



AmInvestment Bank

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

23 May 2024

Company Report

BUY

(Maintained)

AmInvestment Bank

Team coverage

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Rationale for report: Company Result

Price	RM3.24
Fair Value	RM3.59
52-week High/Low	RM3.28/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	185.1	224.5	230.5
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)	-	178.7	160.1	155.2
DPS (sen)	6.0	7.2	8.7	8.9
PE (x)	24.4	22.6	18.6	18.1
EV/EBITDA (x)	17.1	13.2	11.5	10.2
Div yield (%)	2.3	2.8	3.3	3.4
ROE (%)	18.6	21.4	23.2	21.3
Net Gearing (%)	55.5	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,289.4
Market Cap (RMmil)	4,177.5
Book Value (RM/Share)	0.64
P/BV (x)	5.1
ROE (%)	18.6
Net Gearing (%)	55.5

Major Shareholders	Sunway & Cheah family (64.7%) EPF (6.2%) Amanah Saham Nasional (3.3%)
Free Float	20.5
Avg Daily Value (RMmil)	11.5

Price performance	3mth	6mth	12mth
Absolute (%)	27.1	66.2	88.4
Relative (%)	22.3	49.7	66.5



Investment Highlights

- We maintain BUY on Sunway Construction (SunCon) with an unchanged fair value (FV) of RM3.59/share based on 20x FY25F P/E, which is on par with its 3-year average. Our earnings forecast and 4-star ESG rating are unchanged.
- 1QFY24 PATAMI of RM32.4 mil (+16.4% YoY) was within ours and consensus expectations. This has been a clean quarter with no cost surge or accounting surprises. No dividend was announced for the period (same as last year).
- The construction sector saw strong revenue growth of 16% YoY on higher workflow and billings, but net income only increased by 7.6% YoY due to lower net income margin by 0.4 percentage points (PPT) YoY.
- The precast segment improved significantly with better revenue (+16% YoY) and profit (+15.5% YoY) as legacy low-margin projects (signed before Covid but the actual work was done during pandemic) have lapsed.
- However, sequentially, 1Q2024 net profit decreased by 34% QoQ due to the ramp-up of accelerated building progress and sustainable energy projects and jobs nearing completion in 4Q2023.
- Net gearing has increased to 0.56x, from 0.51x as at the end of 2023, after taking on more jobs. However, the t-12 ROE is at 17.4% with strong cash flow.
- Suncon's orderbook has surged by 19% to RM6.3bil from the end of 2023, a backlog that will keep the company busy for at least two years. YTD, Suncon has secured RM1.7bil of new orders, which is on path to its target of RM2.5-3.0bil of job replenishment for 2024.
- We believe the profit margins on upcoming projects will be higher than in the past two years as costs increase and post-Covid inefficiencies have been priced in. Furthermore, many operating cost items have remained stable.
- Suncon currently trades at 18.5x 2025 PE, which is below its 3-year average of 20x, with a dividend yield of 3.3%.

EXHIBIT 1: RESULTS SUMMARY

Quarter	Quarterly Results				
	1Q2023	4Q2023	1Q2024	QoQ %	YoY %
Revenue	522,128	871,495	604,795	(30.6)	15.8
EBIT	41,679	81,790	53,094	(35.1)	27.4
PBT	37,515	60,756	41,648	(31.5)	11.0
Taxation	(8,874)	(12,337)	(8,934)	(27.6)	0.7
Minority interest	813	(846)	310	>100	(61.9)
PATAMI	27,828	49,265	32,404	(34.2)	16.4
EPS (sen)	2.2	3.8	2.5	(34.2)	16.4
DPS (sen)	-	3.0	-	n.a	n.a
Payout ratio	0%	79%	0%		
				PPT	PPT
EBIT Margin %	8.0%	9.4%	8.8%	-0.6%	0.8%
PBT Margin %	7.2%	7.0%	6.9%	-0.1%	-0.3%
Effective Tax Rate %	23.7%	20.3%	21.5%	1.1%	-2.2%
PATAMI Margin %	5.3%	5.7%	5.4%	-0.3%	0.1%
Segmental Revenue					
Construction	469,134	785,805	543,570	(30.8)	15.9
Precast	52,994	85,690	61,225	(28.6)	15.5
Segmental Net income					
Construction	28,284	42,996	30,422	(29.2)	7.6
Precast	357	4,685	2,292	(51.1)	542.0
Segmental Net income Margin				PPT	PPT
Construction %	6.0%	5.5%	5.6%	0.1%	-0.4%
Precast %	0.7%	5.5%	3.7%	-1.7%	3.1%

Sources: Company, AmlInvestment Bank

Key observations:

- Revenue increased and net income both grew on a similar quantum YoY.
- There was an improvement in EBIT margin by 0.8PPT YoY, but this improvement has been negated higher financing cost. Suncon has a much higher net debt versus last year, and therefore this has caused a big gap.
- The most impressive improvement is the profitability of the precast business segment, with profit surging >5x YoY.

Performance in pictorials

- Revenue for both the construction and precast sectors grew at an equal amount of ~16% YoY in 1Q2024. However, precast net income grew by 5.4x YoY as low-margin legacy projects have lapsed, and billings now register newer projects that are higher yielding.

EXHIBIT 2: REVENUE GROWTH RATE YOY

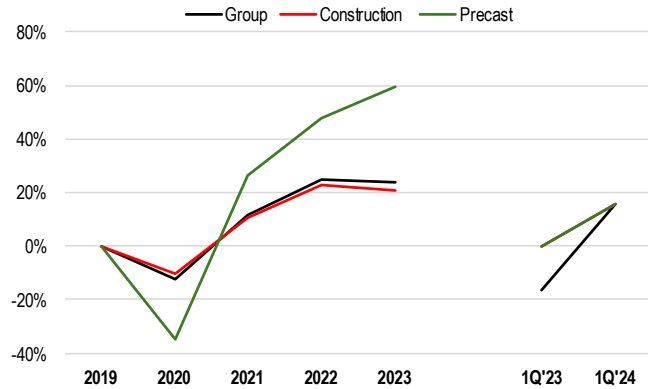
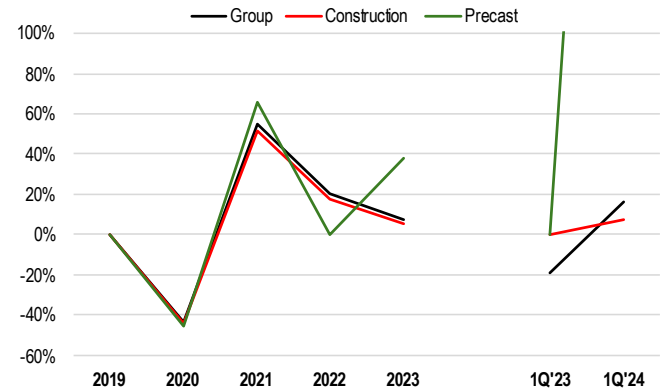


EXHIBIT 3: NET INCOME GROWTH RATE (YOY)



Source: Company, AmInvestment Bank

- Revenues from construction sector account for 90% of group revenue in 1Q2024, but accounts for 93% of total profit.

EXHIBIT 4: REVENUE MARKET SHARE

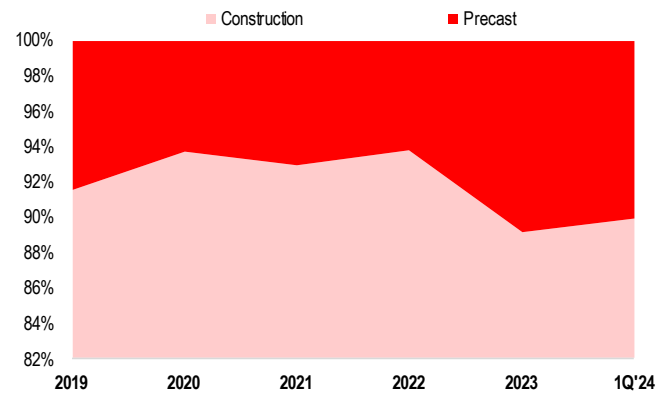
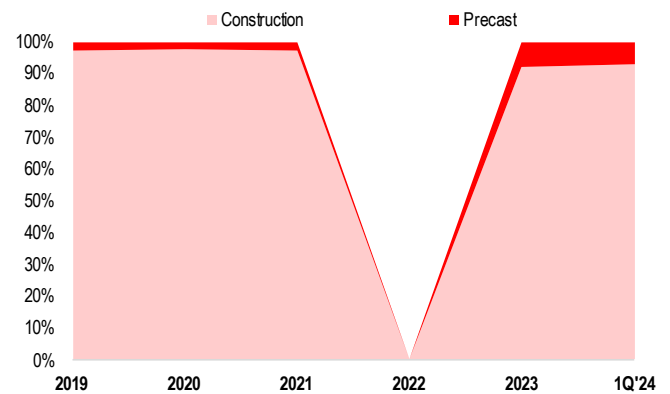


EXHIBIT 5: NET INCOME MARKET SHARE



Source: Company, AmInvestment Bank

EXHIBIT 6: REVENUE BY GEOGRAPHY

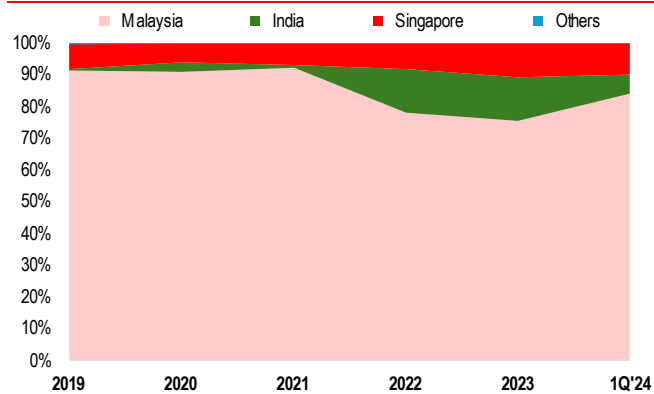
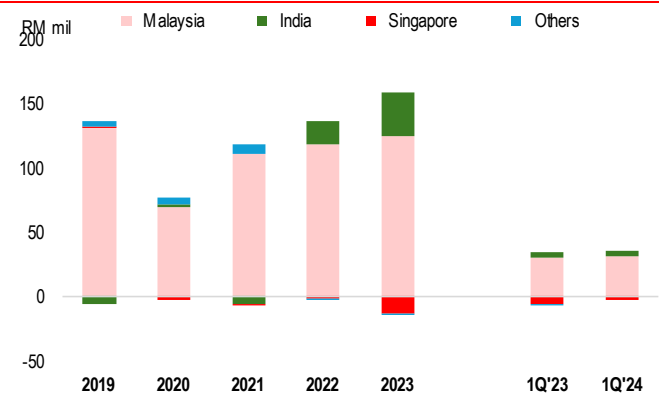


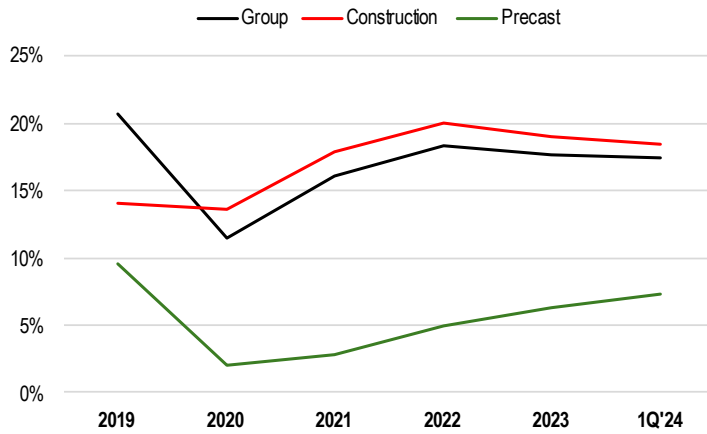
EXHIBIT 7: NET INCOME BY GEOGRAPHY



Source: Company, AmInvestment Bank

- ROE for the construction segment is at 18.5% in 1Q2024, which greatly surpasses the precast segment of only 7.3%. However, we note that the precast segment ROE is exhibiting an uptrend, slow but steady.

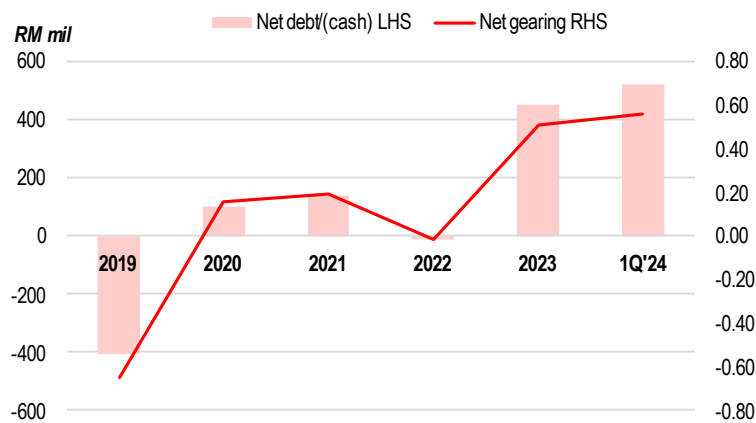
EXHIBIT 8: ROE



Source: Company, AmlInvestment Bank

- Net debt has increased to RM524mil at the end of 1Q2024, and net gearing has climbed to 0.56x. This is a noticeable increase from the previous quarters and stems from more jobs undertaken by the Company.

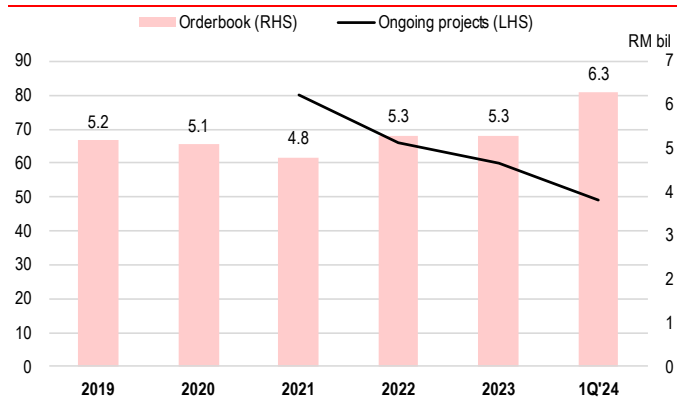
EXHIBIT 9: NET GEARING



Source: Company, AmlInvestment Bank

- Total orderbook has swelled to RM6.3bil and there are 49 ongoing projects now.

EXHIBIT 10: ORDERBOOK AND # ONGOING PROJECTS



Source: Company, AmlInvestment Bank

EXHIBIT 11: ORDER BOOK BREAKDOWN

AS AT MAR-24 (RM MIL)	COMPLETION	CONTRACT SUM	O/S ORDERBOOK		AS AT MAR-24 (RM MIL)	COMPLETION	CONTRACT SUM	O/S ORDERBOOK	
BUILDING			2,767	44%	INTERNAL - SUNWAY GROUP			2,181	34%
OXLEY TOWER (MEP) + VO	4Q 2024	76	31		SUNWAY BELFIELD	4Q 2024	403	77	
JHB1X0 - DATA CENTRE	3Q 2024	1,700	1,453		SUNWAY SQUARE - SUPERSTRUCTURE + (VO)	4Q 2025	1,164	744	
K2 - DATA CENTRE	4Q 2024	190	104		SW CARNIVAL MALL - REFURBISHMENT	2Q 2025	253	154	
DAISO	2Q 2026	298	282		SUNWAY VELOCITY 2B	4Q 2024	253	54	
K2 DC (CIMC)	4Q 2024	99	93		SMC DAMANSARA	3Q 2024	240	71	
ECI & Work Order - MNC	4Q 2024	60	58		SMC IPOH + VO	4Q 2024	217	59	
PSR - MNC	2Q 2027	748	748		SW FLORA	1Q 2026	278	217	
INFRASTRUCTURE/PILING			436	7%	SMC FIT-OUT	3Q 2025	70	70	
LRT 3 : PACKAGE GS07-08	2Q 2024	1,295	8		SMC SJ FIT-OUT	2Q 2024	14	14	
RTS LINK PACKAGE 1B AND PACKAGE 5	2Q 2025	605	417		SW IPOH MALL	1Q 2027	721	719	
LRT 3 : GS06	2Q 2024	191	11		GRAND TOTAL @ MAR 2024		10,891	6,303	
INDIA			190	3%	RED : SECURED IN 2024		1,718	1,714	
THORAPALLI - JITTANDAHALLI (TJ)	4Q 2024	508	190						
SUSTAINABLE ENERGY			98	2%					
SOLAR - EXTERNAL	Various	45	7						
LSS4 GOPENG	2Q 2024	200	16						
LSS4 KAPAR	2Q 2024	185	18						
SUNWAY SQUARE DC S	2Q 2025	35	10						
CGPP - GREEN	4Q 2025	46	46						
SINGAPORE			630	10%					
PRECAST	Various	809	441						
NEW ORDER 2024 - EXTERNAL	Various	189	189						

Projects (2024 new awards)	Client	Duration	Contract Sum (RM'mil)
Sunway Ipoh Mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721.0
Early Contractor Involvement (ECI) Services - Package A	Multinational Technology Company	Aug-24	3.4
Early Contractor Involvement (ECI) Services - Package B	Multinational Technology Company	Aug-24	3.4
Ulu Pandan C1 & C2	CES Engineering & Construction Ptd 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
Work Order 1B - Package A	Multinational Technology Company	Oct-24	30.9
Work Order 1B - Package B	Multinational Technology Company	Oct-24	22.5
Secured in 1Q 2024			1,717.9
TOTAL AS AT 1Q 2024			1,717.9

Source: Company slide presentation

EXHIBIT 12: 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
Weighted score for environmental assessment			100%	*	*	*	*	*	
Social assessment									
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
Weighted score for social assessment			100%	*	*	*	*	*	
Governance assessment									
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
Weighted score for governance assessment			100%	*	*	*	*	*	
Combined Score by respective Segments									
Environmental score			30%	*	*	*			
Social score			30%	*	*	*	*	*	
Governance score			40%	*	*	*	*	*	
Overall ESG Score			100%	*	*	*	*	*	

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.

Source: AmlInvestment Bank

EXHIBIT 13: PB BAND CHART

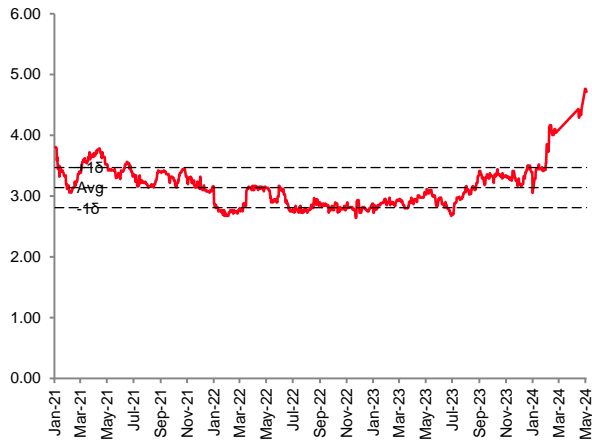


EXHIBIT 14: PE BAND CHART



EXHIBIT 15: 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)	-	-	-
Pretax profit	184.1	188.6	244.0	296.2	303.6
Taxation	(45.3)	(42.8)	(57.3)	(69.6)	(71.0)
Minorities/pref dividends	(3.6)	(0.7)	(1.6)	(2.0)	(2.0)
Net profit	135.2	145.1	185.1	224.5	230.5
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
Total non-current assets	598.7	843.6	827.4	804.7	780.5
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
Total current assets	1,637.4	2,239.2	2,506.6	3,031.3	3,400.0
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
Total current liabilities	1,103.3	1,702.8	2,139.9	2,502.9	2,705.1
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
Total long-term liabilities	308.5	488.1	199.9	224.5	249.7
Shareholders' funds	737.1	820.2	912.7	1,025.0	1,140.2
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)
Cash flow from operations	(215.0)	(285.8)	685.3	265.2	276.3
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)	-	-	-
Cash flow from investing	409.9	(114.6)	(21.0)	(25.6)	(27.8)
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)	-	-	-
Cash flow from financing	142.7	349.0	(562.1)	(56.1)	(57.6)
Net cash flow	337.6	(51.4)	102.1	183.6	190.9
Net cash/(debt) b/f	365.9	699.1	648.8	750.9	934.5
Net cash/(debt) c/f	699.1	648.8	750.9	934.5	1,125.4
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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