

Malaysia

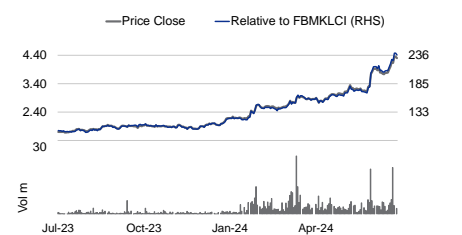
**ADD** (no change)

Consensus ratings\*: Buy 11 Hold 1 Sell 2

Current price:	RM4.30
Target price:	RM5.46
Previous target:	RM3.91
Up/downside:	26.9%
CGSI / Consensus:	40.1%
Reuters:	SCOG.KL
Bloomberg:	SCGB MK
Market cap:	US\$1,178m
	RM5,544m
Average daily turnover:	US\$2.53m
	RM11.97m
Current shares o/s:	1,293m
Free float:	28.9%
*Source: Bloomberg	

**Key changes in this note**

- FY24F/FY25F/FY26F EPS lifted by 6%/23%/8%.
- Raise TP to RM5.46.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	30.3	50.3	160.6
Relative (%)	30.5	46.4	143.4

<b>Major shareholders</b>	% held
Sunway Berhad	54.4
EPF	9.4
Amanah Saham	7.3

**Analyst(s)**



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# Sunway Construction Group Bhd

## Potent combination of earnings upgrades and P/E re-rating

- Reiterate Add, as we raise FY24F-FY26F EPS and lift TP to RM5.46.
- We think our FY24F new order wins of RM5.2bn, at the top end of RM4bn-5bn guidance, is achievable with upsizing of existing data centre projects
- Re-rating thus far driven by EPS upgrades, with valuation re-rating to follow.

### Focus on data centre and government infra projects

In our view, the cancellation of Song Hau 2 thermal plant project is a setback but Suncon can now focus its resources on project flows locally particularly for data centre projects and the eventual revival of government infrastructure. Suncon has 5 data centre projects (from 4 clients) contributing 50% of its orderbook of RM7.9bn as at Jun-24. Management said it is also bidding for 4 data centre projects, most of which are in Johor.

### Upsizing of existing data centre projects brings upside potential

Suncon is witnessing upsizing of its existing data centre projects; in Jun 24, its existing RM1.7bn Sedenak data centre contract (Sedenak) was increased to RM3.2bn due to additional scope of work. We do not discount further upsizing of this contract depending on end demand. The remaining data centre projects in its orderbook are K2 (RM197m), early contractor involvement for a US MNC (RM58m) and another US MNC (RM748m). We think the potential upsizing of these may add another RM2bn-3bn of new orders in 2H24F and some may spillover into 1Q25F. 6M24 wins amounted to RM3.3bn (Fig 5) vs. our FY24F new win target of RM5.2bn (including precast) and its revised target of RM4bn-5bn (from RM2.5bn-3bn). Hence, this implies incremental new wins of RM1.9bn which we believe is achievable notwithstanding potential new wins from government infrastructure projects (Penang LRT and airport expansion and Johor ART) and new data centres.

### Reiterate Add; we raise FY24F-FY26F EPS and TP

We raise our FY24F/FY25F/FY26F EPS by 6%/23%/8% as we adjust the revenue recognition of some key projects, such as Sedenak which is a fast-track project to be completed by 1Q26F. We lift our SOP-derived TP to RM5.46 as we lift our forecasts and assign a higher target P/E of 22x for construction (parity with Gamuda), which we think is justified in spite of its smaller orderbook given superior ROEs and more concentrated data centre exposure. We also highlight in Fig 3 that the re-rating for Suncon over the past 1 year has largely been driven by EPS upgrades, lending weight that a valuation re-rating is justified. We like Suncon for its strong execution track record and first-mover advantage in the data centre space, 3-year EPS CAGR of 23% over FY23-FY26F, and market-leading ROEs of 23-30% for FY24-FY26F. Key downside risks: higher cost environment now with an increase in diesel prices and more competitive landscape for data centre jobs. Re-rating catalysts: award of government infrastructure and more data centre projects.

<b>Financial Summary</b>	<b>Dec-22A</b>	<b>Dec-23A</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Revenue (RMm)	2,155	2,671	3,639	5,446	5,572
Operating EBITDA (RMm)	221.0	245.3	321.2	486.4	490.9
Net Profit (RMm)	135.2	170.2	203.3	314.5	315.8
Core EPS (RM)	0.11	0.12	0.16	0.24	0.24
Core EPS Growth	17.1%	4.8%	35.4%	54.7%	0.4%
FD Core P/E (x)	38.81	37.03	27.35	17.68	17.60
DPS (RM)	0.05	0.06	0.08	0.12	0.12
Dividend Yield	1.22%	1.40%	1.83%	2.83%	2.84%
EV/EBITDA (x)	25.49	24.82	19.12	12.90	12.52
P/FCFE (x)	12.3	78.0	35.8	203.2	19.6
Net Gearing	(1.3%)	51.1%	51.3%	55.8%	39.4%
P/BV (x)	7.54	6.78	6.03	5.15	4.49
ROE	19.9%	19.3%	23.3%	31.4%	27.3%
% Change In Core EPS Estimates			6.2%	22.5%	8.4%
EPS/Consensus EPS (x)			1.11	1.25	1.17

SOURCES: CGSI RESEARCH, COMPANY REPORTS

# Potent combination of earnings upgrades and P/E re-rating

## Raising FY24-FY26F EPS

**Figure 1: Revisions to our forecasts for Suncon**

	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue (RMm)	3,598.4	4,864.7	5,443.6	3,639.0	5,445.8	5,572.4	1.1%	11.9%	2.4%
EBITDA (RMm)	305.1	406.7	458.4	321.2	486.4	490.9	5.3%	19.6%	7.1%
Net profit (RMm)	191.5	256.6	291.4	203.3	314.5	315.8	6.2%	22.5%	8.4%
EPS (Sen)	14.8	19.9	22.5	15.7	24.3	24.4	6.2%	22.5%	8.4%

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

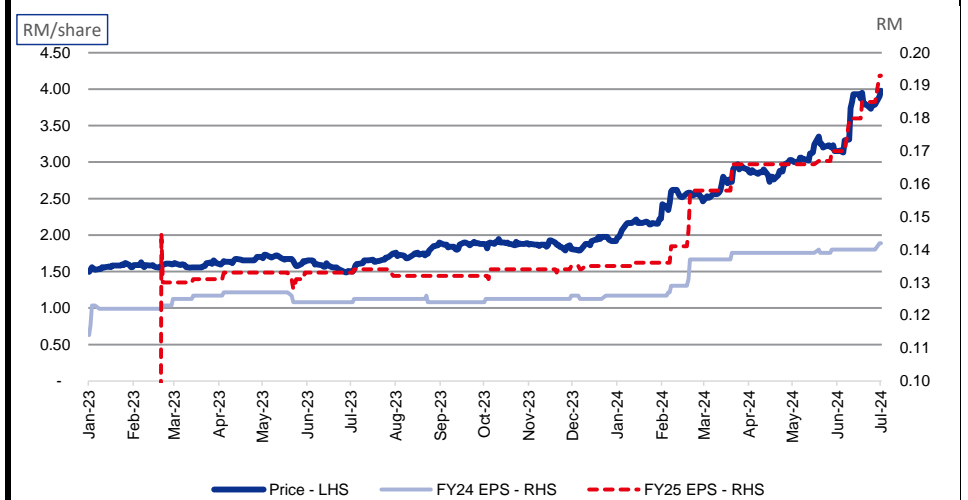
## Lifting SOP-derived TP to RM5.46

**Figure 2: Sum-of-parts (SOP) valuation**

SOP Method	Earnings (RMm)	P/E (x)	Stake	Attributed Value (RMm)	Per Share (RM)
Construction	296	22	100%	6,506.7	5.03
Precast	31	18	100%	549.3	0.42
SOP Value				7,056.0	5.46
Implied PE FY25F (x)					22.4

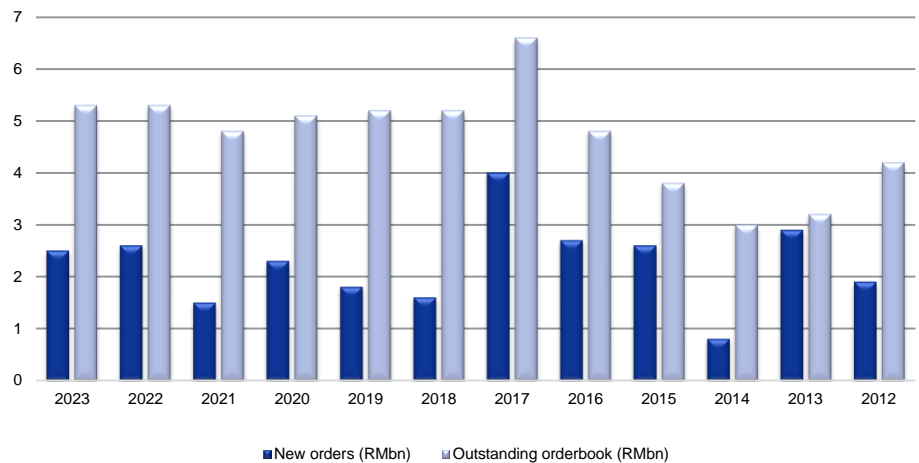
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 3: Suncon's share price re-rating has been driven largely EPS upgrades so far**



SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 4: Historical new order wins**



SOURCES: CGSI RESEARCH, COMPANY REPORTS

**Figure 5: Suncon's YTD wins for FY24F**

Contract	Completion	Value (RMm)
Sunway Ipoh mall	Jan-27	721
ECI & Work Order 1A and 1B - Package A	Oct-24	34
ECI & Work Order 1A and 1B - Package B	Oct-24	26
Ulu Pandan C1 & C2	Jun-27	103
Data Centre Project Service Request	Apr-27	748
Bedok Watertanks	Sep-25	3
LPS Term Contract Batch 14	Sep-25	82
101 Neythal Road Development	Aug-25	6
Sunway Medical Centre fit out works	Jun-26	80
Sedenak data centre revised works	Feb-26	1,500
		<b>3,303</b>

SOURCES: CGSI RESEARCH, COMPANY REPORTS

**Figure 6: Peer comparison (as at 9 July 2024)**

Company	Bloomberg Ticker	Rec.	Price (lcl curr)	TP (lcl curr)	Mkt Cap (US\$ m)	P/E (x) CY24F	EPS CY25F	PEG (x) CY24F	P/BV (x) CY24F	Recurring ROE (%) CY24F	Dividend Yield (%) CY24F	EPS CY25F	TP CY25F	Mkt Cap CY25F	P/E (x) CY25F	PEG (x) CY25F	P/BV (x) CY25F	Recurring ROE (%) CY25F	Dividend Yield (%) CY25F
Gamuda	GAM MK	Add	7.33	9.50	4,317	17.8	15.4	14.3%	1.2	1.67	1.57	9.8%	10.5%	2.2%	2.2%				
IJM Corp Bhd	IJM MK	Add	3.32	3.66	2,473	22.6	19.3	13.4%	1.7	1.11	1.06	5.0%	5.6%	0.9%	0.9%				
WCT Holdings	WCTHG MK	Add	0.97	1.00	292	27.1	19.2	na	na	0.36	0.36	1.4%	1.9%	0.0%	0.0%				
Sunway Construction Group Bhd	SCGB MK	Add	4.30	5.46	1,178	27.3	17.7	42.4%	0.6	6.03	5.15	23.6%	31.4%	1.8%	2.8%				
Muhibbah Engineering	MUHI MK	Add	0.95	1.34	147	13.5	10.6	na	na	0.51	0.50	4.0%	4.8%	3.0%	4.7%				
HSS Engineers	HSS MK	Add	1.09	1.48	118	16.8	11.1	53.4%	0.3	2.10	1.86	12.6%	17.7%	1.9%	3.0%				
YTL Corporation	YTL MK	Hold	3.71	3.88	8,674	19.8	18.5	20.4%	1.0	2.47	2.27	13.0%	12.8%	1.9%	1.9%				
Malayan Cement Bhd	LMC MK	Add	5.28	6.80	1,496	15.8	14.8	24.3%	0.6	1.08	1.03	7.1%	7.2%	2.0%	2.3%				
Sunway Bhd	SWB MK	Add	3.94	4.40	4,722	26.4	25.6	11.6%	2.3	1.36	1.31	5.3%	5.2%	2.0%	2.2%				
Econpile Holdings Bhd	ECON MK	Add	0.51	0.61	154	58.9	16.0	na	na	1.86	1.74	3.2%	11.3%	1.0%	2.5%				
<b>Construction sector</b>						<b>24.6</b>	<b>16.8</b>	<b>25.7%</b>	<b>1.1</b>	<b>1.9</b>	<b>1.7</b>	<b>8.5%</b>	<b>10.8%</b>	<b>1.7%</b>	<b>2.2%</b>				

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS



## ESG in a nutshell

We deem Sunway Construction Group Bhd's (Suncon) ESG practices as some of the most progressive in the local construction industry. In 2022, SunCon reviewed its Sustainability Framework to better align its strategic approach to ESG with industry best practices as well as to adopt more stringent reporting disclosures. Suncon is bidding for more ESG-based projects such as renewable energy and green building projects; this is positive for its ESG journey, in our view. Two large scale solar (LSS) projects it bagged in FY21-22 marked the beginning of this foray.

### Keep your eye on

The group is looking to expand further in the solar energy space; it is currently an engineering, procurement, construction and commissioning (EPCC) contractor for two large scale solar (LSS) projects. Besides this, there is growing demand for more sustainable or ESG-based projects in Malaysia, such as thermal energy storage (TES), district cooling systems (DCS), energy efficient or "smart" buildings, solar farms and solar panels. It was one of 22 most recent winners of the Corporate Green Power Programme (CGPP) announced by the Energy Commission (EC) on 7 Aug 2023.

### Implications

There was a delay in the rollout of renewable (RE) projects in Malaysia, especially LSS farms, due to the high prices of solar panels but prices have since abated. The Energy Commission (EC) announced new measures to maintain the viability of projects identified under the fourth round of LSS awards (LSS4), such as the extension of the duration of Power Purchase Agreements (PPA) by four years from 21 years to 25 years. While Suncon is just an EPCC contractor, this is still positive for the company, in our view.

On 20 July 2022, SunCon commenced construction of a district cooling system (DCS) at the mixed development in South Quay Square, Sunway City Kuala Lumpur, in collaboration with ENGIE South East Asia.

### ESG highlights

In 2022/2023, SunCon continued to focus on driving its ESG performance. This included addressing energy consumption and emissions, improving labour practices and also improving waste management and recycling efforts across all aspects of its operations.

2022 saw Suncon align its related disclosures with the Task Force on Climate-Related Financial Disclosures (TCFD). The inclusion of the TCFD disclosures is in line with Suncon's continued strategic approach of embedding material ESG matters within its strategy.

### Implications

We consider Suncon's ESG efforts to be progressive and among the best among the local contractors. SunCon is working towards achieving 30% women representation on its board, according to its FY23 annual report.

### Trends

SunCon may be looking to participate in Malaysia's voluntary carbon market (VCM) as a buyer of carbon credits to offset emissions. It may also potentially generate carbon credits through its carbon negative projects, according to its FY22/FY23 annual report.

The construction industry's increased focus on climate change and sustainability provides more opportunities for green building design and construction. SunCon's continued progress in and focus on green and sustainable infrastructure development could boost its access to green bonds and sustainable financing, in our view.

Suncon is rated AA for ESG by MSCI and was recently included in the FBM 70 Index.

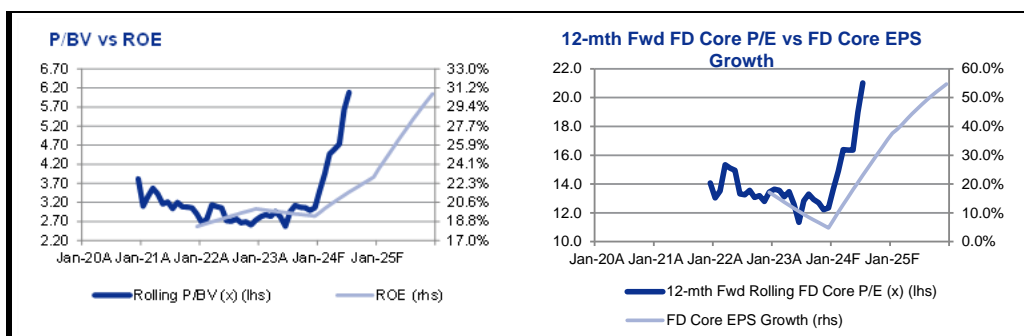
### Implications

While it is early days, we think Suncon will continue to tick more boxes for ESG where it can also leverage on its parent company Sunway Berhad to achieve this.

All Sunway Berhad's ESG initiatives are aligned with five global megatrends i.e. rapid urbanisation, social change, technological breakthroughs, resource scarcity, and shifting economic power. These trends will become more central in 2024F, in our view. Sunway Berhad also targets that, by 2030, it would have achieved green building certification for all Sunway-owned and/or managed townships and buildings completed from 2025 onwards. This will bode well for Suncon, in our view..

SOURCES: CGSI RESEARCH

## BY THE NUMBERS



### Profit & Loss

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
<b>Total Net Revenues</b>	<b>2,177</b>	<b>2,698</b>	<b>3,653</b>	<b>5,460</b>	<b>5,586</b>
<b>Gross Profit</b>	<b>475</b>	<b>588</b>	<b>668</b>	<b>836</b>	<b>844</b>
<b>Operating EBITDA</b>	<b>221</b>	<b>245</b>	<b>321</b>	<b>486</b>	<b>491</b>
Depreciation And Amortisation	-24	-21	-21	-27	-32
<b>Operating EBIT</b>	<b>197</b>	<b>224</b>	<b>301</b>	<b>460</b>	<b>459</b>
Financial Income/(Expense)	-4	-21	-28	-36	-34
Pretax Income/(Loss) from Assoc.	2	-14	2	2	2
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>195</b>	<b>189</b>	<b>275</b>	<b>425</b>	<b>427</b>
Exceptional Items	-11	25	0	0	0
<b>Pre-tax Profit</b>	<b>184</b>	<b>214</b>	<b>275</b>	<b>425</b>	<b>427</b>
Taxation	-45	-43	-71	-110	-111
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>139</b>	<b>171</b>	<b>203</b>	<b>314</b>	<b>316</b>
Minority Interests	-4	-1	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>135</b>	<b>170</b>	<b>203</b>	<b>314</b>	<b>316</b>
Recurring Net Profit	143	150	203	314	316
<b>Fully Diluted Recurring Net Profit</b>	<b>143</b>	<b>150</b>	<b>203</b>	<b>314</b>	<b>316</b>

### Cash Flow

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	221.0	245.3	321.2	486.4	490.9
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(120.5)	(274.1)	(127.0)	(265.5)	(13.7)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(16.3)	(62.1)	(40.0)	(46.7)	(49.0)
Other Operating Cashflow	(249.6)	(130.6)	0.0	0.0	0.0
Net Interest (Paid)/Received	(4.2)	(21.5)	(27.5)	(36.3)	(34.2)
Tax Paid	(45.3)	(42.8)	(71.4)	(110.5)	(111.0)
<b>Cashflow From Operations</b>	<b>(215.0)</b>	<b>(285.8)</b>	<b>55.4</b>	<b>27.4</b>	<b>283.1</b>
Capex	(27.1)	(17.7)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	450.8	(70.4)	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>423.7</b>	<b>(88.1)</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(50.0)</b>
Debt Raised/(repaid)	242.8	445.2	150.0	50.0	50.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(90.3)	(70.9)	(101.6)	(157.2)	(157.9)
Preferred Dividends					
Other Financing Cashflow	31.5	(21.6)	41.7	48.4	50.7
<b>Cash Flow From Financing</b>	<b>184.0</b>	<b>352.7</b>	<b>90.0</b>	<b>(58.8)</b>	<b>(57.2)</b>
Total Cash Generated	392.8	(21.2)	95.4	(81.4)	175.9
<b>Free Cashflow To Equity</b>	<b>451.6</b>	<b>71.3</b>	<b>155.4</b>	<b>27.4</b>	<b>283.1</b>
<b>Free Cashflow To Firm</b>	<b>226.8</b>	<b>(326.0)</b>	<b>47.0</b>	<b>25.8</b>	<b>283.8</b>

SOURCES: CGSI RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	492	470	566	484	660
Total Debtors	989	1,596	1,944	2,909	2,977
Inventories	53	46	46	68	70
Total Other Current Assets	104	127	127	127	127
<b>Total Current Assets</b>	<b>1,637</b>	<b>2,239</b>	<b>2,682</b>	<b>3,589</b>	<b>3,834</b>
Fixed Assets	108	99	128	151	169
Total Investments	223	253	253	253	253
Intangible Assets	264	483	483	483	483
Total Other Non-Current Assets	3	9	9	9	9
<b>Total Non-current Assets</b>	<b>599</b>	<b>844</b>	<b>873</b>	<b>896</b>	<b>914</b>
Short-term Debt	172	438	438	438	438
Current Portion of Long-Term Debt					
Total Creditors	917	1,243	1,463	2,186	2,241
Other Current Liabilities	14	21	21	21	21
<b>Total Current Liabilities</b>	<b>1,103</b>	<b>1,702</b>	<b>1,923</b>	<b>2,645</b>	<b>2,701</b>
Total Long-term Debt	309	488	638	688	738
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>309</b>	<b>488</b>	<b>638</b>	<b>688</b>	<b>738</b>
Total Provisions	3	1	1	1	1
<b>Total Liabilities</b>	<b>1,415</b>	<b>2,191</b>	<b>2,562</b>	<b>3,334</b>	<b>3,440</b>
Shareholders' Equity	737	820	922	1,079	1,237
Minority Interests	84	72	72	72	72
<b>Total Equity</b>	<b>821</b>	<b>892</b>	<b>994</b>	<b>1,151</b>	<b>1,309</b>

### Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	24.6%	23.9%	36.2%	49.7%	2.3%
Operating EBITDA Growth	22.6%	11.0%	31.0%	51.4%	0.9%
Operating EBITDA Margin	10.3%	9.2%	8.8%	8.9%	8.8%
Net Cash Per Share (RM)	0.01	-0.35	-0.39	-0.50	-0.40
BVPS (RM)	0.57	0.63	0.71	0.83	0.96
Gross Interest Cover	10.94	4.68	7.21	9.49	9.06
Effective Tax Rate	24.6%	20.0%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	61.9%	53.3%	50.0%	50.0%	50.0%
Accounts Receivables Days	155.7	176.6	178.0	162.7	192.8
Inventory Days	10.68	8.64	5.65	4.50	5.32
Accounts Payables Days	193.9	186.8	165.9	144.0	170.4
ROIC (%)	139%	38%	27%	37%	30%
ROCE (%)	18.6%	16.0%	16.2%	21.7%	20.0%
Return On Average Assets	7.49%	6.29%	6.95%	8.73%	7.58%

### Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
New order wins	2,600.0	2,500.0	2,231.0	4,900.0	4,900.0
Construction revenue	1,973.6	2,381.0	3,387.0	5,138.8	5,185.4
Precast revenue	181.6	290.2	252.0	307.0	387.0
Construction EBIT margins	8.5	7.5	7.8	8.1	7.7
Precast EBIT margins	9.9	15.5	14.0	14.0	15.0

SOURCES: CGSI RESEARCH, COMPANY REPORTS



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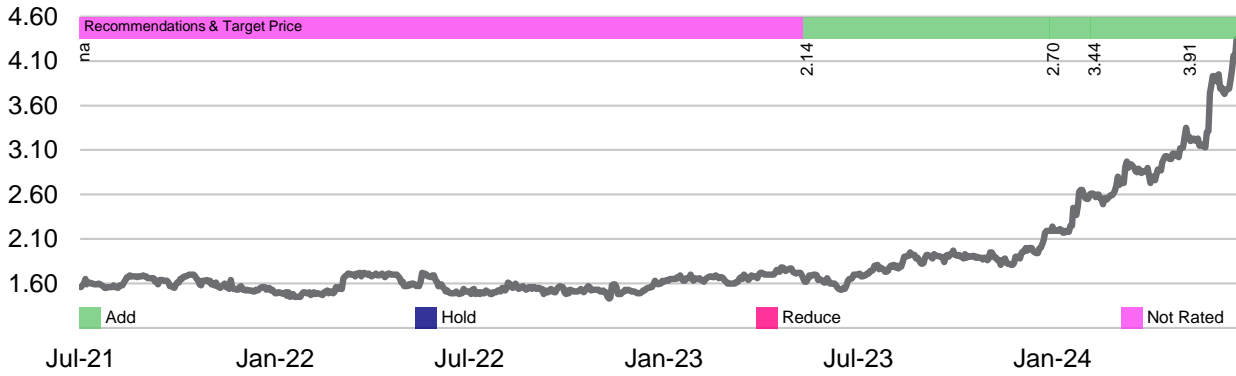
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	Rating Distribution (%)	Investment Banking clients (%)
Add	65.0%	0.5%
Hold	25.3%	0.5%
Reduce	9.7%	0.3%

Spitzer Chart for stock being researched ( 2 year data )

Sunway Construction Group Bhd (SCGB MK)

— Price Close



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