04 January 2023

Sunway Construction Group

Bags RM1.7b Maiden Data Centre Job

By Lum Joe Shen I lumjs@kenanga.com.my

SUNCON has secured its maiden data centre contract worth RM1.7b in Johor and finished 2022 with a bang with a record RM8.6b worth of new job wins. We are positive over this latest fast-tracked contract (18 months) which offer high margins and lifted its outstanding order book to an alltime high of RM11.7b. We raise FY23F earnings by 9%, lift our TP by 10% to RM2.13 (from RM1.93) and reiterate our OUTPERFORM call.

Maiden data centre job. SUNCON has secured a RM1.7b contract (known as Project JHB1X0) from Yellowwood Properties Sdn Bhd to construct a data centre located in Sedenak Tech Park, Johor. The scope of works entails the piling, building and related ancillary works required for the data centre. The construction period spans c.18 months ending 3QFY24.

We gathered that the ultimate client is Yondr Group from USA, a data centre service provider which in 2022 first expressed its plans to build a 200MW hyperscale data centre in Sedenak Tech Park covering 72.8 acres in a few phases.

We are positive on the win bringing its FY22 replenishment to RM8.6b (including a preliminary RM6.0b Vietnam power plant contract agreement inked with TOYOVEN last week), blowing away SUNCON's internal target of RM2b and our assumption of RM1.5b for FY22. Consequent to the win, SUNCON's outstanding order book has expanded to a record high of RM11.7b. Given the fast-tracked nature, large-scale and high technical requirements for this latest contract, we believe the EBIT margin is skewed towards the upper end of the usual 5-8% range guided.

Assumptions and forecasts. Maintain FY22F earnings but raise FY23F earnings by 9% after factoring in this new contract win. Our FY23F replenishment assumption is RM2.2b.

Maintain OUTPERFORM with higher TP of RM2.13 (from RM1.93) based on unchanged 16x PER. We like SUNCON for: (i) its strong replenishment pipeline from parent SUNWAY, (ii) its dominant position in the local construction space with extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works, and (iii) its strong balance sheet that allows it to participate in deferred payment model projects. We accord a 5% premium to its TP given a 4star ESG rating as appraised by us (see Page 4).

Risks to our call include: (i) sustained 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.



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Target Price :	RM2.13	1



YTD stock price chg

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,050.1
Shares Outstanding	1,289.4
52-week range (H)	1.74
52-week range (L)	1.41
3-mth avg daily vol:	508,705
Free Float	14%
Beta	0.9

Maior Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.4%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	1729.2	2146.0	2884.0
EBIT	152.7	168.8	218.9
PBT	152.2	167.8	213.4
Net Profit	112.6	127.7	163.7
Core Net Profit	111.9	127.7	163.7
Consensus (NP)	n.a.	126.5	145.9
Earnings Revision	n.a.	0%	+9%
Core EPS (sen)	8.7	9.9	12.7
Core EPS growth (%)	59	14	28
NDPS (sen)	5.3	5.0	5.0
NTA per Share (RM)	0.54	0.59	0.67
Price to NTA (x)	2.9	2.6	2.3
PER (x)	17.9	15.6	12.2
Net Gearing (x)	-0.7	-0.5	0.0
Return on Equity (%)	16	17	19
Net Div. Yield (%)	3.4	3.2	3.2

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Income Statement						F
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	F
Revenue	1769	1553	1729	2146	2884	G
OP	141	91	139	165	217	R
JVA	4	10	13	4	2	E
EBIT	145	101	153	169	219	Р
Finance costs	12	1	0	-1	-6	Р
PBT	157	102	152	168	213	N
Taxation	-27	-28	-41	-40	-50	С
PAT	130	74	111	128	164	
MI	1	1	-2	0	0	Р
Net Profit	129	73	113	128	164	E
Exceptionals	-2	2	1	0	0	Р
Core	131	70	112	128	164	Р
						N
Balance Sheet						С
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	E
Fixed Assets	139	107	125	125	125	R
Intangibles	4	0	0	0	0	R
JVA	44	45	127	127	127	
NC Inventories (Land)	0	0	0	0	0	L
Inventories	25	34	46	50	50	D
Receivable+Con.Asset	850	905	661	850	1350	N
Other Assets	326	171	210	210	210	N
Cash	615	644	696	805	704	
Total Assets	2002	1906	1864	2166	2565	v
						С
Payables	868	940	861	900	900	N
ST Borrowings	233	234	93	93	93	В
LT Borrowings	53	67	145	345	645	С
Other Liabilities	126	27	49	49	49	N
Total Liabilities	1280	1267	1147	1386	1686	Р
Net Assets	722	639	717	780	879	
Share Cap & Reserves	224	227	228	228	228	
Retained Earnings	399	410	471	534	633	
Shareholder's Equity	623	637	699	762	862	
MI	100	2	18	18	18	
Total Equity	722	639	717	780	879	
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Cashflow Statement						
FY Dec (RM'm)	2019A	2020A	2021A	2022F	2023F	
Operating CF	194	88	239	-25	-331	
Investing CF	-356	-173	-174	0	0	
Financing CF	20	-147	-122	134	230	
Net Change in Cash	-142	-233	-58	109	-101	
Source: Kenanga Posea						

FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F
Growth					
Revenue	-22%	-12%	11%	24%	34%
EBIT	-17%	-31%	52%	11%	30%
PBT	-14%	-36%	50%	10%	27%
PAT	-10%	-43%	50%	15%	28%
Net Profit	-10%	-44%	55%	13%	28%
Core Net Profit	-8%	-46%	59%	14%	28%
Profitability					
EBIT margin	8%	6%	9%	8%	8%
PBT margin	9%	7%	9%	8%	7%
PAT margin	7%	5%	6%	6%	6%
Net Profit margin	7%	5%	7%	6%	6%
CNP margin	7%	5%	6%	6%	6%
Effective Tax Rate	-17%	-27%	-27%	-24%	-23%
ROE	21.0%	11.0%	16.0%	16.8%	19.0%
ROA	6.5%	3.7%	6.0%	5.9%	6.4%
Leverage					
Debt/Equity (x)	0.46	0.47	0.34	0.57	0.86
Net Debt/(Cash)	-329	-343	-458	-367	34
Net Debt/Equity (x)	-0.53	-0.54	-0.65	-0.48	0.04
Valuations					
Core EPS (sen)	10.2	5.5	8.7	9.9	12.7
NDPS (sen)	7.0	4.0	5.3	5.0	5.0
BV/share (RM)	0.48	0.49	0.54	0.59	0.67
Core PER (x)	15.3	28.4	17.9	15.6	12.2
	4.5%	2.6%	3.4%	3.2%	3.2%
Net Div. Yield (%) PBV (x)	3.21	3.14	2.86	2.62	2.32

Source: Kenanga Research

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Name	Rating	Last Price	Target Price	Upside (%)	Market Cap	Shariah Compliant	Current FYE	Core El 1-Yr.	PS (sen) 2-Yr.	Core Ea Grov 1-Yr.	-) - Core nings 2-Yr.	PBV (x) 1-Yr.	ROE (%) 1-Yr.	Net Div. (sen)	Net Div.Yld. (%)
		(RM)	(RM)		(RM'm)			Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
GAMUDA BHD	OP	3.78	5.15	36.24%	9,887.1	Y	07/2023	35.0	43.6	7.4%	24.7%	10.4	8.3	1.1	10.4%	50.0	13.2%
IJM CORP BHD	MP	1.57	1.68	7.01%	5,515.3	Y	03/2023	8.6	9.2	26.2%	6.9%	18.4	17.2	0.6	3.8%	6.0	3.8%
KERJAYA PROSPEK GROUP BHD	OP	1.17	1.50	28.21%	1,475.4	Y	12/2022	9.3	12.2	19.1%	30.9%	10.7	9.6	1.3	11.2%	4.5	3.8%
KIMLUN CORP BHD	OP	0.775	1.12	44.52%	273.9	Y	12/2022	7.9	12.9	2600.0%	63.0%	10.2	6.3	0.4	4.0%	1.5	1.9%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.59	2.13	33.96%	2,050.1	Y	12/2022	9.9	12.6	14.3%	28.1%	16.1	12.5	3.0	19.5%	5.0	3.1%
WCT HOLDINGS BHD	MP	0.395	0.460	16.46%	559.8	Y	12/2022	3.5	2.5	75.0%	-28.6%	11.4	15.7	0.2	3.1%	0.0	0.0%
Simple Average								12.4	15.5	457.0%	20.8%	12.9	11.6	1.1	8.7%		4.3%

Source: Bloomberg, Kenanga Research



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Stock ESG Ratings:

	Criterion		F	Rating	3	
	Earnings Sustainability & Quality	*	*	*	☆	
AL	Corporate Social Responsibility	*	*	*	*	
GENERA	Management/Workforce Diversity	*	*	*	*	
Ш	Accessibility & Transparency	*	*	*	*	☆
Ť	Corruption-Free Pledge	*	*	*	*	
	Carbon-Neutral Initiatives	*	*	*	*	☆
	Migrant Worker Welfare	*	*	*	*	
<u>ಲ</u>	Waste Disposal/Pollution Control	*	*	*	*	
15	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.

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