

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

A Brighter 2HFY24 in the Cards

KEY INVESTMENT HIGHLIGHTS

- **Core earnings of RM38.9m in 2QFY24, an improvement of +17.8%yoy; 1HFY24 core earnings grew +20.0% to RM71.1m**
- **Construction revenue rose +11.6%yoy to RM597.6m; PBT grew +19.9%yoy to RM46.9m**
- **FY24 order book replenishment target raised from RM3.0b to RM4.0b-RM5.0b**
- **Maintain NEUTRAL with an upgraded TP of RM4.46**

Within expectations. Sunway Construction Group Berhad's (SunCon's) core net profit for 2QFY24 came in +17.8%yoy higher at RM38.9m, bringing the cumulative 1HFY24 core earnings to RM71.1m, an increase of +20.0%yoy. At 39.8% of ours and 39.3% of consensus' full-year projections, we deem the results within estimates as we expect stronger progress billings in 2HFY24, driven by its sizeable and fast-paced data centre jobs. The group declared its first interim dividend of 3.5 sen.

Construction segment. The group's construction revenue grew +11.6%yoy during the quarter to RM597.6m, generating a PBT of RM46.9m, a growth of +19.9%yoy. This was due to the accelerated progress of SunCon's newer projects. There was an improvement in the PBT margin to 7.8%, as compared to 6.9% last quarter and 7.3% in 2QFY23. We expect the margins at current level to be sustainable, if not better in future quarters as there is minimal impact from the diesel rationalisation, stable cement prices and lower steel bar prices.

Precast segment. Despite a -21.8%yoy lower revenue during the quarter to RM53.6m, the precast division's PBT came in stronger by +3.1%yoy to RM3.3m, attributable mainly to some reversal of provisions for completed projects during the quarter. There was lower turnover during the quarter as planned production for some of the jobs secured by the divisions will only commence in 4QFY24 and 1QFY25. PBT margin remained stable at 6.2% as compared to 6.1% last quarter, but an improvement over 4.7% in 2QFY3.

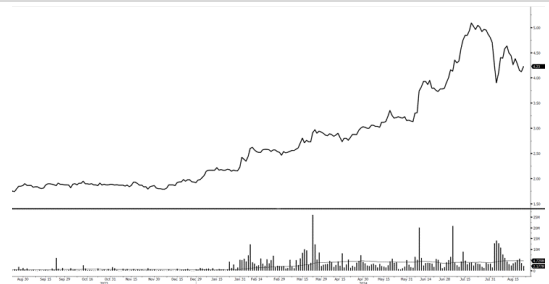
New replenishment target of RM5.0b. As expected, SunCon has raised its FY24 job replenishment target to between RM4.0b and RM5.0b. It has secured RM3.5b worth of new jobs to date. The group's previous replenishment target was RM3.0b, which was surpassed in Jun-24 after securing RM1.5b of additional works for the JHB1X0 data centre at the Sedenak Tech Park. We are optimistic that the group can achieve the higher end of the target as we understand that there currently many Advanced Technology Facilities (ATF) projects, which comprises data centers, warehouses and semiconductor factories, which would allow SunCon to be selective. There are also prospects of upsizing contracts from existing clients. Management is actively bidding for jobs, with a tender book of RM13.7b. SunCon's outstanding order book as at Jun-24 stood at RM7.38b, out of which RM3.77b or 51.1% are data centre projects.

Maintain NEUTRAL
Revised Target Price: RM4.46
 (Previously RM3.09)

RETURN STATISTICS

Price @ 22 nd Aug 2024 (RM)	4.24
Expected share price return (%)	+5.2
Expected dividend yield (%)	+1.7
Expected total return (%)	+6.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-14.7	-15.6
3 months	11.6	28.8
12 months	139.0	111.7

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	2,978.96	3,964.86	4,163.10
Operating Profit	217.27	303.69	333.05
Profit Before Tax	230.45	318.60	337.21
Core net profit	178.74	240.03	259.80
Core EPS (sen)	13.9	18.6	20.1
DPS (sen)	7.0	7.0	7.0
Dividend Yield	1.7%	1.7%	1.7%


KEY STATISTICS

FBM KLCI	1,641.66
Issue shares (m)	1,292.9
Estimated free float (%)	26.71
Market Capitalisation (RM'm)	5,453.99
52-wk price range	RM1.76-RM5.18
3-mth average daily volume (m)	4.69
3-mth average daily value (RM'm)	19.28
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Wav Corp Sdn Bhd	10.08
Employees Provident Fund Board	6.24

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Earnings estimates. We maintain our FY24E earnings estimates but lift our projections for FY25F/FY26F by +26.8%/+28.8% to RM240.0m/RM259.8m respectively on the back of stronger job replenishment expectations.

Target price. As such, we upgrade our **TP** for SunCon to **RM4.46** from RM3.09 previously, pegging its FY25F EPS of 18.6 sen to a PER of 24x, which is +1SD above its five-year mean.

Maintain NEUTRAL. We view that the upcoming pipeline of projects remains healthy for the sector and SunCon is expected to be among the main beneficiaries of the rise in both private and civil construction jobs. SunCon is now renowned for its data centre construction expertise, allowing it to ride on the data centre growth in the country with more construction jobs expected in the space. Our **NEUTRAL** recommendation is premised on the strong run-up in SunCon's share price by more than double year-to-date, despite the recent correction. With our new **TP** of **RM4.46**, we believe there is still some upside to its share price of +5.2%. 

SUNWAY CONSTRUCTION: 2QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	2QFY24	1QFY24	2QFY23	QoQ	YoY	1HFY24	1HFY23	YoY
Income Statement								
Revenue	651.2	604.8	604.1	7.7%	7.8%	1,256.0	1,126.2	11.5%
Net Operating Expenses	(600.2)	(550.1)	(257.2)	-9.1%	-133.4%	(1,150.3)	(736.7)	-56.2%
Operating Profit	52.7	53.1	46.7	-0.8%	12.8%	105.7	88.4	19.7%
Finance Income	15.3	4.7	6.7	223.9%	128.2%	20.1	10.8	85.4%
Finance Costs	(17.8)	(16.2)	(11.5)	-9.9%	-55.3%	(34.0)	(19.7)	-72.2%
JV and Associates	0.0	0.0	0.3	-	-100.0%	0.0	0.3	-100.0%
Profit Before Tax	50.2	41.6	42.3	20.5%	18.8%	91.9	79.8	15.1%
Tax Expense	(12.4)	(8.9)	(9.0)	-39.2%	-38.3%	(21.4)	(17.9)	-19.6%
Minority Interest	(1.1)	0.3	0.3	-455.2%	-512.4%	(0.8)	1.1	-173.2%
Reported Net Profit	38.9	32.4	33.0	19.9%	17.8%	71.3	60.8	17.2%
Core Net Profit	38.9	32.2	33.1	21.0%	17.8%	71.1	59.3	20.0%

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	2,155.23	2,364.70	2,978.96	3,964.86	4,163.10
Net operating expenses	(1,963.75)	(2,182.91)	(2,655.54)	(3,484.59)	(3,642.71)
Operating profit	148.41	169.97	217.27	303.69	333.05
Profit before tax	184.06	193.79	230.45	318.60	337.21
Net profit	135.18	140.80	178.74	240.03	259.80
Core net profit	134.44	140.80	178.74	240.03	259.80
Core EPS (sen)	10.5	10.9	13.9	18.6	20.1
DPS (sen)	5.5	6.0	7.0	7.0	7.0

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	107.6	118.4	124.3	130.6	124.1
Other investments and assets	491.1	498.0	511.9	518.9	532.0
Non-current assets	598.7	616.3	636.2	649.6	656.1
Cash	491.6	468.2	522.1	548.3	520.8
Trade debtors	988.7	1,123.5	1,231.3	1,304.2	1,369.4
Current assets	1,637.4	1,730.1	1,905.9	2,013.5	2,051.3
Trade creditors	916.8	1,121.6	1,193.8	1,277.4	1,335.4
Short-term debt	172.2	161.6	197.5	197.6	217.3
Current liabilities	1,103.3	1,296.9	1,407.9	1,491.6	1,569.4
Long-term debt	308.5	203.6	207.6	150.6	118.3

Non-current liabilities	311.9	489.1	212.8	155.4	122.1
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	515.9	579.3	662.8	757.4	757.4
Equity	737.1	837.9	921.4	1,016.0	1,016.0

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	184.1	193.8	211.5	318.6	337.2
Depreciation & amortisation	23.8	26.1	27.4	28.8	27.4
Changes in working capital	-382.1	100.8	-64.8	-23.9	-16.7
Operating cash flow	-215.0	414.9	206.6	297.7	286.1
Capital expenditure	-1.9	-25.0	-25.0	-25.0	-30.0
Investing cash flow	423.7	-308.0	-123.2	184.8	189.8
Debt raised/(repaid)	233.4	107.6	193.7	-145.4	-145.4
Dividends paid	-90.3	-77.4	-77.4	-77.4	-77.4
Financing cash flow	142.7	30.2	116.3	-222.8	-222.8
Net cash flow	351.4	137.1	199.7	259.8	253.1
Beginning cash flow	60.6	407.7	544.8	744.4	1004.2
Ending cash flow	407.7	544.8	744.4	1004.2	1257.3

Profitability Margins	2022A	2023A	2024E	2025F	2026F
Operating profit margin	6.9%	7.2%	7.3%	7.7%	8.0%
PBT margin	8.5%	8.2%	7.7%	10.7%	11.3%
PAT margin	6.3%	6.0%	6.0%	8.1%	8.7%
Core PAT margin	5.8%	6.0%	6.0%	7.7%	8.0%

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology