

04 January 2023

## Sunway Construction Group Bags RM1.7b Maiden Data Centre Job

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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 all-time 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.

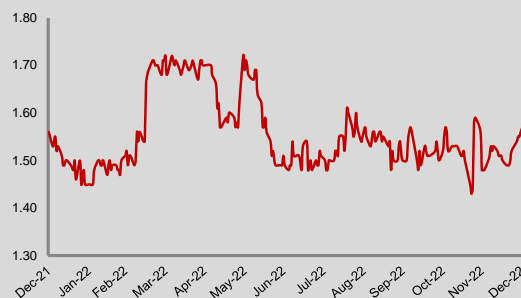
**Maintain OUTPERFORM with higher TP of RM2.13 (from RM1.93)** based on unchanged 16x PER. We like SUNCON for: (i) its strong replenishment pipeline from parent SUNWAY, (ii) its dominant position in the local construction space with extensive capabilities and track record in building, infrastructure, 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 4-star 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.

## OUTPERFORM ↔

Price : RM1.59  
Target Price : RM2.13 ↑

### Share Price Performance



KLCI 1,473.99  
YTD KLCI chg -1.4%  
YTD stock price chg 1.9%

### 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

### Major 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
<b>Net Profit</b>	<b>112.6</b>	<b>127.7</b>	<b>163.7</b>
<b>Core Net Profit</b>	<b>111.9</b>	<b>127.7</b>	<b>163.7</b>
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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## Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div.Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-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%
<b>Simple Average</b>								<b>12.4</b>	<b>15.5</b>	<b>457.0%</b>	<b>20.8%</b>	<b>12.9</b>	<b>11.6</b>	<b>1.1</b>	<b>8.7%</b>		<b>4.3%</b>

Source: Bloomberg, Kenanga Research

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
<b>SPECIFIC</b>	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
	<b>OVERALL</b>	★	★	★	★	

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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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Published by:

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