

Malaysia

June 10, 2024 - 9:24 AM

ADD (no change)

Consensus ratings*: Buy 7 Hold 4 Sell 3

Current price:	RM3.31
Target price:	RM3.91
Previous target:	RM3.91
Up/downside:	18.2%
CGSI / Consensus:	17.5%
Reuters:	SCOG.KL
Bloomberg:	SCGB MK
Market cap:	US\$909.6m
	RM4,268m
Average daily turnover:	US\$2.32m
	RM11.05m
Current shares o/s	1,293m
Free float:	28.9%

*Source: Bloomberg

Key financial forecasts

	Dec-24F	Dec-25F	Dec-26F
Net Profit (RMm)	191.5	256.6	291.4
Core EPS (RM)	0.15	0.20	0.23
Core EPS Growth	27.5%	34.0%	13.5%
FD Core P/E (x)	22.35	16.67	14.69
Recurring ROE	22.1%	26.2%	26.1%
P/BV (x)	4.67	4.10	3.60
DPS (RM)	0.07	0.10	0.11
Dividend Yield	2.24%	3.00%	3.40%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.9	27.8	101.8
Relative (%)	8	23	84.5

Major shareholders	% held
Sunway Berhad	54.4
EPF	9.4
Amanah Saham	7.3

Analyst(s)

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Sunway Construction Group Bhd

Near doubling of contract value for Sedenak

- Suncon announced a near doubling in value for its Sedenak data centre contract to RM3.2bn (37% of orderbook).
- This is significant as i) it exceeds new order win guidance; ii) Yellowwood has finalised a reputable offtaker and iii) it anchors earnings delivery in 2H24F.
- Reiterate Add and SOP-derived TP of RM3.91.

Near doubling of contract value for Sedenak data centre contract

- Sunway Construction (Suncon) has entered into an amendment deed with Yellowwood for the existing RM1.7bn Sedenak data centre (Sedenak) contract. This is in relation to an additional scope of work and the value of the contract is now RM3.2bn.
- This is a fixed price lumpsum contract and works are estimated by Suncon to start immediately and end in 20 months (1Q26F).
- We had highlighted in our recent update on 6 Jun the strong likelihood of this happening ([link](#)), in which we said of the three contracts in its orderbook, one will see a full conversion to a full-scale contract and the other two will have upsizing in the scope of works. The first is the conversion of two early contractor involvement (ECI) data centre projects to a full-scale contract of c.RM1bn-1.5bn, the second is a higher contract value for its existing Sedenak contract (announced today) and the last is its K2 data centre project which may add another 2 blocks.

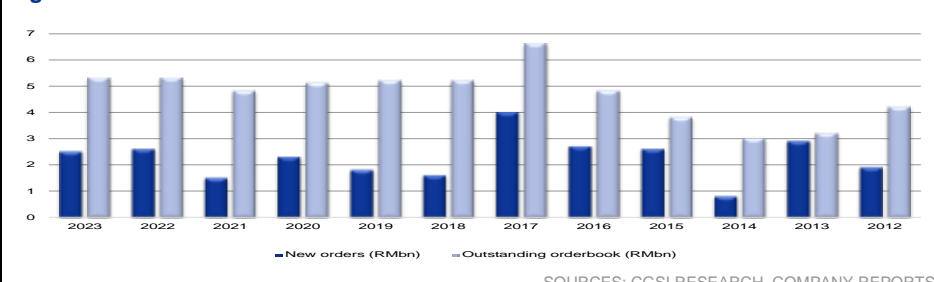
Why is this a significant win?

- This is an important win for Suncon for a number of reasons. First, it brings YTD wins to RM3.2bn, exceeding its guidance of RM2.5bn-RM3bn for FY24F, and its orderbook to RM7.9bn (Jun 24). We remain comfortable with our FY24F new order win forecast of RM5.2bn. We expect Suncon to raise its new order win guidance when it releases 2Q24 results in Aug 2024.
- Second, the additional scope of works for the Sedenak contract means that the end-client has finalised a reputable offtaker to warrant the aggressive expansion, in our view.
- Third, we expect earnings recognition for the Sedenak contract to accelerate in 2H24F and to anchor earnings delivery in FY24F and FY25F. This contract contributes 37% of its total orderbook of RM7.9bn, and only 15% of the initial contract amount of RM1.7bn had been recognised as at 31 Mar 2024.
- Suncon has 4 data centre projects contributing 50% of its orderbook of RM7.9bn (as at May 24). It is also bidding for 4 data centre projects, most of which are in Johor and are still at the design stage. It is more mindful of capacity constraints if some of the existing data centre projects need to be accelerated.

Reiterate Add with a TP of RM3.91

- We retain Add with a RM3.91 SOP TP. We like Suncon for its strong execution track record and first-mover advantage in the data centre space, 19% 3-year EPS CAGR over FY23-26F, and market-leading FY24-26F ROEs of 22-26%. Key downside risks: higher raw material cost environment and more competitive landscape for data centre jobs. Re-rating catalysts: the award of the Vietnam project and more data centre projects.

Figure 1: Suncon's historical new order wins and orderbook



SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Sector Comparison (Share prices as at 10 June 2024)

Company	Bloomberg Ticker	Rec.	Price (lcl curr)	TP (lcl curr)	Mkt Cap (US\$ m)	P/E (x)		2-year EPS PEG (x)		P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
						CY24F	CY25F	CAGR	(x)	CY24F	CY25F	CY24F	CY25F	CY24F	CY25F
Gamuda	GAM MK	Add	6.12	7.50	3,613	14.9	12.9	14.4%	1.0	1.38	1.28	9.7%	10.3%	2.0%	2.0%
IJM Corp Bhd	IJM MK	Add	2.79	3.16	2,085	19.4	17.0	10.7%	1.8	0.93	0.89	4.9%	5.3%	1.1%	1.1%
WCT Holdings	WCTHG MK	Add	0.91	0.68	275	25.8	18.4	na	na	0.34	0.34	1.4%	1.8%	0.0%	0.0%
Sunway Construction Group Bhd	SCGB MK	Add	3.31	3.91	910	22.4	16.7	29.0%	0.8	4.67	4.10	22.3%	26.2%	2.2%	3.0%
Muhibbah Engineering	MUHI MK	Add	1.01	1.34	157	14.4	11.3	na	na	0.55	0.53	4.0%	4.8%	2.8%	4.4%
HSS Engineers	HSS MK	Add	0.96	1.31	104	15.0	11.7	40.2%	0.4	1.85	1.67	12.5%	15.0%	2.1%	2.8%
YTL Corporation	YTL MK	Hold	3.60	3.88	8,440	19.2	17.9	20.4%	0.9	2.40	2.20	13.0%	12.8%	1.9%	1.9%
Malayan Cement Bhd	LMC MK	Add	4.93	6.80	1,399	14.7	13.8	24.3%	0.6	1.01	0.96	7.1%	7.2%	2.1%	2.4%
Econpile Holdings Bhd	ECON MK	Add	0.48	0.61	145	55.4	15.0	na	na	1.75	1.64	3.2%	11.3%	1.1%	2.6%
Construction sector						22.4	15.0	21.3%	1.1	1.6	1.5	8.3%	10.0%	1.7%	2.3%

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	2,698	3,612	4,879	5,458
Gross Profit	588	652	757	812
Operating EBITDA	245	305	407	458
Depreciation And Amortisation	-21	-21	-27	-32
Operating EBIT	224	284	380	427
Financial Income/(Expense)	-21	-27	-35	-35
Pretax Income/(Loss) from Assoc.	-14	2	2	2
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	189	259	347	394
Exceptional Items	25	0	0	0
Pre-tax Profit	214	259	347	394
Taxation	-43	-67	-90	-102
Exceptional Income - post-tax				
Profit After Tax	171	191	257	291
Minority Interests	-1	0	0	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	170	191	257	291
Recurring Net Profit	150	191	257	291
Fully Diluted Recurring Net Profit	150	191	257	291

Balance Sheet

(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	470	571	547	641
Total Debtors	1,596	1,922	2,599	2,908
Inventories	46	45	61	69
Total Other Current Assets	127	127	127	127
Total Current Assets	2,239	2,666	3,334	3,745
Fixed Assets	99	128	151	169
Total Investments	253	253	253	253
Intangible Assets	483	483	483	483
Total Other Non-Current Assets	9	9	9	9
Total Non-current Assets	844	873	896	914
Short-term Debt	438	438	438	438
Current Portion of Long-Term Debt				
Total Creditors	1,243	1,453	1,966	2,199
Other Current Liabilities	21	21	21	21
Total Current Liabilities	1,702	1,912	2,425	2,658
Total Long-term Debt	488	638	688	738
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	488	638	688	738
Total Provisions	1	1	1	1
Total Liabilities	2,191	2,551	3,114	3,397
Shareholders' Equity	820	916	1,044	1,190
Minority Interests	72	72	72	72
Total Equity	892	988	1,116	1,262

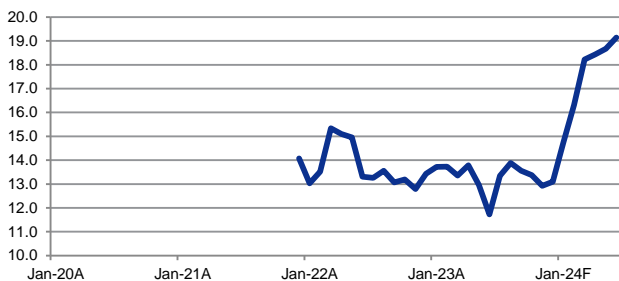
Cash Flow

(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	245.3	305.1	406.7	458.4
Cash Flow from Invnt. & Assoc.				
Change In Working Capital	(274.1)	(115.7)	(179.3)	(83.3)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(62.1)	(40.0)	(46.7)	(49.0)
Other Operating Cashflow	(130.6)	0.0	0.0	0.0
Net Interest (Paid)/Received	(21.5)	(27.4)	(34.7)	(34.6)
Tax Paid	(42.8)	(67.3)	(90.2)	(102.4)
Cashflow From Operations	(285.8)	54.8	55.8	189.1
Capex	(17.7)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	(70.4)	0.0	0.0	0.0
Cash Flow From Investing	(88.1)	(50.0)	(50.0)	(50.0)
Debt Raised/(repaid)	445.2	150.0	50.0	50.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid	(70.9)	(95.7)	(128.3)	(145.7)
Preferred Dividends				
Other Financing Cashflow	(21.6)	41.7	48.4	50.7
Cash Flow From Financing	352.7	95.9	(29.9)	(45.0)
Total Cash Generated	(21.2)	100.8	(24.1)	94.1
Free Cashflow To Equity	71.3	154.8	55.8	189.1
Free Cashflow To Firm	(326.0)	46.5	54.2	189.8

Key Ratios

	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	23.9%	34.7%	35.2%	11.9%
Operating EBITDA Growth	11.0%	24.4%	33.3%	12.7%
Operating EBITDA Margin	9.2%	8.5%	8.4%	8.4%
Net Cash Per Share (RM)	-0.35	-0.39	-0.45	-0.41
BVPS (RM)	0.63	0.71	0.81	0.92
Gross Interest Cover	4.68	6.83	7.85	8.42
Effective Tax Rate	20.0%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	53.3%	50.0%	50.0%	50.0%
Accounts Receivables Days	176.6	178.9	169.6	184.6
Inventory Days	8.64	5.68	4.73	5.11
Accounts Payables Days	186.8	166.6	151.4	163.6
ROIC (%)	38%	26%	31%	30%
ROCE (%)	16.0%	15.4%	18.3%	18.9%
Return On Average Assets	6.29%	6.61%	7.50%	7.33%

12-mth Fwd FD P/E (x) - Sunway Construction Group Bhd



Key Drivers

	Dec-23A	Dec-24F	Dec-25F	Dec-26F
New order wins	2,500.0	3,731.0	4,900.0	4,900.0
Construction revenue	2,381.0	3,346.4	4,557.7	5,056.6
Precast revenue	290.2	252.0	307.0	387.0
Construction EBIT margins	7.5	7.4	7.4	7.3
Precast EBIT margins	15.5	14.0	14.0	15.0

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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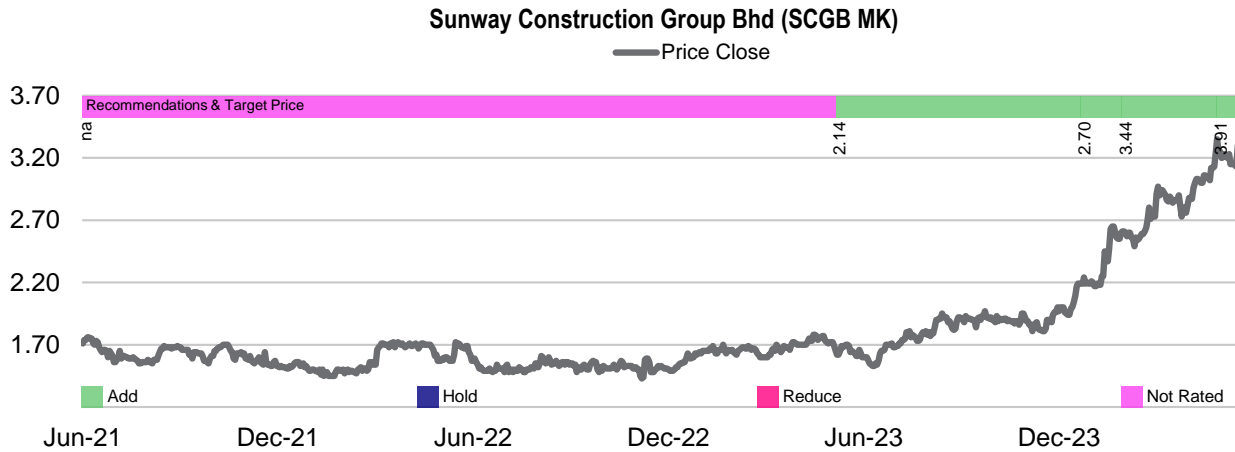
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2024		
634 companies under coverage for quarter ended on 31 March 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.5%	1.3%
Hold	24.1%	0.2%
Reduce	10.4%	0.3%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.