

## Sunway Construction SCOG.KL SCGB MK

EQUITY: ENGINEERING & CONSTRUCTION

### Seasonal earnings weakness

## Quick Note

**Results weak:** SunCon's 1Q24 net income of MYR32mn, was up 16% y-y but down 34% q-q. The sequential decline in earnings was due to both construction and precast segments earnings falling q-q, which is a seasonally weak period for infra works due to Chinese New Year and Hari Raya holidays both falling within the quarter. 1Q24 net income formed 16%/18% of our/Bloomberg consensus' FY24 estimates, and if we exclude a MYR5.3mn settlement received in the quarter on a past contract, results would have looked even weaker. SunCon's net gearing ratio currently stands at 0.56x vs a net cash position of MYR55mn as of end-2022 and net gearing of 0.51x in end-2023, due to receivables from Indian highways and LSS4 projects which have deferred payment terms.

**Construction segment review:** Construction revenue for 1Q24 was MYR544mn, down 31% q-q. PBT was down 29% q-q, with PBT margin remaining flat q-q. New orderbook replenishment for 1Q24 was at MYR1.7bn. The company's outstanding orderbook currently stands at MYR6.3bn, while the active tenderbook stands at MYR9.4bn (down from MYR26.2bn in end-2023, as MRT3 has been excluded). The company reported negative operating cash flows (OCF) of MYR11mn vs negative MYR119mn in 4Q23. OCF was negative due to a high long-term receivables balance of MYR450mn on its balance sheet. This relates to its two India projects (which have deferred the payment terms for 60% of the project value) and also two LSS4 (Large Scale Solar 4) projects (payment 6 months after commercial operations date (COD). SunCon received commercial operation date for one of the India highway projects (Meensurutti - Chidambarm) in mid-Feb'24 and it is working on settlement agreement for the TJ (Thorapalli Jittandahalli) highway project in India. SunCon continues to bid for more data centre projects in Malaysia and is also exploring potential projects in Advanced Technology Facilities (ATF), which comprises data center/semiconductor factories in other ASEAN countries along with local JV partners.

**Pre-cast segment review:** Precast revenue/PBT for 1Q24 came in at MYR61mn/MYR4mn (-29%/ -51% q-q). PBT margin was down 3pp q-q.

**Outlook:** SunCon expects MYR2.5-3.0bn of orderbook replenishment in 2024 (Nomura estimate: MYR3.5bn). Note that we are currently not assuming the award of the Song Hau 2 power plant (where financial closure has been delayed several times). On precast, productivity continues to improve at its precast plant in Singapore.

**Reiterate Neutral:** We think upcoming 2Q24 earnings might also be soft as most of the large data center projects which SunCon has won are in early stages. As a result, we believe the earnings miss might result in a share price pullback. We maintain our Neutral rating on SunCon, and our TP of MYR2.60 values the stock at a FY24F P/E of 17.0x (current valuation: 21.3x). **Upside risks to our view are:** Song Hau 2 power plant achieving financial closure, and translating into SunCon's orderbook, or SunCon winning more data-center/infra jobs which are higher than our expectations. **Downside risks to our view are:** (1) delays in construction project awards; (2) lower-than-expected margins; (3) lower pre-cast earnings persisting; (4) a lack of new projects; (5) risk of project cancellations or arbitration.

Rating Remains	<b>Neutral</b>
Target price Remains	<b>MYR 2.60</b>
Closing price 20 May 2024	<b>MYR 3.35</b>

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Fig. 1: SunCon – 1Q24 results snapshot

MYR mn	1Q24	NMR FY24F	as % of NMR	Cons FY24F	as % of cons
Revenue	605	3,541	17%	3,196	19%
Adj PBT	42	254	16%	233	18%
Adj NPATAMI	32	197	16%	182	18%
Reported NPATAMI	32	197	16%	181	18%

Source: Company data, Bloomberg Finance L.P. consensus, Nomura estimates

Fig. 2: SunCon – 1Q24 results review

MYR mn	1Q24	1Q23	% chg y-y	4Q23	% chg q-q	FY24F	as % of FY24F
<b>Revenues</b>	<b>605</b>	<b>522</b>	<b>16%</b>	<b>871</b>	<b>(31%)</b>	<b>3,541</b>	<b>17%</b>
Construction	544	469	16%	786	(31%)	3,153	17%
Precast concrete	61	53	16%	86	(29%)	388	16%
<b>Operating profit</b>	<b>53</b>	<b>42</b>	<b>27%</b>	<b>82</b>	<b>(35%)</b>	<b>299</b>	<b>18%</b>
Construction	46	38	23%	57	(18%)		
Precast concrete	7	4	65%	25	(73%)		
<b>Adjusted Pretax profit</b>	<b>42</b>	<b>38</b>	<b>11%</b>	<b>61</b>	<b>(31%)</b>	<b>254</b>	<b>16%</b>
Construction	38	36	5%	53	(29%)	233	16%
Precast concrete	4	1	191%	8	(51%)	21	18%
Core PAT	33	29	14%	48	(32%)	198	17%
<b>Core PAT - equityholders</b>	<b>32</b>	<b>28</b>	<b>16%</b>	<b>49</b>	<b>(34%)</b>	<b>197</b>	<b>16%</b>
<b>Other one-off charges</b>	<b>0</b>	<b>0</b>	<b>NM</b>	<b>0</b>	<b>NM</b>	<b>0</b>	<b>NM</b>
<b>Headline NPAT - equityholders</b>	<b>32</b>	<b>28</b>	<b>16%</b>	<b>49</b>	<b>(34%)</b>	<b>197</b>	<b>16%</b>
<b>Adj Pretax margins</b>	<b>6.9%</b>	<b>7.2%</b>	<b>0 ppt</b>	<b>7.0%</b>	<b>0 ppt</b>	<b>7.2%</b>	
Construction	7.0%	7.7%	-1 ppt	6.7%	0 ppt	7.4%	
Precast concrete	6.1%	2.4%	4 ppt	9.0%	-3 ppt	5.5%	

Source: Company data, Nomura estimates

**Fig. 3: SunCon's outstanding orderbook**

As of end-1Q24

MYR mn	Contract Sum		Outstanding order book	
<b>Infrastructure/Piling</b>				
LRT3: Package GS07-08	2,178	1,295	1,589	8
RTS Link Package 1B and 5		605		417
LRT3: GS06		191		11
<b>Building</b>				
Oxley Tower + VO		77		31
JHB1X0 - Data Centre		1,700		1,453
K2 Datacentre		190		104
K2 Datacentre (CIMC)		99		93
Daiso		298		282
ECl and Work order - MNC		60		58
PSR - MNC		748		748
<b>India</b>				
Thorapalli Agraharam - Jittandahalli		508		190
<b>Renewable energy</b>				
Solar - External		45		7
Lss4 Gopeng		200		16
Lss4 Sharp Ventures		185		18
South Quay Square Dcs		35		10
Cgpp - Green*		46		46
<b>Internal</b>				
Sunway Belfield		403		77
South Quay Square - Superstructure + VO		1,164		744
Sw Carnival Mall - Refurbishment		253		154
Sunway Velocity 2B		253		54
Smc Damansara		240		71
Smc Ipoh + VO		217		59
SW Flora		278		217
SMC Fit-out		70		70
SMCSJ Fit-out		14		14
SW Ipoh Mall		721		719
<b>Singapore</b>				
Precast		809		441
External - New order 2023		189		189
<b>Total</b>		<b>10,891</b>		<b>6,303</b>
<b>Orderbook burn rate (FY23, including internal)</b>			<b>3,499</b>	
<b>Implied earnings visibility (years)</b>			<b>1.8</b>	

Source: Company data, Nomura research

**Fig. 4: YTD 2024 orderbook replenishment**

<b>Project</b>	<b>Duration</b>	<b>Contract Sum (MYR mn)</b>
Sunway Ipoh Mall	Jan-27	721
Early Contractor Involvement (ECI) Services - Package A	Aug-24	3
Early Contractor Involvement (ECI) Services - Package B	Aug-24	3
Ulu Pandan C1 & C2	Jun-27	103
Project Service Request	Apr-27	748
Bedok N2C23 - Watertanks	Sep-25	3
LPS Term Contract Batch 14	Sep-25	82
Work order 1B - Package A	Oct-24	31
Work order 1B - Package B	Oct-24	23
<b>Total</b>		<b>1,718</b>

Source: Company data, Nomura research

# Appendix A-1

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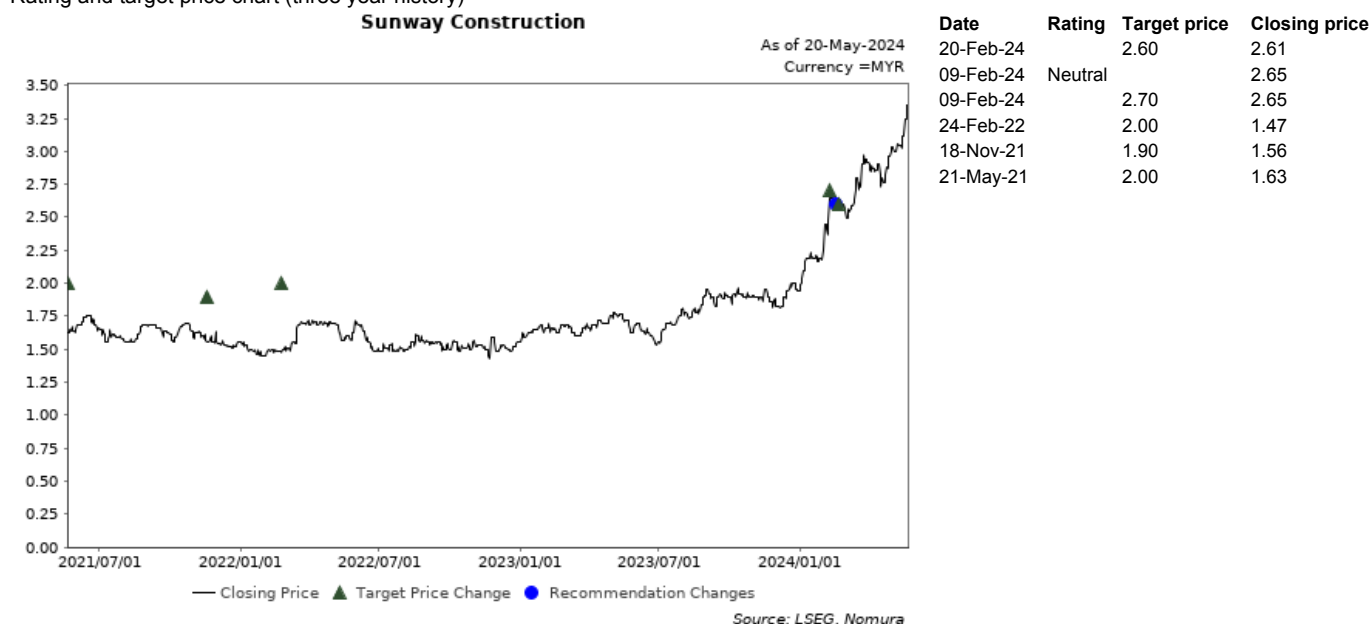
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 3.35	20-May-2024	Neutral	N/A	

### Sunway Construction (SCGB MK)

MYR 3.35 (20-May-2024) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value SunCon at a target P/E of 17x on FY24F earnings estimate of MYR197mn for FY24F. We arrive at our TP of MYR2.60. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

**Risks that may impede the achievement of the target price** Upside risks to our view are: 1) SunCon winning multiple large hyperscale DC projects, 2) SunCon winning the MRT3 CMC02 package or the Song Hau 2 power plant achieving financial close, and translating to SunCon's orderbook. Downside risk to our view are: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

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