



AmInvestment Bank

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

22 Aug 2024

Company Report

2Q2024 in-line, downgrade on balanced valuation

HOLD

(Downgraded)

AmInvestment Bank

Team Coverage

+603 2036 2291

Rationale for report: Company Result

Price	RM4.28
Fair Value	RM3.70
52-week High/Low	RM5.18/RM1.76

Key Changes

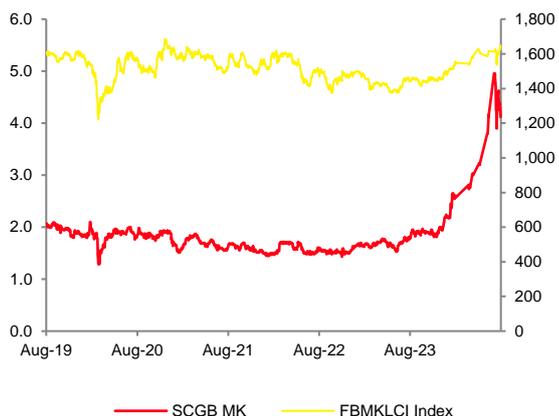
Fair value	↔
EPS	↔

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	2,671.2	3,355.7	4,086.1	4,440.4
PATAMI (RM mil)	170.9	185.1	224.5	230.5
FD EPS (sen)	13.3	14.4	17.4	17.9
FD EPS growth (%)	30.6	8.3	21.3	2.7
Consensus Net Profit (RM mil)	-	181.0	261.5	279.8
DPS (sen)	6.0	7.2	8.7	8.9
PE (x)	31.1	28.7	23.7	23.0
EV/EBITDA (x)	21.3	16.9	14.8	13.2
Div yield (%)	2.3	2.8	3.3	3.4
ROE (%)	18.6	21.4	23.2	21.3
Net Gearing (%)	55.5	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,289.4
Market Cap (RMmil)	5,312.2
Book Value (RM/Share)	0.64
P/BV (x)	6.5
ROE (%)	18.6
Net Gearing (%)	55.5
Major Shareholders	Sunway Bhd & Cheah family (66.1%) EPF (9.7%) Amanah Saham Nasional (6.4%)
Free Float	17.9
Avg Daily Value (RMmil)	19.3

Price performance	3mth	6mth	12mth
Absolute (%)	26.8	57.9	128.9
Relative (%)	25.7	49.9	103.0



Investment Highlights

- We downgrade Sunway Construction (SunCon) to HOLD (from BUY) with an unchanged fair value (FV) of RM3.70/share based on 21x FY25F P/E, which is on par with its 3-year average. Our earnings forecast and 4-star ESG rating are unchanged.
- 1H24 PATAMI of RM71.3 mil (+17.2% YoY), making up 39% of our and consensus FY24 forecasts. We deem this as in-line as 2H earnings tend to be higher.
- Net margin was at 5.7%, which is 0.3 percentage points (PPT) improvement YoY. The margin expansion is growing slower than expected.
- A DPS of 3.5 sen (+17% YoY) was announced for the period. The dividend will be paid on 26 September 2024.
- In 1H2024, the construction sector saw strong revenue growth of 13.6% YoY on higher workflow and billings, and net income increased by 16.8% YoY as there was a modest 0.2 PPT improvement in profit margin.
- In 1H2024, the precast segment revenue declined by 5.5% YoY due to a late start and timing issue for new projects. However, net income improved by 22.3% due to reversal of provisions as completed projects performed better than expected.
- The net gearing ratio has reduced to 0.41x at the end of 2Q2024 from 0.56x at the end of 1Q2024. SunCon has completed many big projects in the period and received its milestone payments.
- The t-12 ROE is at 18.14%, which is above the past five-year average of 17%.
- Suncon's orderbook is now at RM7.4bil, up 17% from the previous quarter. The last big win was the RM1.5bil addition to its existing JHB1X0 data centre project announced on 10 June 2024.
- YTD, Suncon has secured RM1.7bil of new orders, which is on-path to its target of RM2.5bil-RM3.0bil of job replenishment in 2024.
- Suncon currently trades at 23.7x FY25F PE, which is above its 3-year average of 21x. It is trading slightly above our FV and, hence, we downgrade our recommendation. The management will hold a briefing later this morning and we will follow up with a post-management briefing note.

EXHIBIT 1: RESULTS SUMMARY

Figures in RM'mil	Quarterly Results					YTD		
	2Q2023	1Q2024	2Q2024	QoQ %	YoY %	1H2023	1H2024	YoY %
Revenue	604.1	604.8	651.2	7.7	7.8	1,126.2	1,256.0	11.5
EBIT	46.7	53.1	52.7	(0.8)	12.8	88.4	105.7	19.7
PBT	42.3	41.6	50.2	20.5	18.8	79.8	91.9	15.1
Taxation	(9.0)	(8.9)	(12.4)	39.2	38.3	(17.9)	(21.4)	19.6
Minority interest	0.3	0.3	(1.4)	(>100)	(>100)	1.1	-791	n.a
PATAMI	33.0	32.4	38.9	19.9	17.8	60,831	71,272	17.2
EPS (sen)	2.6	2.5	3.0	19.9	17.8	4.7	5.5	17.2
DPS (sen)	3.0	-	3.5	n.a	16.7	3.0	3.5	16.7
Payout ratio	117%		116%			64%	63%	(0.4)
				PPT	PPT			PPT
EBIT Margin %	7.7%	8.8%	8.1%	-0.7	0.4	7.8%	8.4%	0.6
PBT Margin %	7.0%	6.9%	7.7%	0.8	0.7	7.1%	7.3%	0.2
Effective Tax Rate %	21.3%	21.5%	24.8%	3.3	3.5	22.4%	23.3%	0.9
PATAMI Margin %	5.5%	5.4%	6.0%	0.6	0.5	5.4%	5.7%	0.3
Segmental Revenue								
Construction	535.6	543.6	597.6	9.9	11.6	1,004.7	1,141.2	13.6
Precast	68.5	61.2	53.6	(12.4)	(21.7)	121.5	114.9	(5.5)
Segmental Net income								
Construction	28.9	30.4	36.4	19.8	25.9	57.2	66.9	16.8
Precast	3.2	2.3	2.1	(8.0)	(34.9)	3.6	4.4	22.3
Segmental Net Inc. Margin				PPT	PPT			PPT
Construction %	5.4%	5.6%	6.1%	0.5	0.7	5.7%	5.9%	0.2
Precast %	4.7%	3.7%	3.9%	0.2	-0.8	3.0%	3.8%	0.9

Sources: Company, AmlInvestment Bank

Key observations:

- Profit margins in 2Q2024 improved slightly YoY and QoQ.
- Finance cost continues to be high in 2Q2024 as Suncon has a much higher net debt versus last year.
- Precast business segment underperformed in 2Q204, with lower revenue, profits, and profit margin on a YoY basis.

Performance in pictorials

- Revenue for construction sector grew by 13.6% while precast shrunk by 5.5% in 1H2024. However, precast profit grew by 22.3% YoY as current projects are higher yielding.

EXHIBIT 2: REVENUE GROWTH RATE YOY

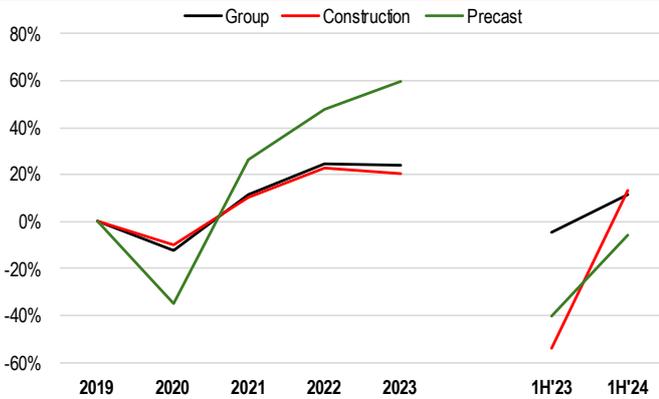
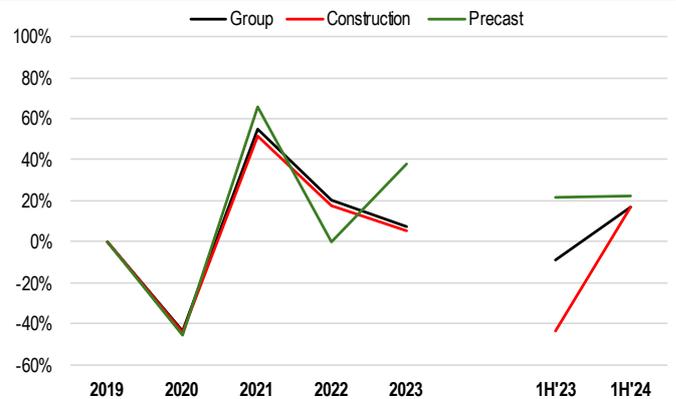


EXHIBIT 3: NET INCOME GROWTH RATE (YOY)



Source: Company, AmlInvestment Bank

- Revenue from construction sector account for 91% of group revenue and 94% of total profits in 1H2024.

EXHIBIT 4: REVENUE MARKET SHARE

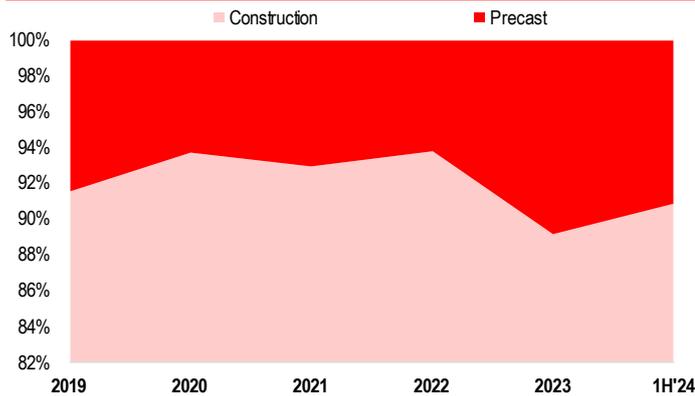
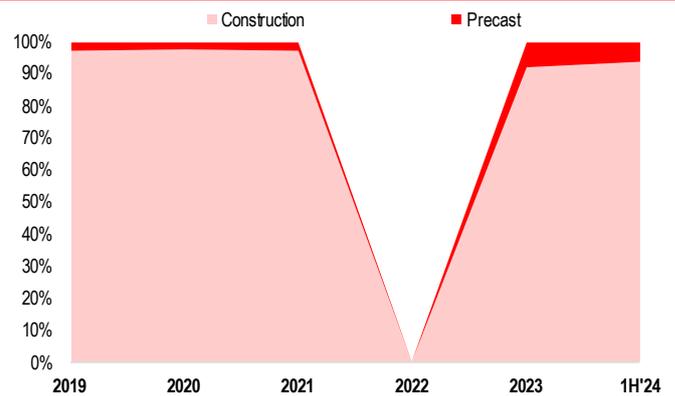


EXHIBIT 5: NET INCOME MARKET SHARE



Source: Company, AmlInvestment Bank

- Malaysia contributed the bulk of revenue and profits. India is no longer a source of revenue as there are no new projects now. Singapore is still loss making as SunCon still have legacy projects signed during the pandemic.

EXHIBIT 6: REVENUE BY GEOGRAPHY

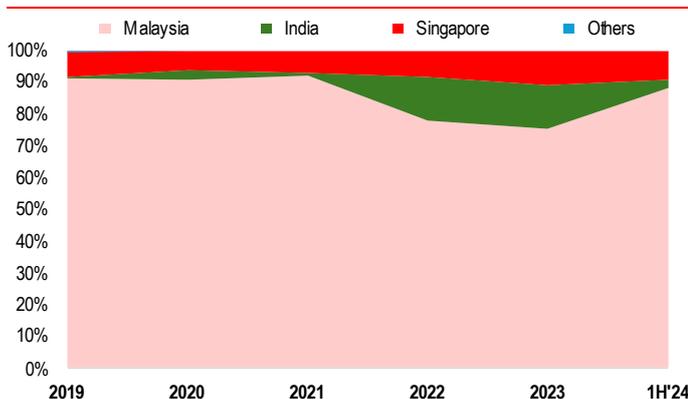
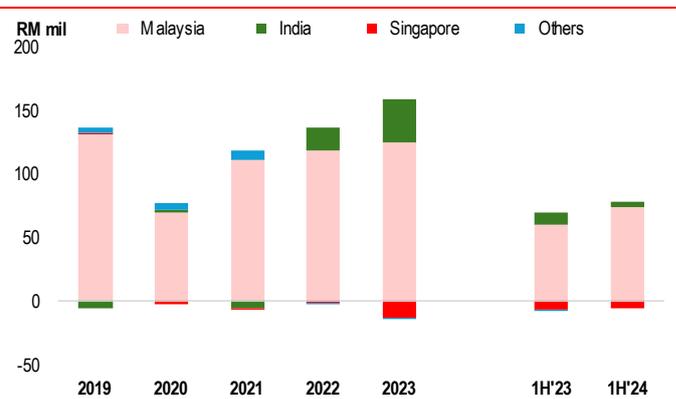


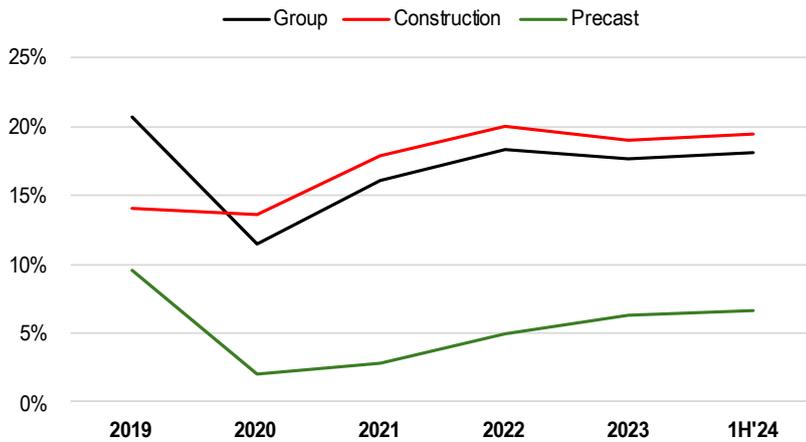
EXHIBIT 7: NET INCOME BY GEOGRAPHY



Source: Company, AmlInvestment Bank

- ROE for the construction segment is at 19.5% in 2Q2024, which greatly surpasses the precast segment of only 6.7%. However, we note that the precast segment ROE is exhibiting an uptrend, slow but steady.

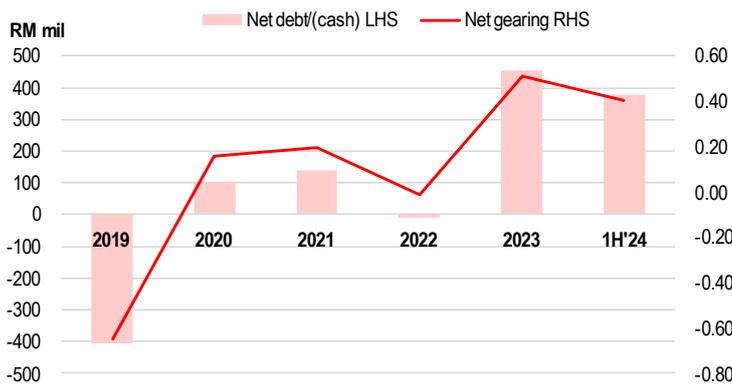
EXHIBIT 8: ROE



Source: Company, AmlInvestment Bank

- Net debt was at RM377 mil and net gearing ratio of 0.41x as at end of 2Q2024. This is a distinct reduction from the previous quarter (1Q2024) whereby net debt was at RM524mil with a net gearing of 0.56x. SunCon has been paid for completed projects.

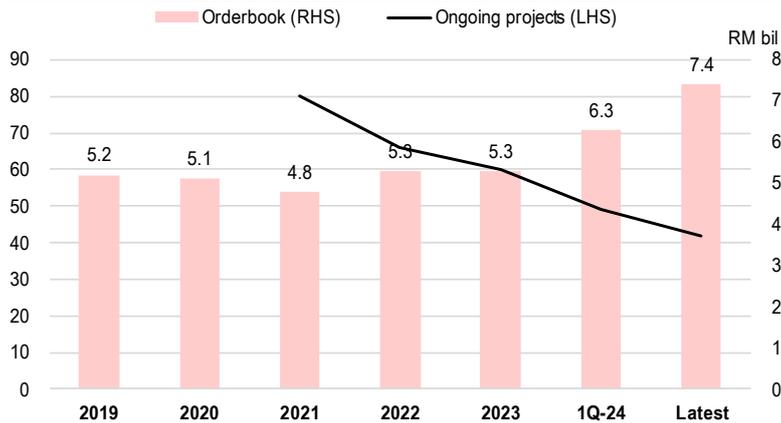
EXHIBIT 9: NET GEARING



Source: Company, AmlInvestment Bank

- Total orderbook has swelled to RM7.4bil and there are 42 ongoing projects now.

EXHIBIT 10: ORDERBOOK AND # ONGOING PROJECTS



Source: Company, AmlInvestment Bank

Order Book - Detailed



AS AT JUN-24 (RM MIL)	COMPLETION	CONTRACT SUM	O/S ORDERBOOK	AS AT JUN-24 (RM MIL)	COMPLETION	CONTRACT SUM	O/S ORDERBOOK
BUILDING			281	INTERNAL - SUNWAY GROUP			2,007
OXLEY TOWER (MEP) + VO	4Q 2024	76	27	SUNWAY BELFIELD	4Q 2024	428	65
DAISO	2Q 2026	298	254	SUNWAY SQUARE - SUPERSTRUCTURE + (VO)	4Q 2025	1,164	649
DATA CENTRE			3,770	SUNWAY CARNIVAL MALL - REFURBISHMENT	2Q 2025	253	138
JHB1X0 - DATA CENTRE	1Q 2026	1,700	1,450	SUNWAY VELOCITY 2B	4Q 2024	276	31
K2 - DATA CENTRE	4Q 2024	190	29	SUNMED DAMANSARA	3Q 2024	240	44
K2 DC (CIMC)	4Q 2024	99	36	SUNMED IPOH + VO	4Q 2024	217	29
EARLY CONTRACTOR INVOLVEMENT & ENABLING WORKS - MNC	4Q 2024	60	57	SUNWAY FLORA	1Q 2026	278	191
PSR - MNC	2Q 2027	748	737	SUNMED PH2 FIT-OUT	3Q 2025	70	70
JHB1X0 - REVISED NTP	1Q 2026	1,500	1,461	SUNWAY IPOH MALL	1Q 2027	721	708
INFRASTRUCTURE/PILING			347	SUNMED PH3 FIT-OUT	2Q 2026	80	80
RTS LINK PACKAGE 1B AND PACKAGE 5	2Q 2025	605	347	GRAND TOTAL @ JUN 2024		10,499	7,375
INDIA			191	RED : SECURED IN 2024		3,467	3,401
THORAPALLI - JITTANDAHALLI (TJ)	2Q 2025	508	191				
SUSTAINABLE ENERGY			46				
CGPP - GREEN	4Q 2025	46	46				
SINGAPORE			732				
PRECAST	VARIOUS	584	374				
NEW ORDER 2024 - EXTERNAL	VARIOUS	358	358				

Order Book – Detailed



PROJECTS (2024 NEW AWARDS)	CLIENT	COMPLETION DATE	CONTRACT SUM (RM'MIL)
SUNWAY IPOH MALL	SUNWAY LOST WORLD WATER PARK SDN BHD	JAN-27	721.0
EARLY CONTRACTOR INVOLVEMENT & ENABLING WORKS - PACKAGE A	MULTINATIONAL TECHNOLOGY COMPANY	OCT-24	34.3
EARLY CONTRACTOR INVOLVEMENT & ENABLING WORKS - PACKAGE B	MULTINATIONAL TECHNOLOGY COMPANY	OCT-24	25.8
ULU PANDAN C1 & C2	CES ENGINEERING & CONSTRUCTION PTE LTD	JUN-27	103.4
PROJECT SERVICE REQUEST	MULTINATIONAL TECHNOLOGY COMPANY	APR-27	747.8
BEDOK N2C23 - WATERTANKS	PRECAST CONCRETE PTE LTD	SEP-25	3.4
LPS TERM CONTRACT BATCH 14	HOUSING AND DEVELOPEMNT BOARD	SEP-25	82.1
SECURED IN 1Q 2024			1,717.8
101 NEYTHAL ROAD REDEVELOPMENT	FONDA GLOBAL ENGINEERING PTE LTD	AUG-25	5.9
SUNMED PHASE 3 - FIT-OUT WORKS	SUNWAY MEDICAL CENTRE SDN BHD	JUN-26	80.0
JHB1X0 - REVISED NTP WORKS	YELLOWWOOD PROPERTIES SDN BHD	FEB-26	1,500.0
SECURED IN 2Q 2024			1,585.9
KALLANG WHAMPOA C53	NEWCON BUILDERS PTE LTD	JUL-27	100.4
PROJECT C - SITE 1	FONDA GLOBAL ENGINEERING PTE LTD	MAY-26	22.6
PROJECT C - SITE 2	FONDA GLOBAL ENGINEERING PTE LTD	DEC-26	40.2
SECURED IN 3Q 2024			163.1
TOTAL AS AT AUGUST 2024			3,466.9

EXHIBIT 11: ESG MATRIX

	Environmental assessment	Parameters	Weight age	Rating	Rationale
1	Water usage	% of water sourced from surface	20%	* * * *	Reduced 8% in FY23 (980mil m3)from FY22 (1,06mil m3)
2	Energy usage	Energy consumption & production	20%	* * * *	2% reduction in overall consumption in FY23 from FY22, energy sourced from renewable energy increased 6X
3	Minimise waste generation	Recycled waste	20%	* * * * *	Increased 153% from 821 tonnes in FY22 to 2081 tonnes in FY23
4	Scope 1 Emissions	tCO2e emitted	10%	* * * *	25% reduction from 8,428 in FY22 to 6,728 in FY23
5	Scope 2 Emissions	tCO2e emitted	10%	* * * *	11% increase from 18,147 in FY22 to 20,107 in FY23
6	Biodiversity Loss	Number of trees planted	20%	* * * * *	600,000 trees planted (>60%) of target of planting 1mil trees
	Weighted score for environmental assessment		100%	* * * *	
	Social assessment				
1	Health, safety & well-being	Number of fatalities & injuries	25%	* * * * *	0 fatalities & injuries for 3 consecutive years
2	Women in workforce	% of total workforce	25%	* * * * *	38% of workforce from 36% in FY22
3	Investment in employee training	RM	25%	* * * * *	RM6.4mil in FY23 vs RM1.85 mil in FY22 (3.6x increase)
4	CSR programmes	SROI	25%	* * * * *	Social return on investment (SROI) of 3.4
	Weighted score for social assessment		100%	* * * *	
	Governance assessment				
1	Board age diversity	% under 60 years old	20%	* * * *	15%
2	Board women representation	% of total board directors	20%	* * * * *	57% representation
3	Independent Directors with tenure below 6 years	% below 6 years category	20%	* * * * *	75%
4	Independent board directors	% of total board directors	20%	* * * * *	57% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	* * * * *	RM19.5mil - 4% of 2023 staff costs
	Weighted score for governance assessment		100%	* * * *	
	Combined Score by respective Segments				
	Environmental score		30%	* * * *	
	Social score		30%	* * * * *	
	Governance score		40%	* * * * *	
	Overall ESG Score		100%	* * * * *	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star.

Source: AmlInvestment Bank

EXHIBIT 12: PB BAND CHART

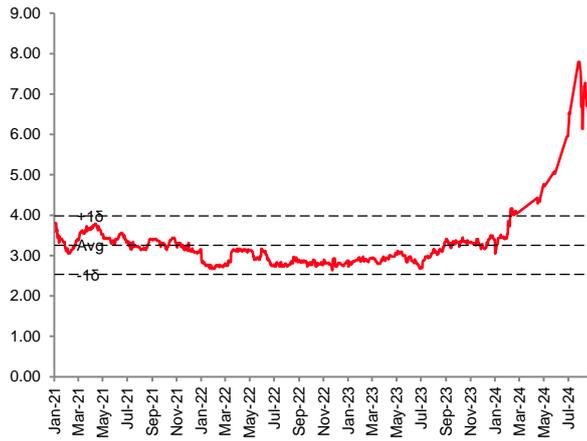


EXHIBIT 13: PE BAND CHART

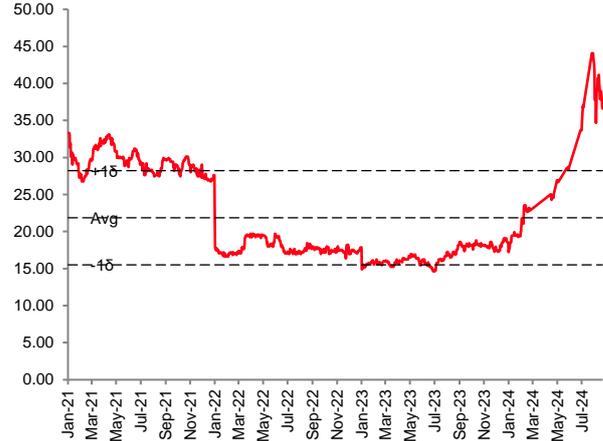


EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	2,155.2	2,671.2	3,355.7	4,086.1	4,440.4
EBITDA	206.0	271.1	308.1	343.5	373.7
Depreciation/Amortisation	(23.8)	(21.0)	(29.7)	(31.2)	(33.1)
Operating income (EBIT)	182.2	250.1	278.4	312.3	340.6
Other income & associates	1.7	(14.1)	(15.6)	(17.1)	(18.8)
Net interest	(4.2)	(21.5)	(18.8)	0.9	(18.2)
Exceptional items	4.3	(25.8)	-	-	-
Pretax profit	184.1	188.6	244.0	296.2	303.6
Taxation	(45.3)	(42.8)	(57.3)	(69.6)	(71.0)
Minorities/pref dividends	(3.6)	(0.7)	(1.6)	(2.0)	(2.0)
Net profit	135.2	145.1	185.1	224.5	230.5
Core PATAMI	130.9	170.9	185.1	224.5	230.5
Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	107.6	98.6	97.9	92.3	87.0
Intangible assets	-	-	-	-	-
Other long-term assets	491.1	745.1	729.5	712.4	693.5
Total non-current assets	598.7	843.6	827.4	804.7	780.5
Cash & equivalent	491.6	470.4	572.5	756.1	947.0
Stock	53.4	46.4	70.5	86.0	93.5
Trade debtors	677.7	1,241.3	1,358.6	1,658.8	1,802.7
Other current assets	414.6	481.0	505.1	530.3	556.8
Total current assets	1,637.4	2,239.2	2,506.6	3,031.3	3,400.0
Trade creditors	716.2	717.2	1,308.5	1,611.3	1,750.9
Short-term borrowings	172.2	438.2	256.7	288.3	320.7
Other current liabilities	214.9	547.3	574.7	603.3	633.5
Total current liabilities	1,103.3	1,702.8	2,139.9	2,502.9	2,705.1
Long-term borrowings	308.5	487.7	199.6	224.2	249.4
Other long-term liabilities	-	0.3	0.3	0.3	0.3
Total long-term liabilities	308.5	488.1	199.9	224.5	249.7
Shareholders' funds	737.1	820.2	912.7	1,025.0	1,140.2
Minority interests	83.7	71.8	85.4	87.4	89.4
BV/share (RM)	0.57	0.64	0.71	0.79	0.88
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	184.1	188.6	244.0	296.2	303.6
Depreciation/Amortisation	23.8	21.0	29.7	31.2	33.1
Net change in working capital	(382.2)	(498.0)	450.1	(13.0)	(11.7)
Others	(40.7)	2.6	(38.5)	(49.1)	(48.6)
Cash flow from operations	(215.0)	(285.8)	685.3	265.2	276.3
Capital expenditure	(27.1)	(17.7)	(21.0)	(25.6)	(27.8)
Net investments & sale of fixed assets	25.2	2.5	-	-	-
Others	411.8	(99.3)	-	-	-
Cash flow from investing	409.9	(114.6)	(21.0)	(25.6)	(27.8)
Debt raised/(repaid)	233.4	420.9	(469.6)	56.1	57.6
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(90.3)	(71.6)	(92.5)	(112.3)	(115.3)
Others	(0.4)	(0.3)	-	-	-
Cash flow from financing	142.7	349.0	(562.1)	(56.1)	(57.6)
Net cash flow	337.6	(51.4)	102.1	183.6	190.9
Net cash/(debt) b/f	365.9	699.1	648.8	750.9	934.5
Net cash/(debt) c/f	699.1	648.8	750.9	934.5	1,125.4
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	24.6	23.9	25.6	21.8	8.7
EBITDA growth (%)	23.5	31.6	13.6	11.5	8.8
Pretax margin (%)	8.5	7.1	7.3	7.2	6.8
Net profit margin (%)	6.3	5.4	5.5	5.5	5.2
Interest cover (x)	43.9	11.6	14.8	nm	18.7
Effective tax rate (%)	24.6	22.7	23.5	23.5	23.4
Dividend payout (%)	52.5	53.3	50.0	50.0	50.0
Debtors turnover (days)	108	131	141	135	142
Stock turnover (days)	8	7	6	7	7
Creditors turnover (days)	126	98	110	130	138

Source: Company, AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.