

HLIB Research

PP 9484/12/2012 (031413)

Edwin Woo, CFA

ckwoo@hlib.hongleong.com.my

(603) 2083 1718

BUY

 (Maintain)

Target Price: **RM3.75**

Previously: **RM3.75**

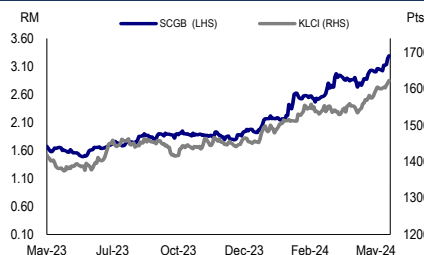
Current Price: **RM3.31**

Capital upside	13.3%
Dividend yield	1.6%
Expected total return	14.9%

Sector coverage: Construction

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

Share price



Historical return (%)	1M	3M	12M
Absolute	8.9	27.8	103.1
Relative	8.0	23.3	86.7

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	4,279
3-mth average volume ('000)	4331
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Holdings Sdn Bhd	54.6%
EPF	6.6%

Earnings summary

FYE (Dec)	FY23	FY24f	FY25f
PATMI - core (RM m)	151.6	170.2	230.7
EPS - core (sen)	11.7	13.2	17.8
P/E (x)	28.1	25.1	18.5

Sunway Construction Group

Surpasses guidance at halftime

SunCon announced that its JHB1X0 DC contract has been upsized to RM3.2bn (from RM1.7bn). This translates to additional scope of works under phase 1 of the DC development. Contract wins YTD of RM3.3bn have surpassed annual guidance with 2H24 to go. We see upside risks to our revised RM3.6bn wins assumptions. Pipeline remains strong, anchored by DC jobs as well as internal projects. No change to forecasts. Maintain BUY with unchanged TP of RM3.75. SunCon is a proxy to coming infrastructure project rollouts, vibrant advanced technology facilities sector and a growing parent-co business.

NEWSBREAK

SunCon announced that its wholly-owned subsidiary, Sunway Construction Sdn Bhd has entered into an amendment deed with Yellowwood Properties Sdn Bhd to amend the contract for general contractor services for project JHB1X0. This contract amendment includes new scope of works under Notice-to-proceed 4 (NTP4) which is worth RM1.5bn. Effectively, this takes SunCon's total contract value to RM3.2bn (including billed portion of RM247m). Notice-to-proceed 2 remains on track to be green lighted by 30-June-24 and the entire contract will require 20 months to complete (1QFY26).

HLIB'S VIEW

New high. The latest expansion on its scope of works takes SunCon's contract wins in FY24 YTD to RM3.3bn, catapulting its orderbook to a new high of RM7.9bn (3.0x cover on FY23 revenue). On the back of this, SunCon's initial contract wins target of RM2.5-3.0bn in FY24 has been surpassed while upside risks to our revised estimate of RM3.6bn now looks substantial. We believe the additional works are in relation to Phase 1 of the DC development. With expanded scope of works for Phase 1, we think SunCon is advantaged for tenders in future phases.

Gunning for more. SunCon still has ~4 tenders in the advance technology facilities (ATF) space and would be in an advantageous position to benefit from expansion of existing key clients. Both its ECI (A & B) engagements are progressing well and have yielded work orders totalling RM53.4m (rolling basis). This engagement could be upsized going forward at a size of >RM1bn, by our estimates. On another positive note, SunCon has also been invited to potentially participate in ATF projects in India and Indonesia, opening up possibilities of regional penetration into a rapidly growing sector. Aside from ATF, management continues to see upside bias to its Vietnam power plant project (activation will yield another RM6bn of order) – we have not imputed the project into our assumptions. As for infrastructure projects, the company intends to participate in upcoming infrastructure projects like Penang LRT and Johor ART. We believe the company is also not short on internal project pipeline.

Forecast. No change to forecasts for now as wins are within assumptions.

Maintain BUY, TP: RM3.75. Maintain BUY with unchanged TP of RM3.75. TP is derived by pegging FY25 EPS to 21.0x P/E multiple based roughly on +0.5SD on 5 year trading range. We believe this above average target multiple is warranted due to its Johor and DC exposure. SunCon is a proxy to coming infrastructure project rollouts, vibrant advanced technology facilities sector and a growing parent-co business.

Figure #1 Contract wins in 2024 YTD

Projects (2024 new awards)	Client	Completion Date	Contract Sum (RM'mil)
Sunway Ipoh Mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721
Early Contractor Involvement (ECI) Services & Work Order 1A&1B - Package A	Multinational Technology Company	Oct-24	34
Early Contractor Involvement (ECI) Services & Work Order 1A&1B - Package B	Multinational Technology Company	Oct-24	26
Ulu Pandan C1 & C2	CES Engineering & Construction Ptd Ltd	Jun-27	103
Project Service Request	Multinational Technology Company	Apr-27	748
Bedok N2C23 - Watertanks	Precast Concrete Pte Ltd	Sep-25	3
LPS Term Contract Batch 14	Housing and Development Board	Sep-25	82
Secured in 1Q 2024			1,718
101 Neythal Road Redevelopment	Fonda Global Engineering Pte Ltd	Aug-25	6
SMC4 Phase 3 - Fit-out works	Sunway Medical Centre Sdn Bhd	Jun-26	80
JHB1X0 - Revised NTP works	Yellowwood Properties Sdn Bhd	Feb-26	1,500
Secured in 2Q 2024			1,586
TOTAL AS AT 10 JUNE 2024			3,304

SunCon

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	1,250.3	1,258.8
Receivables	1,077.6	1,893.2	1,488.4	1,512.2	1,526.0
Inventories	53.4	46.4	30.5	38.7	38.9
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	3,459.9	3,473.2
Debts	480.7	926.0	669.0	706.4	567.5
Payables	895.4	1,193.3	1,222.0	1,548.3	1,554.8
Others	39.2	71.6	71.6	71.6	71.6
Liabilities	1,415.3	2,190.8	1,962.6	2,326.3	2,193.9
Shareholder's equity	737.1	820.2	926.7	1,061.8	1,207.5
Minority interest	83.7	71.8	71.8	71.8	71.8
Equity	820.8	892.0	998.5	1,133.6	1,279.3

Cash Flow Statement

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Profit before taxation	192.8	195.1	223.9	303.4	327.2
Depreciation & amortisation	23.8	21.0	26.4	27.8	29.2
Changes in working capital	(401.8)	(510.7)	449.3	294.4	(7.5)
Share of JV profits	(1.7)	14.1	-	-	-
Taxation	(45.3)	(42.8)	(49.2)	(66.7)	(72.0)
Others	17.3	23.8	-	-	-
Operating cash flow	(215.0)	(299.4)	650.3	558.8	276.9
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)	37.4	(138.9)
Issuance of shares	-	-	-	-	-
Dividends paid	(71.1)	(77.3)	(68.1)	(101.5)	(109.5)
Others	(29.0)	(30.5)	-	-	-
Financing cash flow	142.7	337.4	(325.0)	(64.1)	(248.4)
Net cash flow	351.4	(24.8)	305.3	474.7	8.5
Forex	-	-	-	-	-
Others	41.3	3.6	-	-	-
Beginning cash	98.8	491.6	470.4	775.7	1,250.3
Ending cash	491.6	470.4	775.7	1,250.3	1,258.8

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Revenue	2,155.2	2,671.2	2,716.4	3,449.6	3,481.1
EBITDA	219.0	251.8	283.6	346.0	362.8
EBIT	195.2	230.8	257.2	318.2	333.7
Net finance income/ (cost)	(4.2)	(21.5)	(33.4)	(14.8)	(6.5)
Associates & JV	1.7	(14.1)	-	-	-
Profit before tax	192.8	195.1	223.9	303.4	327.2
Tax	(45.3)	(42.8)	(49.2)	(66.7)	(72.0)
Net profit	147.4	152.3	174.6	236.6	255.2
Minority interest	(3.6)	(0.7)	(4.4)	(5.9)	(6.4)
Core PATAMI	143.9	151.6	170.2	230.7	248.8
Exceptional items	(8.7)	(6.5)	-	-	-
Reported earnings	135.2	145.1	170.2	230.7	248.8

Valuation & Ratios

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Core EPS (sen)	11.1	11.7	13.2	17.8	19.2
P/E (x)	29.7	28.2	25.1	18.5	17.2
EV/EBITDA (x)	22.0	19.1	17.0	13.9	13.2
DPS (sen)	5.5	6.0	5.3	7.9	8.5
Dividend yield	1.7%	1.8%	1.6%	2.4%	2.6%
BVPS (RM)	0.6	0.6	0.7	0.8	0.9
P/B (x)	5.8	5.2	4.6	4.0	3.5
EBITDA margin	10.2%	9.4%	10.4%	10.0%	10.4%
EBIT margin	9.1%	8.6%	9.5%	9.2%	9.6%
PBT margin	8.9%	7.3%	8.2%	8.8%	9.4%
Net margin	6.8%	5.7%	6.4%	6.9%	7.3%
ROE	20.0%	19.5%	19.5%	23.2%	21.9%
ROA	6.1%	4.8%	4.7%	5.5%	5.3%
Net gearing	CASH	55.5%	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Construction	2,414	2,235	3,300	2,000	2,000
Precast	168	270	300	300	300
Total new job wins	2,582	2,300	3,600	2,300	2,300

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

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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

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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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