

HLIB Research

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BUY

 (Maintain)

Target Price: **RM2.16**

Previously: **RM2.10**

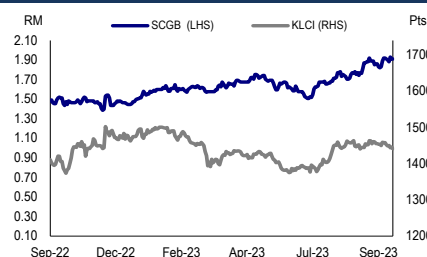
Current Price: **RM1.91**

Capital upside	13.1%
Dividend yield	2.8%
Expected total return	15.9%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price



Historical return (%)	1M	3M	12M
Absolute	-0.5	17.2	22.4
Relative	2.6	14.7	22.9

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	2,469
3-mth average volume ('000)	627
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Holdings Sdn Bhd	54.6%
EPF	9.8%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	140.2	186.1	190.4
EPS - core (sen)	10.8	14.4	14.7
P/E (x)	17.6	13.3	13.0

Sunway Construction Group

Hot streak continues

SunCon announced double contract wins carrying an effective value of RM488m. Unbilled orderbook rises to RM6.4bn (3.0x cover) with wins YTD at RM2.2bn. We see upside risks to our RM2.5bn target with several pending tenders by year end. Separately, SunCon announced amendments to its Song Hau 2 contract. While there are encouraging signs, we reckon activation could be pushed into next year. Though wins are within replenishment assumptions, we tweak FY24f/FY25f forecasts by +2.9% due to quick burn of data centre contract. **Maintain BUY with higher TP of RM2.16. We like the company due to: (i) safer exposure to future infrastructure rollouts, (ii) strong support from parent-co, (iii) poised to enter stronger earnings cycle driven by fresh contract wins and (iv) potential major uplift in orderbook from VN.**

NEWSBREAK

SunCon announced two contract wins and amendments to its Song Hau 2 contract.

Data centre. SunCon has accepted a Letter of Intent worth RM190.0m for the proposed development of data centre located in Johor from K2 Strategic Infrastructure Malaysia Sdn. Bhd. (subsidiary of Kuok Group). The construction period is expected to take 14 months (completed by 4Q24) and is to begin imminently. We do not expect delays in commencement as seen in its maiden data centre contract (Sedenak, Johor).

Warehouse. SunCon through Kajima-SunCon JV (50:50) signed a Letter of Acceptance with Daiso Malaysia Group Sdn. Bhd. in respect of the proposed design & construction of Daiso Global Distribution Center Warehouse located at Pulau Indah, Port Klang, Selangor. The contract sum is RM595.4m (SunCon's effective stake: RM297.7m). The construction period is expected to last 34.5 months, completing by 2Q26.

Song Hau 2. SunCon announced that SunCon-PECC2 Consortium (55:45) and Song Hau 2 have entered into an addendum to agreement to amend certain terms of the contract being: (i) extending the proposed date for issuance of the Notice to Proceed to a date on or before 30 June 2024 and (ii) amendments to the definition and provisions relating to the Limited Notice to Proceed whereby Toyo shall provide the consortium with limited access to the site to carry out phase 1 and 2 of limited works not exceeding USD9.5 m (RM44.9m).

HLIB'S VIEW

Contract wins. Both the data centre and warehouse contract wins lift SunCon's unbilled orderbook by RM487.7m to RM6.26bn (2.9x cover). Including its CGPP contract would lift this further to ~RM6.4bn (3.0x cover). Nevertheless, the CGPP contract will not generate earnings impact until the asset is commissioned in 2025. The company has tallied RM2.2bn of contract wins YTD surpassing its base case guidance while still having several tenders pending award decision by year end (RTS, factories, data centres & mall). We see upside risks to our FY23 replenishment assumption of RM2.5bn.

VN: encouraging signs but delays likely. We view the announcement as encouraging but recognise that the activation of USD2.42bn (RM11.44bn) orderbook from Song Hau 2 project could be delayed into next year based on the timeline shared in the announcement. SunCon's 55% stake in the consortium translates to USD1.33bn or RM6.3bn contract uplift (vs. current orderbook of RM6.4bn). SunCon-PECC2's execution of the limited works worth USD9.5m will kick-start when certain

conditions are met. We believe full financial close is required for works to move beyond the initial limited stage.

Forecast. While wins were within expectations, given the accelerated nature of data centre contract, we increase FY24f/FY25f forecasts by +2.9%.

Maintain BUY, TP: RM2.16. Maintain BUY with slightly higher TP of RM2.16 (from RM2.10). TP is derived by pegging FY24 EPS to 15x P/E multiple. We like the company due to: (i) safer exposure to future infrastructure project rollouts, (ii) strong support from parent-co, (iii) poised to enter stronger earnings cycle driven by fresh contract wins and (iv) potential major uplift in orderbook from VN. Key catalyst: contract wins. Risks: MRT3 cancellation, political risks, elevated materials prices and labour shortage.

Figure #1 Total contract wins YTD

Projects (2023 new awards)	Client	Duration	Contract Sum (RM'mil)
Bidadari C17 - LPS	Eng Seng Lee Construction Co Pte Ltd	Dec-23	3.9
Precast - Watertanks (various projects)	Jin Cheng Pte Ltd	Various	9.4
Heliosel Solar PV System - Package L3	Heliosel Sdn Bhd	Dec-23	34.0
Heliosel Solar PV System - Package L2	Heliosel Sdn Bhd	Oct-23	10.5
RTS Package 1B and Package 5	Malaysia Rapid Transit System Sdn Bhd	Jun-25	604.9
South Quay Square Mix Development - 2nd SA	Sunway South Quay Sdn Bhd	Oct-25	606.6
Oxley Tower VO	BUCG (M) Sdn Bhd	Feb-24	8.5
Secured in 1Q 2023			1,277.7
Kallang Whampoa C23A	LBD Engineering Pte Ltd	Dec-25	63.0
Carnival Mall Refurbishment	Sunway Reit Management SB	Aug-24	253.0
Secured in 2Q 2023			316.0
Daiso Global Distribution Center Warehouse	Daiso Malaysia Group Sdn Bhd	Q2 2026	297.7
K2 Data Centre (Johor)	K2 Strategic Infrastructure Malaysia Sdn Bhd	Q4 2024	190.0
Corporate Green Power Programme (CGPP)*	Investment Project*	Dec-25	120.0
Bishan East C36	Ningbo Construction Group Co. Ltd (SG branch)	Sep-24	1.2
Secured in 3Q 2023			608.9
TOTAL AS AT 3Q 2023			2,202.7

* CGPP is an investment project undertaken by SunCon, hence no revenue recognition for construction works due to intergroup elimination.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Cash	98.8	491.6	563.6	1,009.7	1,146.6
Receivables	660.8	1,077.6	1,672.7	1,504.4	1,275.8
Inventories	46.2	53.4	26.0	30.3	32.4
PPE	124.7	107.5	99.9	90.9	80.5
Others	933.7	505.9	507.6	509.3	511.0
Assets	1,864.2	2,236.0	2,869.8	3,144.6	3,046.3
Debts	237.9	480.7	948.6	883.9	590.5
Payables	873.2	895.4	987.6	1,210.8	1,294.3
Others	36.3	39.2	39.2	39.2	39.2
Liabilities	1,147.4	1,415.3	1,975.4	2,133.8	1,924.0
Shareholder's equity	699.1	737.1	810.8	927.2	1,038.7
Minority interest	17.6	83.7	83.7	83.7	83.7
Equity	716.8	820.8	894.4	1,010.8	1,122.3

Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	185.0	192.8	183.8	244.2	249.9
Depreciation & amortisation	27.4	23.8	27.6	29.0	30.4
Changes in working capital	157.9	(401.8)	(475.4)	387.2	310.0
Share of JV profits	(13.3)	(1.7)	(1.7)	(1.7)	(1.7)
Taxation	(41.5)	(45.3)	(40.1)	(53.4)	(54.6)
Others	(76.8)	17.3	-	-	-
Operating cash flow	238.7	(215.0)	(305.8)	605.3	534.0
Net capex	(40.6)	(2.9)	(20.0)	(20.0)	(20.0)
Others	(133.4)	426.7	-	-	-
Investing cash flow	(174.0)	423.8	(20.0)	(20.0)	(20.0)
Changes in borrowings	(63.0)	242.8	467.9	(64.8)	(293.3)
Issuance of shares	-	-	-	-	-
Dividends paid	(77.0)	(71.1)	(70.1)	(74.5)	(83.8)
Others	17.7	(29.0)	-	-	-
Financing cash flow	(122.4)	142.7	397.8	(139.2)	(377.1)
Net cash flow	(57.7)	351.4	72.0	446.1	136.9
Forex	-	-	-	-	-
Others	(43.5)	41.3	-	-	-
Beginning cash	200.1	98.8	491.6	563.6	1,009.7
Ending cash	98.8	491.6	563.6	1,009.7	1,146.6

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	1,729.2	2,155.2	2,348.2	2,745.5	2,910.5
EBITDA	199.6	219.0	227.4	298.7	296.3
EBIT	172.2	195.2	199.8	269.7	265.9
Net finance income/ (cost)	(0.4)	(4.2)	(17.7)	(27.2)	(17.7)
Associates & JV	13.3	1.7	1.7	1.7	1.7
Profit before tax	185.0	192.8	183.8	244.2	249.9
Tax	(41.5)	(45.3)	(40.1)	(53.4)	(54.6)
Net profit	143.5	147.4	143.7	190.9	195.3
Minority interest	1.8	(3.6)	(3.6)	(4.7)	(4.8)
Core PATAMI	145.3	143.9	140.2	186.1	190.4
Exceptional items	(32.8)	(8.7)	-	-	-
Reported earnings	112.6	135.2	140.2	186.1	190.4

Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	11.2	11.1	10.8	14.4	14.7
P/E (x)	17.0	17.2	17.6	13.3	13.0
EV/EBITDA (x)	12.7	11.6	11.2	8.5	8.6
DPS (sen)	6.0	5.5	5.4	5.8	6.5
Dividend yield	3.1%	2.9%	2.8%	3.0%	3.4%
BVPS (RM)	0.5	0.6	0.6	0.7	0.8
P/B (x)	3.5	3.4	3.0	2.7	2.4
EBITDA margin	11.5%	10.2%	9.7%	10.9%	10.2%
EBIT margin	10.0%	9.1%	8.5%	9.8%	9.1%
PBT margin	10.7%	8.9%	7.8%	8.9%	8.6%
Net margin	8.3%	6.8%	6.1%	7.0%	6.7%
ROE	21.8%	20.0%	18.1%	21.4%	19.4%
ROA	7.1%	6.1%	4.6%	4.9%	4.6%
Net gearing	19.9%	CASH	47.5%	CASH	CASH

Assumptions

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Construction	1,149	2,414	2,300	3,000	2,000
Precast	296	168	200	400	300
Total new job wins	1,445	2,582	2,500	3,400	2,300

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HOLD	Expected absolute return of -10% to +10% over the next 12 months.
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UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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