

Sunway Construction Group Berhad

TP: RM4.46 (+8.0%)
SH2TPP Vietnam is Terminated

Last Traded: RM4.13

Buy (ESG: ★★★★★)

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Termination of Vietnam Song Hau 2 Thermal Power Plant

According to a Vietnamese news article, Vietnam's Ministry of Industry and Trade (MIT) issued document 4579/BCT-DL on 1 July 2024, announcing the termination of the build-operate-transfer (BOT) agreement for the Song Hau 2 Thermal Power Plant (SH2TPP) project.

To recap, the 2.1GW SH2TPP's BOT contract was initially signed in December 2020 between MIT and Toyo Ventures Holdings Bhd (TOYOVEN). The engineering, procurement, construction, and commissioning (EPCC) contract value of USD2.4bn was subsequently awarded to the 55:45 consortium comprising SUNCON and Power Engineering Consulting Joint Stock Company 2 (PECC2), (SUNCON-PECC2 Consortium) in 2023.

It was reported that the BOT agreement for the power plant has been terminated due to the failure to secure a comprehensive financing scheme before the June 2024 deadline, which was necessary for the project's commencement.

Our View

We are surprised by the news, as we anticipated an extension of the due date following the USD980mn financing facility that TOYOVEN secured in June 2024, which could potentially cover 70% of SH2TPP's invoice amount.

We understand that the EPCC work has yet to start, so there should not be any material impact on SUNCON's earnings. Additionally, this job is not part of SUNCON's orderbook replenishment target for this year.

Looking ahead, we believe SUNCON could allocate its resources to focus on the growing advanced technology project (ATP) field, including data centres and semiconductor assembly and tester factories. Additionally, the potential rollout of more mega infrastructure projects in Malaysia presents further opportunities, bolstering the group's earnings visibility.

Impact

No changes to our earnings forecasts, as we have not factored in the SH2TPP project in our earnings projections and order book replenishment assumptions. Our FY24 order book replenishment assumption is RM4.0bn.

Valuation

We maintain our target price at RM4.46, based on a 22x CY25 EPS. We continue to like the stock due to the following reasons:- (i) SUNCON's strong position as a contender for mega infrastructure projects, namely MRT3, Johor ART and Penang LRT, (ii) strong earnings visibility on the back of a robust outstanding order book, and (iii) its leading position in securing more jobs in the thriving ATP industry. Maintain Buy call on the stock.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	5325.1
52-wk Hi/Lo (RM)	4.25/1.55
12-mth Avg Daily Vol ('000 shrs)	2087.7
Estimated Free Float (%)	20.2
Beta	0.8

Major Shareholders (%)

Sunholdings	- 54.6
Sungei Way Corp Sdn Bhd	- 10.1
Employee Provident Fund	- 6.2
Amanah Saham Nasional Bhd	- 3.3

Forecast Revision

	FY24	FY25
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	195.3	254.7
Consensus	183.6	248.9
TA's / Consensus (%)	106.4	102.3
Previous Rating	Buy (Maintained)	
Consensus Target Price	3.85	

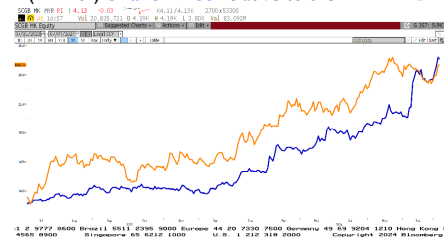
Financial Indicators

	FY24	FY25
Net Debt / Equity (%)	61.5	55.1
CFPS (sen)	(8.8)	(0.8)
Price / CFPS (x)	(37.4)	(415.8)
ROA (%)	5.7	6.3
NTA/Share (sen)	72.2	82.1
Price/NTA (x)	4.6	4.0

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	30.7	0.1
3 mth	42.9	4.1
6 mth	102.5	9.4
12 mth	163.1	16.1

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Figure I: YTD Job Wins

Projects (2024 New Awards)	Client	Exp. Completion Date	Contract Sum (RM'mn)
Sunway Ipoh Mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721.0
Early Contractor Involvement (ECI) Services – Package A	Multinational technology company	Aug-24	34.0
Early Contractor Involvement (ECI) Services – Package B	Multinational technology company	Aug-24	26.0
Ulu Pandan C1 & C2	CES Engineering & Construction Pte Ltd	Jun-27	103.0
Construction of Data Centre building	Multinational Technology Company	Apr-27	748.0
Bedok N2C23 – Watertanks	Precast Concrete Pte Ltd	Sept-25	3.0
LPS term contract batch 14	Housing and Development Board	Sept-25	82.0
101 Neythal Road Redevelopment	Founda Global Engineering Pte Ltd	Aug-25	6.0
SMC4 Phase 3 - Fit out works	Sunway Medical Centre Sdn Bhd	Jun-26	80.0
JHBIX0 - Revised NTP works	Yellowwood Properties Sdn Bhd	Feb-26	1,500
Total			3,304.0

Source: SUNCON

Earnings Summary

Profit & Loss (RMmn)

YE Dec 31	2022	2023	2024F	2025F	2026F
Revenue	2,155.2	2,671.2	3,165.5	4,081.5	4,450.7
EBITDA	210.3	245.5	304.8	387.2	421.7
Dep. & amortisation	(23.8)	(21.0)	(22.6)	(23.8)	(25.0)
Net finance cost	(4.2)	(21.7)	(23.9)	(26.6)	(24.7)
PBT	184.1	188.6	258.2	336.8	372.0
Taxation	(45.3)	(42.8)	(62.0)	(80.8)	(89.3)
MI	(3.6)	(0.7)	(0.9)	(1.2)	(1.3)
Net profit	135.2	145.1	195.3	254.7	281.4
Core net profit	147.1	176.8	195.3	254.7	281.4
GDPS (sen)	5.5	6.0	7.0	10.0	10.0
Div Yield (%)	1.3%	1.5%	1.7%	2.4%	2.4%

Cash Flow (RMmn)

YE Dec 31	2022	2023	2024F	2025F	2026F
PBT	184.1	188.6	258.2	336.8	372.0
Adjustments	27.9	42.7	46.5	50.4	49.6
Changes in WC	(382.2)	(516.7)	(222.3)	(140.5)	(56.6)
Others	0.5	28.8	(0.9)	(1.2)	(1.3)
Operational cash flow	(215.0)	(299.4)	19.6	164.6	274.4
Capex	(27.1)	(18.9)	(20.0)	(20.0)	(20.0)
Others	(146.9)	442.7	(42.9)	0.0	0.0
Investment cash flow	(174.0)	423.8	(62.9)	(20.0)	(20.0)
Debt raised/(repaid)	236.5	420.9	0.0	0.0	0.0
Dividend	(90.3)	(70.9)	(89.8)	(128.2)	(128.2)
Others	(3.6)	(12.5)	(23.9)	(26.6)	(24.7)
Financial cash flow	142.7	337.4	(113.7)	(154.9)	(152.9)
Forex effect	(4.3)	1.1	0.0	0.0	0.0
Deposit	(83.9)	(86.4)	(86.4)	(86.4)	(86.4)
Net cash flow	351.4	(24.8)	(114.1)	(10.3)	101.5
Beginning cash	60.6	407.7	384.0	269.9	259.6
Ending cash	407.7	384.0	269.9	259.6	361.1
Adjustments	0.0	0.0	(0.0)	0.0	0.0
Cash	407.7	384.0	269.9	259.6	361.1

YE Dec 31	2022	2023	2024F	2025F	2026F
Order book replenishment	2584	2500	4,000	3,000	3,000

Balance Sheet (RMmn)

YE Dec 31	2022	2023	2024F	2025F	2026F
Fixed assets	223.1	253.1	253.1	253.1	253.1
Others	375.6	590.5	587.9	584.1	579.1
NCA	598.7	843.6	841.0	837.2	832.2
Cash and cash equivalent	407.7	384.0	269.9	259.6	361.1
Others	1,229.7	1,855.2	2,618.7	3,261.2	3,520.1
CA	1,637.4	2,239.2	2,888.6	3,520.8	3,881.3
Total assets	2,236.0	3,082.8	3,729.6	4,358.0	4,713.5
ST borrowings	172.2	438.2	438.2	438.2	438.2
Other liabilities	931.2	1,263.6	1,804.8	2,306.7	2,509.0
CL	1,103.3	1,701.8	2,243.0	2,745.0	2,947.3
Shareholders' funds	737.1	820.2	925.7	1,052.2	1,205.4
MI	83.7	71.8	71.8	71.8	71.8
LT borrowings	308.5	487.7	487.7	487.7	487.7
Other LT liabilities	3.4	1.3	1.3	1.3	1.3
Total capital	2,236.0	3,082.8	3,729.6	4,358.0	4,713.5

Ratio

YE Dec 31	2022	2023	2024F	2025F	2026F
EBITDA Margins (%)	9.8	9.2	9.6	9.5	9.5
Core EPS (sen)	11.5	13.8	15.2	19.9	21.9
EPS Growth (%)	1.6	20.2	10.5	30.4	10.5
PER (x)	36.0	30.0	27.1	20.8	18.8
GDPS (sen)	5.5	6.0	7.0	10.0	10.0
Div Yield (%)	1.3	1.5	1.7	2.4	2.4
Net cash (RMmn)	10.9	(455.6)	(569.7)	(579.9)	(478.4)
Net gearing (%)	(1.5)	55.5	61.5	55.1	39.7
ROE (%)	18.8	18.6	22.4	25.8	24.9
ROA (%)	6.6	5.5	5.7	6.3	6.2
NTA/share (sen)	57.5	64.0	72.2	82.1	94.0
P/NTA(x)	7.2	6.5	5.7	5.0	4.4

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★★★★★	★★★★
Remark	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build A Home which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

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As of Friday, July 05, 2024, the analyst, Raymond Ng Ing Yeow, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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