

# Sunway Construction (SCGB MK)

Weak start; D/G to Sell on valuation

MALAYSIA | CONSTRUCTION | RESULT

- Sunway Construction's (SunCon) 1Q24 results was off to a weak start, comprising 18% of ours and consensus forecasts
- The weaker sequential earnings was due to slower progress billing for both its construction and precast segments
- Maintain our TP at RM2.90 but downgrade the stock to SELL as valuation has run ahead of fundamental, trading at 21x 2025E PE (+2SD its 3-year mean)

## Weak 1Q24, but result deemed to be in line

SunCon recorded 1Q24 core net profit of RM32m (+25% YoY) on the back of higher revenue of RM605m (+16% YoY) driven by better construction (+16% YoY) and precast (+16% YoY) segments. Notwithstanding the higher revenue, PBT margin was marginally lower by 0.3ppt at 6.9%, mainly dragged by the higher interest expense (+96% YoY) to finance the India highways and LSS4 projects, but partly offset by lower depreciation charge and effective tax rate. 1Q24 results was off to a weak start, making up 18% of ours and consensus forecasts. Despite the weak quarter, we deemed results to be in line with expectations on higher progress billings in 2H24.

## Weaker sequential earnings; 2H24 stronger earnings momentum

Sequential 1Q24 core net profit declined 56% QoQ affected by slower progress billings for its construction (-31%) and precast (-29%) segments. Nevertheless, we expect 2H24 to see stronger earnings growth momentum on the back of accelerated billing recognition supported by its RM6.3bn outstanding orderbook (equivalent to 2.4x its 2023 revenue). The Sedenak data centre (RM1.7bn) project is expected to receive the notice to proceed (NTP) by Jun24 with the client in the midst of finalizing the design specification.

## Downgrade to SELL with unchanged TP of RM2.90

We maintain our earnings forecast and TP at RM2.90, based on unchanged 18x PE on 2025E EPS. Albeit positive on SunCon's orderbook replenishment prospects, we believe that the good news has been largely priced in the current share price. We downgrade the stock to a SELL rating as valuation has run ahead of fundamental with the stock trading at 21x 2025E PE or +2SD its historical 3-year mean, in our view. Key risks: delay in mega infrastructure project rollouts, slower-than-expected orderbook recognition and margin pressures.

### Key Financials

Y/E Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	2,155.2	2,671.2	3,299.2	3,624.5	3,840.3
EBITDA (RMm)	218.9	270.4	293.7	329.5	354.7
Pretax profit (RMm)	184.1	188.6	240.2	274.7	299.9
Net profit (RMm)	135.2	145.1	181.8	208.1	227.2
EPS (sen)	10.5	11.2	14.1	16.1	17.6
PER (x)	32.0	29.8	23.8	20.8	19.0
Core net profit (RMm)	143.8	170.2	181.8	208.1	227.2
Core EPS (sen)	11.1	13.2	14.1	16.1	17.6
Core EPS growth (%)	(0.6)	18.4	6.8	14.5	9.2
Core PER (x)	30.1	25.4	23.8	20.8	19.0
Net DPS (sen)	5.5	6.0	6.0	6.0	7.0
Dividend Yield (%)	1.6	1.8	1.8	1.8	2.1
EV/EBITDA (x)	19.5	17.3	16.4	14.3	13.4
Chg in EPS (%)			-	-	-
Phillip/Consensus (%)			1.0	1.0	1.0

Sources: Company, Bloomberg, Phillip Research forecasts

21 May 2024

## SELL (downgrade)

LAST CLOSE PRICE	RM3.35
TARGET PRICE	RM2.90
TOTAL RETURN	-13.4%

### COMPANY DATA

BLOOMBERG TICKER	SCGB MK EQUITY
O/S SHARES (MN):	1,289
MARKET CAP (USD mn / RM mn):	922 / 4319
52 - WK HI/LO (RM):	3.35 / 1.53
3M Average Daily T/O (mn):	4.09
NET CASH/(DEBT) (RMm)	(524.00)

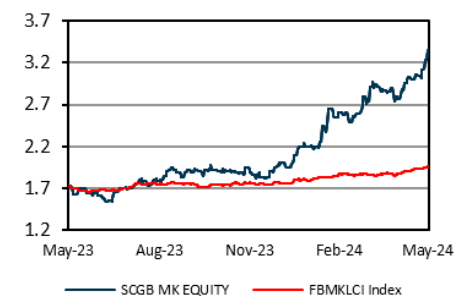
### MAJOR SHAREHOLDERS (%)

Sunway Holdings Sdn	54.6%
Sungei Way Corp Sdn	10.1%
Amanah Saham Nasional	6.4%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	15.7	28.5	68.9
FBMKLCI RETURN	5.1	7.4	13.2

### PRICE VS. FBMKLCI



Source: Bloomberg

### Kei Jun THONG

thong.keijun@phillipcapital.com.my

**Results at a glance**

Y/E Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg	Comment
Revenue	522.1	871.5	604.8	(30.6)	15.8	1Q24 higher construction (+16% YoY) and pre-cast (+16% YoY) revenue
Op costs	(477.2)	(759.7)	(547.3)	(28.0)	14.7	
<b>EBITDA</b>	<b>44.9</b>	<b>111.8</b>	<b>57.5</b>	<b>(48.5)</b>	<b>28.0</b>	
<i>EBITDA margin (%)</i>	<i>8.6</i>	<i>12.8</i>	<i>9.5</i>	<i>(3.3ppt)</i>	<i>0.9ppt</i>	Lower EBITDA margin due to weaker operating leverage
Depn and amort	(5.3)	(5.2)	(4.5)	(13.4)	(14.1)	
<b>EBIT</b>	<b>39.7</b>	<b>106.6</b>	<b>53.0</b>	<b>(50.3)</b>	<b>33.6</b>	
<i>EBIT margin (%)</i>	<i>7.6</i>	<i>12.2</i>	<i>8.8</i>	<i>(3.5ppt)</i>	<i>1.2ppt</i>	
Int and other inc	4.1	8.6	4.7	(44.9)	15.4	
Int expense	(8.3)	(15.2)	(16.2)	6.7	95.7	Higher finance costs due to financing for on-going projects
Forex	0.2	(1.6)	0.0	<i>n.m</i>	<i>n.m</i>	
El	1.8	(23.2)	0.1	<i>nm</i>	<i>nm</i>	RM1.5m forex gain, RM0.2m fair value gain offset by RM1.6m impairment losses
<b>Pretax profit</b>	<b>37.5</b>	<b>60.8</b>	<b>41.6</b>	<b>(31.5)</b>	<b>11.0</b>	
Tax	(8.9)	(12.3)	(8.9)	(27.6)	0.7	
<i>Tax rate (%)</i>	<i>23.7</i>	<i>20.3</i>	<i>21.5</i>	<i>1.1ppt</i>	<i>(2.2ppt)</i>	
MI	(0.8)	0.8	(0.3)	(136.6)	(61.9)	
<b>Net profit</b>	<b>27.8</b>	<b>49.3</b>	<b>32.4</b>	<b>(34.2)</b>	<b>16.4</b>	
EPS (sen)	2.2	3.8	2.5	(34.3)	16.2	
<b>Core net profit</b>	<b>25.8</b>	<b>74.1</b>	<b>32.3</b>	<b>(56.4)</b>	<b>25.2</b>	Within expectations

Sources: Company, Phillip Research

**Segmental revenue breakdown**

Y/E Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg
Construction	469.1	785.8	543.6	(30.8)	15.9
Precast concrete	53.0	85.7	61.2	(28.6)	15.5
<b>Total</b>	<b>522.1</b>	<b>871.5</b>	<b>604.8</b>	<b>(30.6)</b>	<b>15.8</b>

**Segmental PBT breakdown**

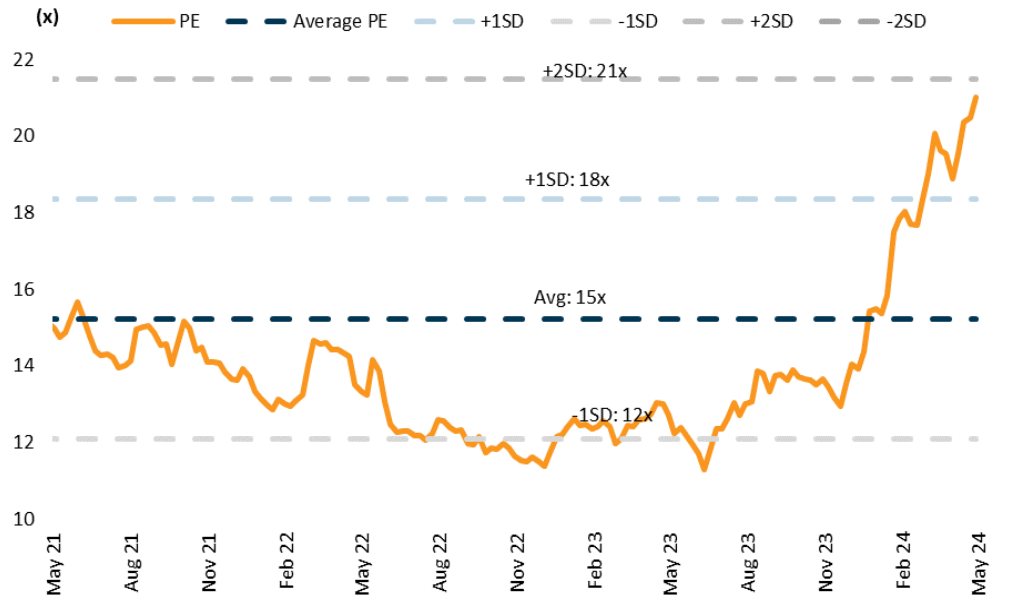
Y/E Dec (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg
Construction	36.2	53.0	37.9	(28.6)	4.6
Precast concrete	1.3	7.7	3.8	(51.3)	191.1
<b>Total</b>	<b>37.5</b>	<b>60.8</b>	<b>41.6</b>	<b>(31.5)</b>	<b>11.0</b>

**Segmental PBT margin**

Y/E Dec (%)	1Q23	4Q23	1Q24	QoQ ppt chg	YoY ppt chg
Construction	7.7	6.7	7.0	0.2ppt	(0.8ppt)
Precast concrete	2.4	9.0	6.1	(2.9ppt)	3.7ppt
<b>Total</b>	<b>7.2</b>	<b>7.0</b>	<b>6.9</b>	<b>(0.1ppt)</b>	<b>(0.3ppt)</b>

Sources: Company, Phillip Research

Table 2: SunCon's 3-years PE valuation



Source: Bloomberg, Phillip Research forecasts

## Contact Information (Regional Member Companies)

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**JAPAN**

**Phillip Securities Japan, Ltd.**  
4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**

**Phillip Capital Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)

**INDIA**

**PhillipCapital (India) Private Limited**  
No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel:+91-22-2300 2999/Fax:+91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)

**MALAYSIA**

**Phillip Capital Sdn Bhd**  
B-18-6 Block B Level 18 Unit 6 Megan Avenue II,  
No .12, Jalan Yap Kwan Seng, 50450 Kuala  
Lumpur  
Tel +603 2783 0300  
Fax +603 2166 5099  
Website: [www.phillip.com.my](http://www.phillip.com.my)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**Phillip Capital Limited**  
Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**TURKEY**

**PhillipCapital Menkul Degerler**  
Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**CAMBODIA**

**Phillip Bank Plc**  
Ground Floor of B-Office Centre,#61-64,  
Norodom Blvd Corner Street 306,Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

**DUBAI**

**Phillip Futures DMCC**  
Member of the Dubai Gold and  
Commodities Exchange (DGCX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

## Contact Information (Phillip Malaysia Investor Centres)

## MALAYSIA

**Phillip Investor Centre – Alor Setar (Kedah)**

Lot T-30 2nd Floor,  
Wisma PKNK, Jalan Sultan Badlisha,  
05000 Alor Setar, Kedah  
Tel: +604 731 7088 / Fax: 604 731 8428  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Kluang (Johor)**

No. 73, 1st Floor,  
Jalan Rambutan, 86000 Kluang.  
Tel: +607 771 7922 / Fax: 607 771 7909  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Kuantan (Pahang)**

1st Floor, B400,  
Jalan Beserah, 25300 Kuantan.  
Tel: +609 566 0800 / Fax: 609 566 0801  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Kuching (Sarawak)**

Lot 2650 1st Floor, Suite A, Block 10 KCLD  
Central Park Commercial Centre,  
3rd Mile, Jalan Rock, 93200, Kuching,  
Sarawak, Malaysia.  
Tel: +6082 247 633 / Fax: 6082 245 644  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Johor Bahru (Johor)**

15-01A, Jalan Molek 1/29,  
Taman Molek, 81100 Johor Bahru,  
Johor Darul Takzim, Malaysia  
Tel: +607 352 1808 / Fax: 607 352 4808  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Kota Damansara (Petaling Jaya)**

12A, Jalan PJU 5/8,  
Dataran Sunway, Kota Damansara,  
47810 Petaling Jaya, Selangor, Malaysia.  
Tel: +603 9212 2818 / Fax: 603 6140 7133  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Melaka**

No. 542A, Jalan Merdeka,  
Taman Melaka Raya,  
75000 Melaka, Malaysia  
Tel: +606 292 0018 / Fax: 606 292 4511  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Sibul (Sarawak)**

No. 6B Jalan Bako,  
96000 Sibul, Sarawak.  
Tel: +6084 377 933 / Fax: -  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Skudai (Johor)**

9A, Jalan Sutera Tanjung 8/2,  
Taman Sutera Utama,  
81300 Skudai, Johor, Malaysia.  
Tel: +607 557 2188 / Fax: 607 557 8788  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Kota Kinabalu (Sabah)**

Lot No. G-4, Ground Floor,  
Menara MAA, No 6, Lorong Api-Api 1,  
88000 Kota Kinabalu, Sabah.  
Tel: +6088 335 346 / Fax: -  
Website: [www.phillip.com.my](http://www.phillip.com.my)

## MALAYSIA

**Phillip Investor Centre – Penang**

No. 29A Ground Floor Suite 2, Beach Street,  
10300 Penang, Malaysia.  
Tel: +604 202 0039 / Fax: 607 261 3822  
Website: [www.phillip.com.my](http://www.phillip.com.my)

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