

HLIB Research

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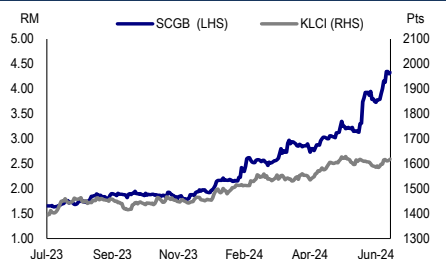
BUY (Maintain)

Target Price: RM5.60
Previously: RM3.75
Current Price: RM4.59

Capital upside	22.0%
Dividend yield	1.1%
Expected total return	23.1%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	22.7	60.5	170.0
Relative	21.8	53.6	131.5

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	5,934
3-mth average volume ('000)	3872
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

Major shareholders

Sunway Berhad	54.6%
EPF	6.2%

Earnings summary

FYE (Dec)	FY23	FY24f	FY25f
PATMI - core (RM m)	151.6	170.2	292.1
EPS - core (sen)	11.7	13.2	22.6
P/E (x)	39.1	34.9	20.3

Sunway Construction Group

Lifting assumptions

Despite management's lifting of contract targets to RM4-5bn, there remains upside risks from its sizable pipeline. Going forward, we anticipate contract opportunities from its ongoing ECI A & B packages (conversion into EPC), FCZ Phase 1 and precast orders in our RM5bn base case. Upside include other potential DCs and infra projects. Earnings are on track to accelerate in the 2H. Due to upward revision in replenishment assumptions we lift FY25f/FY26f earnings forecasts by +26.6%/+33.8%. Maintain BUY with higher TP of RM5.60 based on justifiable 24.8x P/E (+1SD 5Y) multiple due to high leverage onto the multi-year DC pipeline, projected upshift in already superior ROEs (~27%) and orderbook levels that can meaningfully grow from the DC pipeline.

Earnings outlook. SunCon's 1QFY24 showing was decent with core PATAMI of RM27m. We foresee gradually stronger performance in 2QFY24 even as we note continued mild seasonality impact. Our view of a stronger 2HFY24 remains firmly intact. During the recent upsizing of its JHBX10 DC contract value from RM1.7bn to RM3.2bn, Yellowwood has simultaneously given the Notice-to-Proceed (NTP) for NTP 2-4 carrying balance works of RM2.95bn to be executed over 20 months. We gather that prior to that, SunCon had undertaken preparatory works to enable quick progress ramp-up once greenlighted.

Overachieving in 1H24. The company has delivered contract wins YTD of RM3.3bn surpassing management's original target of RM2.5bn-3.0bn inside 1HFY24. We attribute this beat (vs guidance) to strong DC market and higher capacity to take on more precast orders post-commissioning of its ICPH plant in SG. Nevertheless, key driver of contract wins have been DCs constituting 70% of its YTD job wins. SunCon's recently upsized DC contract to RM3.2bn for JHBX10 project reaffirms our [long held view](#) of potential expansion in works/contracts given the long term development pipeline of existing clients. For example scouring through the net, we gather that Yellowwood Properties has a remaining pipeline of roughly 200MW for its hyperscale DC development while K2 also has plans for an ultimate capacity of 300MW to which SunCon is engaged for the early phase. Further to this, we think SunCon is advantageously positioned to ride on the multi-year pipeline of its US MNC clients.

Revised RM4-5bn guidance still a touch low. During SunCon's recently held AGM, management revised upwards FY24 contracts target to RM4-5bn after storming past its initial guidance of RM2.5-3.0bn at the start of the year. From the start, we viewed the initial contract guidance as being [conservative](#) and this stance has not changed even with the updated guidance. At the moment, we see a clear pathway towards the RM5bn contract wins mark (our new base case) with potential for more depending on if the company stays aggressive in tendering for more jobs. Going forward we anticipate contract opportunities from its ongoing ECI A & B packages (conversion into EPC), Sunway-Equalbase JV Free Commercial Zone Phase 1 and precast orders in our base case. Upside risk to our base case are other potential DC opportunities given the strong stream of tender opportunities as well as infra projects. SunCon is currently vying to secure more DC jobs, which in our view, award decision could come next year.

Silver lining from Vietnam. Toyo Ventures recently announced that its 2.12GW Song Hau 2 power plant project has been terminated by the Ministry of Industry and Trade, effectively bringing an end to the project. This latest development will not only allow SunCon to focus on the burgeoning DC market but also avoid participating in a contentious project.

Forecasts. We lift our FY25f/FY26f earnings forecasts by +26.6%/+33.8% after lifting our FY24f/25f/26f replenishment assumptions to RM5bn/RM4.3bn/RM3.8bn from RM3.4bn/RM2.3bn/RM2.3bn.

Maintain BUY, TP: RM5.60. Maintain BUY with higher TP of RM5.60 (from RM3.75) post-earnings adjustment. Our TP is derived by pegging FY25 EPS to 24.8x (from 21.0x) P/E multiple based on +1SD over the 5 year range. In our view, this is justified considering SunCon's high leverage onto the multi-year DC pipeline, projected upshift in already superior ROEs (~27%) and orderbook levels that can meaningfully grow from the DC pipeline. Downside risks include: costs inflation, AI crackdown & DC project execution.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Cash	491.6	470.4	775.7	1,453.3	1,530.9
Receivables	1,077.6	1,893.2	1,488.4	1,874.5	2,052.7
Inventories	53.4	46.4	30.5	48.0	52.2
PPE	107.5	98.0	91.6	83.9	74.7
Others	505.9	574.8	574.8	574.8	574.8
Assets	2,236.0	3,082.8	2,961.1	4,034.4	4,285.3
Debts	480.7	926.0	669.0	875.1	761.9
Payables	895.4	1,193.3	1,222.0	1,918.1	2,087.3
Others	39.2	71.6	71.6	71.6	71.6
Liabilities	1,415.3	2,190.8	1,962.6	2,864.9	2,920.8
Shareholder's equity	737.1	820.2	926.7	1,097.7	1,292.7
Minority interest	83.7	71.8	71.8	71.8	71.8
Equity	820.8	892.0	998.5	1,169.5	1,364.5

Cash Flow Statement

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Profit before taxation	192.8	195.1	223.9	384.0	437.8
Depreciation & amortisation	23.8	21.0	26.4	27.8	29.2
Changes in working capital	(401.8)	(510.7)	449.3	292.7	(13.3)
Share of JV profits	(1.7)	14.1	-	-	-
Taxation	(45.3)	(42.8)	(49.2)	(84.5)	(96.3)
Others	17.3	23.8	-	-	-
Operating cash flow	(215.0)	(299.4)	650.3	620.0	357.4
Net capex	(2.9)	(1.1)	(20.0)	(20.0)	(20.0)
Others	426.7	(61.8)	-	-	-
Investing cash flow	423.8	(62.9)	(20.0)	(20.0)	(20.0)
Changes in borrowings	242.8	445.2	(256.9)	206.1	(113.3)
Issuance of shares	-	-	-	-	-
Dividends paid	(71.1)	(77.3)	(68.1)	(128.5)	(146.5)
Others	(29.0)	(30.5)	-	-	-
Financing cash flow	142.7	337.4	(325.0)	77.6	(259.8)
Net cash flow	351.4	(24.8)	305.3	677.6	77.6
Forex	-	-	-	-	-
Others	41.3	3.6	-	-	-
Beginning cash	98.8	491.6	470.4	775.7	1,453.3
Ending cash	491.6	470.4	775.7	1,453.3	1,530.9

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Revenue	2,155.2	2,671.2	2,716.4	4,276.1	4,682.6
EBITDA	219.0	251.8	283.6	431.7	484.3
EBIT	195.2	230.8	257.2	403.9	455.2
Net finance income/ (cost)	(4.2)	(21.5)	(33.4)	(19.9)	(17.4)
Associates & JV	1.7	(14.1)	-	-	-
Profit before tax	192.8	195.1	223.9	384.0	437.8
Tax	(45.3)	(42.8)	(49.2)	(84.5)	(96.3)
Net profit	147.4	152.3	174.6	299.6	341.5
Minority interest	(3.6)	(0.7)	(4.4)	(7.5)	(8.5)
Core PATAMI	143.9	151.6	170.2	292.1	333.0
Exceptional items	(8.7)	(6.5)	-	-	-
Reported earnings	135.2	145.1	170.2	292.1	333.0

Valuation & Ratios

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Core EPS (sen)	11.1	11.7	13.2	22.6	25.8
P/E (x)	41.3	39.1	34.9	20.3	17.8
EV/EBITDA (x)	29.5	25.7	22.8	15.0	13.3
DPS (sen)	5.5	6.0	5.3	9.9	11.3
Dividend yield	1.2%	1.3%	1.1%	2.2%	2.5%
BVPS (RM)	0.6	0.6	0.7	0.8	1.0
P/B (x)	8.1	7.2	6.4	5.4	4.6
EBITDA margin	10.2%	9.4%	10.4%	10.1%	10.3%
EBIT margin	9.1%	8.6%	9.5%	9.4%	9.7%
PBT margin	8.9%	7.3%	8.2%	9.0%	9.3%
Net margin	6.8%	5.7%	6.4%	7.0%	7.3%
ROE	20.0%	19.5%	19.5%	28.9%	27.9%
ROA	6.1%	4.8%	4.7%	6.3%	5.9%
Net gearing	CASH	55.5%	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Construction	2,414	2,235	4,700	4,000	3,500
Precast	168	270	300	300	300
Total new job wins	2,582	2,300	5,000	4,300	3,800

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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