4	17.9	12.2	11.5	11.4
Dividend yield (%)	1.5	2.1	3.2	3.4	3.5
Net margin (%)	5.4	5.3	6.0	6.1	6.0
Net debt/(cash) to equity (%)	66.1	(32.5)	(38.6)	(51.9)	(63.2)
Interest cover (x)	11.4	n.a.	25.1	30.3	47.6
ROE (%)	18.6	22.0	30.6	29.1	26.5
Consensus net profit	-	-	274.3	268.3	-
UOBKH/Consensus (x)	-	-	1.04	1.09	-

Source: Sunway Construction, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM4.12
Target Price	RM4.66
Upside	+13.1%
(Previous TP)	RM3.67

COMPANY DESCRIPTION

A leading construction company in Malaysia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,289.4
Market cap (RMm):	5,312.2
Market cap (US\$m):	1,199.3
3-mth avg daily t'over (US\$m):	4.5

Price Performance (%)

52-week high/low RM5.30/RM2.48

1mth	3mth	6mth	1yr	YTD
17.7	(8.4)	(0.7)	57.9	(11.0)

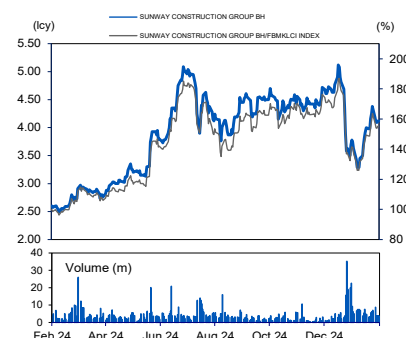
Major Shareholders

	%
Sunway Holdings Sdn Bhd	54.6
Sungei Way Corp Sdn Bhd	10.1
Employees Provident Fund Board	7.3

FY25 NAV/Share (RM) 0.77

FY25 Net Debt/Share (RM) 0.30

PRICE CHART



Source: Bloomberg

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- **Construction segment: Significant improvement in progress billing.** The construction division's operating profit (EBIT) surged to RM86.6m (+44% qoq, +53% yoy) on higher revenue of RM1.35b (+63% qoq, +72% yoy) in 4Q24. Revenue growth was largely driven by accelerated progress for the RTS Link and data centre (DC) projects (Sedenak DC progress billing achieved 34% on upsized RM3.8b contract value; 9M24: 17%). Meanwhile, EBIT was also lifted by overall higher business volume. Nevertheless, EBIT margin contracted slightly qoq (-0.8ppt), presumably reflecting impacts from higher building material prices and sales & service tax (from 6% to 8%).
- **Precast segment: Improved qoq from low base.** In 4Q24, the precast segment delivered a higher qoq revenue of RM46.4m (+39% qoq, -46% yoy), which presumably reflects improving contributions from Integrated Construction & Prefabrication Hub (ICPH) projects. As a result, EBIT surged to RM5.1m (+10% qoq) despite lower margins (-2.8ppt yoy). Moving forward, we expect the utilisation rate and price outlook for Suncon's precast concrete products, particularly in the ICPH segment, to stay flat throughout 1H25. Inflection point for the segment requires ramp-up launching of Singapore's Housing and Development Board (HDB) flats which typically contribute >90% of Suncon's precast sales.

STOCK IMPACT

- **Robust orderbook replenishment...** Suncon presented solid new job wins of RM4.2b in 2024 following recent upsizing of its data centre project in Sedenak Tech Park Johor (Project JHB1X0) to RM3.65b. 2025-26F earnings growth remain supercharged, leveraging on impressive outstanding orderbook on hand of RM5.8b (1.5x revenue cover). Management also guided higher orderbook target of RM4.5-6.0b in 2025F, which is highly attainable in our opinion.
- **...with abundance of upsizing opportunities.** While Suncon's current tenderbook further increased to RM14.6b (3Q24: RM10.6b), we remain optimistic that the group is well-positioned to clinch more contracts for 2025-26F. Notable contracts in the pipeline include: a) Penang Light Rail Transit (PLRT); b) internal project flows from parent company Sunway Berhad (potentially RM3-4b); c) multiple data centre contracts (RM9-10b); and d) various precast orders (RM1.5b).
- **Data centre opportunities remain robust despite US' AI chip restrictions.** To recall, Malaysia is classified as a Tier 2 country under US' artificial intelligence (AI) chip exports restrictions. While there were initially concerns on withdrawal of DC tenders and potential halt of existing DC projects, Suncon guided that the five existing DC projects are progressing without delays. Overall DC pipeline in Malaysia also remains intact, as Suncon is still bidding for a few data centre projects (estimated value of RM9b-10b) which may be awarded within 2025.

EARNINGS REVISION/RISK

- **Raised our 2025-26F earnings by 3%** to factor in better progress billing from existing DC projects. We also introduced our 2027F earnings forecasts.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with a higher target price of RM4.66 (from RM4.54)**, which implies 21x 2025F PE (+1SD above five-year mean of 17x). We deem such valuations as fair given Suncon's record-high orderbook and tenderbook which anchor multi-year growth ahead.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

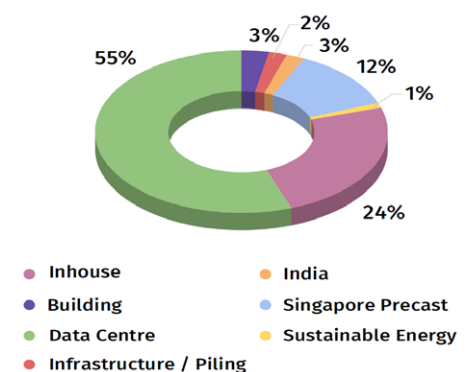
• Environmental
- Mitigate emissions, biodiversity impact, waste disposal and pollution.
• Social
- Work with local authorities and communities to ensure projects' success.
• Governance
- Independent directors (four out of seven) comprise the majority of the board.

OUTSTANDING ORDERBOOK AS OF END-3Q24

Projects	(RMm)
STeP Data Centre	455
STeP Data Centre (Revised NTP)	1,941
RTS Link Package 1B & 5	90
Daiso Warehouse	176
PSR -MNC	687
ECI & Work Order - MNC	21
India Highways	199
Solar Projects	46
Others	120
Total External (A)	3,735
Sunway Square Superstructure+VO	402
SW Flora	121
Sunway Carnival Mall Refurbishment	81
SW Ipoh Mall	666
Others	144
Total Internal (B)	1,414
Precast Concrete (C)	681
Grand Total (A+B+C)	5,830

Source: Suncon

ORDERBOOK BREAKDOWN



Source: Suncon

SEGMENTAL FORECASTS

(RMm)	2024F	2025F	2026F
Revenue	3,522	4,792	5,062
- Construction	3,327	4,113	4,338
- Precast Concrete	195	679	724
Operating profit	262	388	414
- Construction	240	313	335
- Precast Concrete	22	75	80
Orderbook replenishment assumptions			
- Construction	4,200	5,000	5,000
- Precast Concrete	400	400	500

Source: Suncon, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	3,522	4,792	5,062	5,202
EBITDA	279	408	435	437
Deprec. & amort.	17	20	21	21
EBIT	262	388	414	416
Associate contributions	0	0	0	0
Net interest income/(expense)	11	(16)	(14)	(9)
Pre-tax profit	273	372	400	407
Tax	(76)	(82)	(88)	(90)
Minorities	(10)	(4)	(5)	(5)
Net profit	187	286	308	313
Net profit (adj.)	167	286	308	313

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	717	372	406	418
Pre-tax profit	273	372	400	407
Tax	(76)	(82)	(88)	(90)
Deprec. & amort.	17	20	21	21
Associates	(0)	(0)	(0)	(0)
Working capital changes	535	62	73	80
Other operating cashflows	31	0	(0)	0
Investing	139	(24)	(25)	(26)
Capex (growth)	(9)	(24)	(25)	(26)
Proceeds from sale of assets	225	225	225	226
Others	(90)	(225)	(225)	(226)
Financing	(303)	(220)	(233)	(236)
Dividend payments	(116)	(170)	(183)	(186)
Proceeds from borrowings	(167)	(50)	(50)	(50)
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	552	128	147	156
Beginning cash & cash equivalent	384	936	1,064	1,211
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	936	1,064	1,211	1,367

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	85	102	107	113
Other LT assets	588	589	589	590
Cash/ST investment	1,016	1,064	1,211	1,367
Other current assets	1,907	2,518	2,589	2,590
Total assets	3,596	4,340	4,562	4,725
ST debt	731	681	631	581
Other current liabilities	1,926	2,599	2,743	2,824
LT debt	0	0	0	0
Other LT liabilities	1	1	1	1
Shareholders' equity	878	994	1,118	1,245
Minority interest	61	65	70	74
Total liabilities & equity	3,596	4,340	4,562	4,725

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	7.9	8.5	8.6	8.4
Pre-tax margin	7.8	7.8	7.9	7.8
Net margin	5.3	6.0	6.1	6.0
ROA	5.6	7.2	6.9	6.7
ROE	22.0	30.6	29.1	26.5
Net profit (adj.)	5.3	6.0	6.1	6.0
Leverage				
Debt to total capital	43.8	39.1	34.7	30.6
Debt to equity	83.2	68.5	56.4	46.6
Net debt/(cash) to equity	(32.5)	(38.6)	(51.9)	(63.2)
Interest cover (x)	n.a.	25.1	30.3	47.6

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