

## Sunway Construction (SCGB MK)

**Inline**

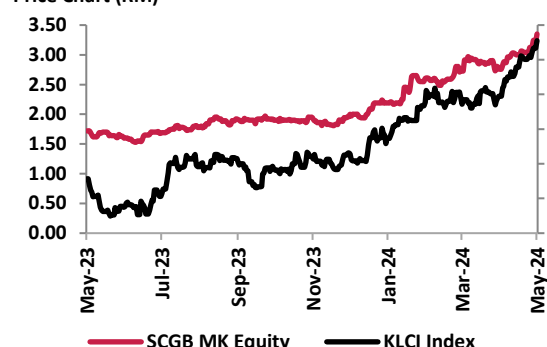
**BUY** ◀ ▶

Share Price **RM3.35**  
Target Price **RM3.69 +10.1%**

### Maintain Steady Margins Despite Lower Turnover

- Maintain BUY (TP: RM3.65).** SunCon's Net Profit of RM32.4mn (+16.4% YoY) made up 18.1% of our estimate, hence deemed in-line with our expectation as we expect higher earnings in 2HFY24. The company's bottom line has improved compared to the corresponding quarter, driven by higher margins from the Integrated Construction and Prefabrication Hub (ICPH) project. Meanwhile, SunCon's top-line saw a 15.8% YoY increase, mainly due to higher billings from newer projects in both the construction and precast segments. We re-iterate our **BUY** call on SunCon with **TP** of **RM3.69** based on 5-year average PER of 19.5x pegged to FY25F EPS of 18.9sen.
- Key highlights.** In 1QFY24, both revenue and net profit saw a decline of 30.6% and 34.3% respectively compared to the preceding quarter. The higher baseline in the previous quarter was primarily driven by increased contributions from projects nearing completion. Despite the decrease in turnover, SunCon's profit margin remained relatively consistent at 7% in both quarters. We note that the company has been actively involved in constructing Advanced Technology Facilities (ATF), whereby YTD FY24 itself, SunCon has successfully secured approximately RM800mn worth of data center projects within the Klang Valley. Simultaneously, on the international front, SunCon has achieved the Commercial Operation Date for the Meensurutti Chidambaram Highway project and they are also in the process of finalising a settlement agreement for the Thorapalli Agraharam Jittandahalli Highway project. With progress on these two projects, we anticipate its net gearing to ease considering that both projects are under the Hybrid Annuity Model (HAM). Furthermore, the Large-Scale Solar 4 (LSS4) project is expected to be completed in 2QFY24.
- Earnings Revision.** No change to our forecast.
- Outlook.** We believe SunCon's growth trajectory remains strong and to continue its growth momentum, bolstered by substantial outstanding orderbook of RM6.9bn. This is underpinned by their active participation in various tenders within the industrial property and data center sectors, alongside exploring potential ATF projects in ASEAN countries through collaborations with local joint-venture partners. Additionally, the anticipated surge in major infrastructure initiatives presents promising prospects for the company, supported by its significant tender book of RM9.4bn. Beyond opportunities in both the private and public sectors, SunCon's in-house projects from its parent company, Sunway Berhad, promise steady job flows, particularly in building construction. We continue to like SunCon due to: i) first-mover advantage in Johor's data center industry, ii) steady flow of internal contracts from parent company, and iii) lucrative precast demand from Singapore.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	21.4	29.8	100.1
vs FBM KLCI	15.4	22.4	71.0

#### Stock Data

ESG Rating	Good
Mkt Cap (RM)	4,319.4
Adjusted Beta	0.9
Free float (%)	29.1
Issued shares (mn)	1,289.4
52w H/L (RM)	3.35 / 1.53
3m avg daily volume (mn)	4,087,664

#### Major Shareholders (%)

Sunway Holdings	54.6
Sungei Way Corp	10.1
Employees Provident Fund	6.2

#### Research Team

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Table 1: Quarterly figures

Sunway Construction FYE 31 Dec (RMmn)	Quarterly			Change (%)		Cumulative		YTD	BIMB	
	1Q23	4Q23	1Q24	QoQChg	YoYChg	1QFY23	1QFY24	%	FY24F	3M/F
Revenue	522.1	871.5	604.8	-30.6%	15.8%	522.1	604.8	15.8%	3,101.8	19.5%
EBITDA	49.9	87.0	57.7	-33.7%	15.5%	49.9	57.7	15.5%	222.1	26.0%
EBIT	41.7	81.8	53.2	-35.0%	27.6%	41.7	53.2	27.6%	244.9	21.7%
Pretax profit	37.5	60.8	41.6	-31.5%	11.0%	37.5	41.6	11.0%	203.7	20.4%
Taxation	(8.9)	(12.3)	(8.9)	-27.6%	0.7%	(8.9)	(8.9)	0.7%	(25.0)	35.7%
<b>Core Net Profit</b>	<b>27.8</b>	<b>49.3</b>	<b>32.4</b>	<b>-34.3%</b>	<b>16.4%</b>	<b>27.8</b>	<b>32.4</b>	<b>16.4%</b>	<b>178.7</b>	<b>18.1%</b>
EPS (sen)	2.2	3.8	2.5	-34.2%	16.4%	2.16	2.51	16.4%	11.3	22.3%
				Chg (ppts)				Chg (ppts)		
EBITDA margin (%)	9.6%	10.0%	9.5%	(0.4)	(0.0)	9.6%	9.5%	(0.0)	7.2%	
PBT margin (%)	7.2%	7.0%	6.9%	(0.1)	(0.3)	7.2%	6.9%	(0.3)	6.6%	
Net profit margin (%)	5.0%	6.3%	4.5%	(1.9)	(0.5)	5.0%	4.5%	(0.5)	5.8%	
Effective tax rate (%)	23.7%	20.3%	21.5%	1.1	(2.2)	23.7%	21.5%	(2.2)	-0.8%	

Source: BIMB Securities, Company

Table 2: Earnings forecast

FYE 31 Dec (RMmn)	2022	2023	2024F	2025F	2026F
Turnover	2,155.2	2,671.2	3,101.8	3,282.4	3,465.0
EBITDA	210.3	245.3	268.4	287.1	367.3
Pretax profit	184.1	188.6	203.7	271.9	344.2
<b>Core Net Profit</b>	<b>138.7</b>	<b>145.8</b>	<b>178.7</b>	<b>243.9</b>	<b>320.2</b>
Consensus			181.6	213.4	233.1
EPS (sen)	10.8	11.3	13.9	18.9	24.8
PER (x)	25.4	24.1	19.7	14.4	11.0
DPS (sen)	5.5	5.5	6.0	6.0	6.5
Div. Yield (%)	2.0	2.0	2.2	2.2	2.4
BVPS (RM)	0.6	0.6	0.7	0.8	1.0
P/B (x)	4.8	4.3	3.8	3.2	2.7
<b>Key Ratios (%)</b>					
ROE	18.6	18.6	20.5	24.3	26.5
EBITDA margin	9.8	7.6	7.2	7.2	10.6
Pretax margin	8.5	7.1	6.6	8.3	9.9
Net margin	6.4	5.5	5.8	7.4	9.2

Source: Bloomberg, BIMB Securities

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months. <b>TRADING</b>
<b>BUY</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain. <b>HOLD</b>
	Share price may fall within the range of +/- 10% over the next 12 months
<b>TAKE PROFIT</b>	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
<b>TRADING SELL</b>	Share price may fall by more than 15% in the next 3 months. <b>SELL</b> Share price may fall by more than 10% over the next 12 months.
<b>NOT RATED</b>	Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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