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SunCon exceeds guidance for job wins

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PETALING JAYA: Sunway Construction Group Bhd  (SunCon) is expected to raise its new-order win guidance when it releases its second quarter ending June 30 results in August having already exceed its guidance of RM2.5bil to RM3bil for the financial year 2024 (FY24).

CGS International Research (CGSI Research) said this in a note after SunCon entered into an amendment deed with Yellowwood Properties Sdn Bhd for an existing RM1.7bil data centre contract in Sedenak, Johor. This is in relation to additional scope of work and the value of the contact is now RM3.2bil.

The research house said SunCon announced a near doubling in value for its Sedenak data centre contract to RM3.2bil, which accounted for 37% of its order book.

“This is an important win for SunCon for a number of reasons. First, it brings year-to-date wins to RM3.2bil, exceeding its guidance of RM2.5bil to RM3bil for FY24, and its order book to RM7.9bil.

“We remain comfortable with our FY24 new-order-win forecast of RM5.2bil,” the research house said.

It said the additional work for the Sedenak contract meant that the end client has finalised a reputable client to warrant the aggressive expansion.

CGSI Research also said it expects earnings recognition for the Sedenak contract to accelerate in 2H24 and to anchor earnings delivery in FY24 and FY25.

The research house likes SunCon for its strong execution track record and first-mover advantage in the data-centre space.

According to CGSI Research, SunCon has four data centre projects making up 50% of its order book of RM7.9bil as of May 2024.

"It is also bidding for four data centre projects, most of which are in Johor and are still at the design stage," the research firm added.

Similarly, Kenanga Research is bullish on the company, upgrading the stock to "outperform" as value has emerged on higher job-win assumptions.

"We raise our FY24 to FY25 net profit forecasts by 10% and 22%, respectively, lift our target price by 22% to RM3.85 from RM3.16."Typically, data centre building jobs can fetch an earnings before interest and tax (Ebit) margin that is at the higher end of the range of 5% to 8% for building jobs. We assume an Ebit margin of 7.5% for the additional work," the research house added.

Kenanga Research expects SunCon to benefit from a significant revitalisation of the construction sector in 2024 backed by the roll-out of the RM45bil Mass Rapid Transit Line 3 project, Pan Borneo Highway Phase 2 and several flood mitigation projects reported to be worth RM13bil.

It also anticipates SunCon will be a proxy for a vibrant private sector construction market, backed by big investments in new semiconductor foundries and data centres.