



AmInvestment Bank

# SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

11 Jun 2024

## Company Report

### AmInvestment Bank

Team Coverage  
+603 2036 2291

Rationale for report: **Company Result**

# BUY

(Maintained)

Price RM3.31  
Fair Value RM3.70  
52-week High/Low RM3.42/RM1.53

### Key Changes

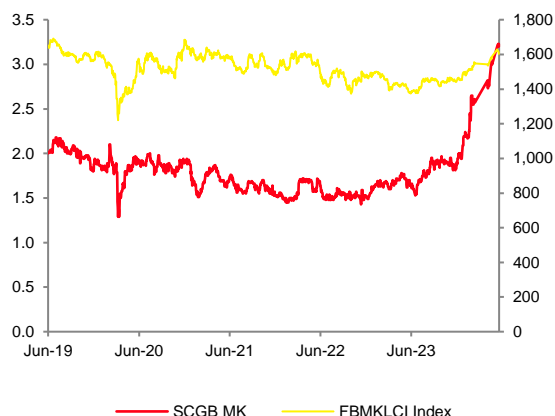
Fair value [↑](#)  
EPS [↑](#)

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	2,671.2	3,355.7	4,086.1	4,440.4
Core net profit (RM mil)	170.9	184.2	226.4	228.6
FD Core EPS (sen)	13.3	14.4	17.4	17.9
FD Core EPS growth (%)	30.6	8.3	21.3	2.7
Consensus Net Profit (RM mil)	-	179.3	224.5	238.4
DPS (sen)	6.0	7.2	8.7	8.9
PE (x)	25.0	23.1	18.3	18.2
EV/EBITDA (x)	17.4	13.5	11.7	10.4
Div yield (%)	2.3	2.8	3.3	3.4
ROE (%)	18.6	21.4	23.2	21.3
Net Gearing (%)	55.5	52.5	43.4	29.8

### Stock and Financial Data

Shares Outstanding (million)	1,289.4
Market Cap (RMmil)	4,267.8
Book Value (RM/Share)	0.64
P/BV (x)	5.2
ROE (%)	18.6
Net Gearing (%)	55.5
Major Shareholders	Sunway Bhd & Cheah family (66.1%) EPF (9.7%) Amanah Saham Nasional (6.4%)
Free Float	17.9
Avg Daily Value (RMmil)	12.0

Price performance	3mth	6mth	12mth
Absolute (%)	27.8	80.9	101.8
Relative (%)	21.9	61.6	72.0



### Investment Highlights

- **Maintain BUY on Sunway Construction (SunCon) with a higher fair value (FV) of RM3.70/share (from RM3.59/share) due to higher earnings estimates. Our revised FV is based on an unchanged 20x FY25F P/E, which is on par with its 3-year average. Our 4-star ESG rating remains unchanged, which yields a premium of 3% to our FV.**
- **SunCon has secured a RM1.5bil addition to the existing JHB1X0 contract. The contract is now worth RM3.2bil, making it SunCon's largest single contract since inception. Work starts immediately with targeted completion within 20 months by Feb 2026.**
- **There is no mention of the profit margin, but it was stated that this contract will contribute positively towards FY24F revenue and earnings.**
- **With the new contract accretion, we have raised our FY24F/FY25F/26F earnings by 1.7%/ 3.6%/0.1%.**
- **This job win boosts SunCon's order book by 25% to RM7.9bil from RM6.3bil as at end-1QFY24. This order book will keep it busy for at least 2-3 years.**
- **Year-to-date, SunCon has already secured RM3.3bil of new orders, which exceeds its target of RM2.5-RM3.0bil of job replenishment for this year.**
- **SunCon currently trades at 18x FY25F PE, below its 3-year average of 20x, with a decent dividend yield of 3.3%.**

## CONTRACT AMENDMENT

SunCon announced on Bursa Malaysia of a mutual amendment to Project JHB1X0 contract between the group and Yellowwood Properties. The pertinent points are listed below:

- The value and works for NTP 4 has been amended.
- The total contract value has risen to RM3.2bil, an addition of RM1.5bil from the original sum of RM1.7bil. This contract value is based on a fixed-price lump-sum amount and includes all applicable taxes.
- In the revised project timeline, it will take roughly 20 months with a target completion date of 1Q2026 (Feb 2026). Work is to start immediately.

The announcement also states that this revised contract will contribute positively to FY24F revenue and earnings.

## OUR THOUGHTS

### ☐ *Pleasant surprise*

This is SunCon's single largest contract to date, which is a significant milestone to an already impressive track record. We think this will open the door for more major data centre jobs going forward.

While management has stated previously that they are bidding and being considered for extension of existing data centre jobs, the speed and value of the announcement was bigger than expected.

### ☐ *Revise earnings forecasts*

We revise our earnings forecast for FY24-26F due to this announcement.

## EXHIBIT 1: GROSS PROFIT MARGIN BY BUSINESS SEGMENT

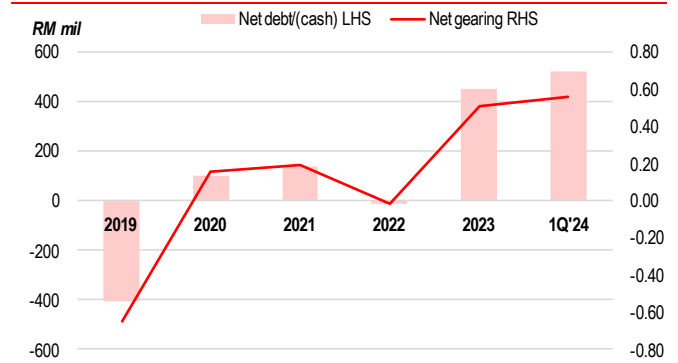
RM mil	FY24F	FY25F	FY26F
<b>Revenue</b>			
Before	3,320.6	3,856.7	4,400.7
Revised	3,355.7	4,086.1	4,440.4
<i>change</i>	<i>1.1%</i>	<i>5.9%</i>	<i>0.9%</i>
<b>PATAMI</b>			
Before	181.1	218.6	228.4
Revised	184.2	226.4	228.6
<i>change</i>	<i>1.7%</i>	<i>3.6%</i>	<i>0.1%</i>

Source: Company

### ☐ *Balance sheet remains at comfortable levels*

SunCon's latest net debt stood at RM524mil as at the end of 1Q2024 with a net gearing ratio of 0.56x. While this is noticeably higher than its historical norms, it is a function of more jobs undertaken by the company.

## EXHIBIT 2: NET DEBT AND NET GEARING

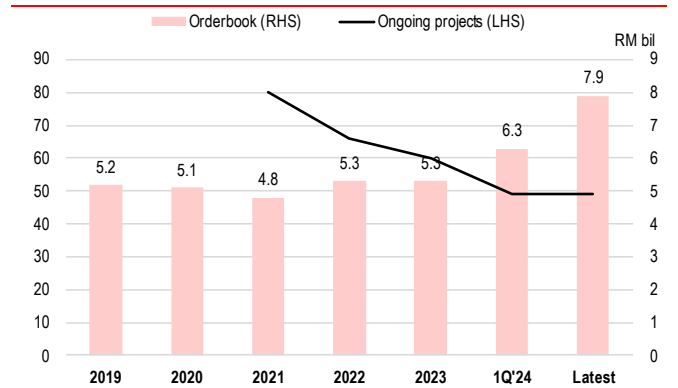


Source: Company

### ☐ *Order book swelled to RM7.9bil*

With this new job win, SunCon's total outstanding orderbook has swelled to RM7.9bil from RM6.3bil as at end-1QFY24 and there are 49 ongoing projects. We believe this will keep SunCon busy for the next 2-3 years.

## EXHIBIT 3: NET DEBT AND NET GEARING



Source: Company

EXHIBIT 4: PB BAND CHART

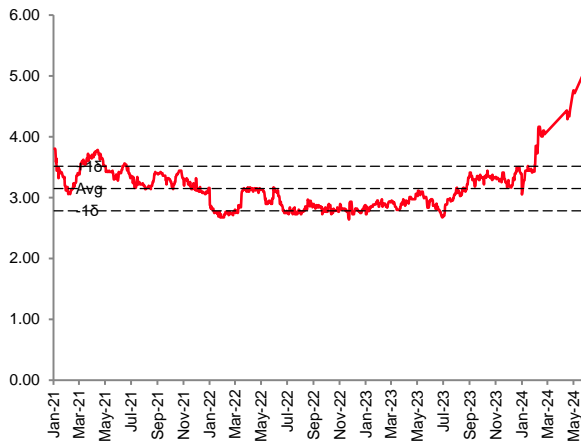


EXHIBIT 5: PE BAND CHART



EXHIBIT 6: ESG MATRIX

	Environmental assessment	Parameters	Weight age	Rating	Rationale
1	Water usage	% of water sourced from surface	20%	* * * * *	Reduced 8% in FY23 (980mil m3) from FY22 (1,06mil m3)
2	Energy usage	Energy consumption & production	20%	* * * * *	2% reduction in overall consumption in FY23 from FY22, energy sourced from renewable energy increased 6X
3	Minimise waste generation	Recycled waste	20%	* * * * *	Increased 153% from 821 tonnes in FY22 to 2081 tonnes in FY23
4	Scope 1 Emissions	tCO2e emitted	10%	* * * * *	25% reduction from 8,428 in FY22 to 6,728 in FY23
5	Scope 2 Emissions	tCO2e emitted	10%	* * * * *	11% increase from 18,147 in FY22 to 20,107 in FY23
6	Biodiversity Loss	Number of trees planted	20%	* * * * *	600,000 trees planted (>60%) of target of planting 1mil trees
	<b>Weighted score for environmental assessment</b>		<b>100%</b>	* * * * *	
	<b>Social assessment</b>				
1	Health, safety & well-being	Number of fatalities & injuries	25%	* * * * *	0 fatalities & injuries for 3 consecutive years
2	Women in workforce	% of total workforce	25%	* * * * *	38% of workforce from 36% in FY22
3	Investment in employee training	RM	25%	* * * * *	RM6.4mil in FY23 vs RM1.85 mil in FY22 (3.6x increase)
4	CSR programmes	SROI	25%	* * * * *	Social return on investment (SROI) of 3.4
	<b>Weighted score for social assessment</b>		<b>100%</b>	* * * * *	
	<b>Governance assessment</b>				
1	Board age diversity	% under 60 years old	20%	* * * * *	15%
2	Board women representation	% of total board directors	20%	* * * * *	57% representation
3	Independent Directors with tenure below 6 years	% below 6 years category	20%	* * * * *	75%
4	Independent board directors	% of total board directors	20%	* * * * *	57% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	* * * * *	RM19.5mil - 4% of 2023 staff costs
	<b>Weighted score for governance assessment</b>		<b>100%</b>	* * * * *	
	<b>Combined Score by respective Segments</b>				
	Environmental score		30%	* * * * *	
	Social score		30%	* * * * *	
	Governance score		40%	* * * * *	
	<b>Overall ESG Score</b>		<b>100%</b>	* * * * *	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star.

## EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	2,155.2	2,671.2	3,355.7	4,086.1	4,440.4
EBITDA	206.0	271.1	308.1	343.5	373.7
Depreciation/Amortisation	(23.8)	(21.0)	(29.7)	(31.2)	(33.1)
Operating income (EBIT)	182.2	250.1	278.4	312.3	340.6
Other income & associates	1.7	(14.1)	(15.6)	(17.1)	(18.8)
Net interest	(4.2)	(21.5)	(18.8)	0.9	(18.2)
Exceptional items	4.3	(25.8)	-	-	-
<b>Pretax profit</b>	<b>184.1</b>	<b>188.6</b>	<b>244.0</b>	<b>296.2</b>	<b>303.6</b>
Taxation	(45.3)	(42.8)	(57.3)	(69.6)	(71.0)
Minorities/pref dividends	(3.6)	(0.7)	(1.6)	(2.0)	(2.0)
<b>Net profit</b>	<b>135.2</b>	<b>145.1</b>	<b>184.2</b>	<b>226.4</b>	<b>228.6</b>
Core net profit	130.9	170.9	185.1	224.5	230.5
Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	107.6	98.6	97.9	92.3	87.0
Intangible assets	-	-	-	-	-
Other long-term assets	491.1	745.1	729.5	712.4	693.5
<b>Total non-current assets</b>	<b>598.7</b>	<b>843.6</b>	<b>827.4</b>	<b>804.7</b>	<b>780.5</b>
Cash & equivalent	491.6	470.4	572.5	756.1	947.0
Stock	53.4	46.4	70.5	86.0	93.5
Trade debtors	677.7	1,241.3	1,358.6	1,658.8	1,802.7
Other current assets	414.6	481.0	505.1	530.3	556.8
<b>Total current assets</b>	<b>1,637.4</b>	<b>2,239.2</b>	<b>2,506.6</b>	<b>3,031.3</b>	<b>3,400.0</b>
Trade creditors	716.2	717.2	1,308.5	1,611.3	1,750.9
Short-term borrowings	172.2	438.2	256.7	288.3	320.7
Other current liabilities	214.9	547.3	574.7	603.3	633.5
<b>Total current liabilities</b>	<b>1,103.3</b>	<b>1,702.8</b>	<b>2,139.9</b>	<b>2,502.9</b>	<b>2,705.1</b>
Long-term borrowings	308.5	487.7	199.6	224.2	249.4
Other long-term liabilities	-	0.3	0.3	0.3	0.3
<b>Total long-term liabilities</b>	<b>308.5</b>	<b>488.1</b>	<b>199.9</b>	<b>224.5</b>	<b>249.7</b>
<b>Shareholders' funds</b>	<b>737.1</b>	<b>820.2</b>	<b>912.7</b>	<b>1,025.0</b>	<b>1,140.2</b>
Minority interests	83.7	71.8	85.4	87.4	89.4
BV/share (RM)	0.57	0.64	0.71	0.79	0.88
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	184.1	188.6	244.0	296.2	303.6
Depreciation/Amortisation	23.8	21.0	29.7	31.2	33.1
Net change in working capital	(382.2)	(498.0)	450.1	(13.0)	(11.7)
Others	(40.7)	2.6	(38.5)	(49.1)	(48.6)
<b>Cash flow from operations</b>	<b>(215.0)</b>	<b>(285.8)</b>	<b>685.3</b>	<b>265.2</b>	<b>276.3</b>
Capital expenditure	(27.1)	(17.7)	(21.0)	(25.6)	(27.8)
Net investments & sale of fixed assets	25.2	2.5	-	-	-
Others	411.8	(99.3)	-	-	-
<b>Cash flow from investing</b>	<b>409.9</b>	<b>(114.6)</b>	<b>(21.0)</b>	<b>(25.6)</b>	<b>(27.8)</b>
Debt raised/(repaid)	233.4	420.9	(469.6)	56.1	57.6
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(90.3)	(71.6)	(92.5)	(112.3)	(115.3)
Others	(0.4)	(0.3)	-	-	-
<b>Cash flow from financing</b>	<b>142.7</b>	<b>349.0</b>	<b>(562.1)</b>	<b>(56.1)</b>	<b>(57.6)</b>
<b>Net cash flow</b>	<b>337.6</b>	<b>(51.4)</b>	<b>102.1</b>	<b>183.6</b>	<b>190.9</b>
<b>Net cash/(debt) b/f</b>	<b>365.9</b>	<b>699.1</b>	<b>648.8</b>	<b>750.9</b>	<b>934.5</b>
<b>Net cash/(debt) c/f</b>	<b>699.1</b>	<b>648.8</b>	<b>750.9</b>	<b>934.5</b>	<b>1,125.4</b>
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	24.6	23.9	25.6	21.8	8.7
EBITDA growth (%)	23.5	31.6	13.6	11.5	8.8
Pretax margin (%)	8.5	7.1	7.3	7.2	6.8
Net profit margin (%)	6.3	5.4	5.5	5.5	5.2
Interest cover (x)	43.9	11.6	14.8	nm	18.7
Effective tax rate (%)	24.6	22.7	23.5	23.5	23.4
Dividend payout (%)	52.5	53.3	50.0	50.0	50.0
Debtors turnover (days)	108	131	141	135	142
Stock turnover (days)	8	7	6	7	7
Creditors turnover (days)	126	98	110	130	138

Source: Company, AmlInvestment Bank Bhd estimates

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