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News

SunCon Financially Unimpacted From Song Hau 2 Termination

By **Business Today Editorial** - July 5, 2024



Sunway Construction has maintained a strong order book of RM7.9bn, ensuring earnings visibility for the next three years, as cited by RHB Investment Bank (RHB) in its Malaysia Company Update today (Jul 5, Friday). Prospects are reinforced by ongoing and prospective projects in data centres, warehouses, and semiconductor manufacturing facilities.

A BUY rating has been maintained by RHB for SCGB, with a revised target price of RM4.92, up from RM4.32, indicating a 19% upside potential and approximately 2% FY24F yield.

It was reported by the analyst at the bank that the termination of the Build-Operate-Transfer (BOT) contract for the Song Hau 2 thermal power plant (SH2P) by Vietnam's Ministry of Industry and Trade would not financially impact SCGB, as the project was not included in its order book.

It was highlighted by RHB that around 50% of the order book comprises data centre (DC) projects, with further tenders for warehouse and semiconductor manufacturing facilities in progress. The Daiso Malaysia Group's global distribution centre warehouse in Port Klang, valued at RM298 million, was mentioned as SCGB's current significant warehouse project.

The job replenishment assumptions for FY25F and FY26F were increased to RM3.5bn from RM2.5bn, while the FY24F new job target remains at RM4.5bn. The decision was based on projections from Cushman and Wakefield's APAC Centre Update, which anticipates a 600% growth in Malaysia's DC operational capacity over the next five years.

The earnings estimates for SCGB were raised by 14% for both FY25F and FY26F. The new target price of RM4.92 is based on a target P/E of 21.5x FY25F EPS, including a 6% ESG premium. It was noted by RHB that SCGB's strong position in the DC market provides stability even if infrastructure projects like the Mass Rapid Transit 3 are delayed.

SCGB's hospital expansion plans in Penang, Kelantan, and Iskandar Puteri were identified as additional long-term growth drivers. The positive outlook on SCGB was reiterated by RHB, encouraging investors to consider the stock for its solid order book, strong market positioning, and potential for significant earnings growth.