

Malaysia

**ADD** (no change)

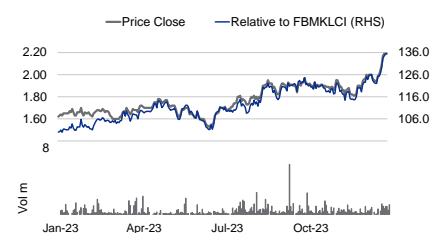
Consensus ratings\*: Buy 10 Hold 4 Sell 1

Current price:	RM2.19
Target price:	RM2.70
Previous target:	RM2.14
Up/downside:	23.2%
CGS-CIMB / Consensus:	28.7%
Reuters:	SCOG.KL
Bloomberg:	SCGB MK
Market cap:	US\$608.0m
	RM2,824m
Average daily turnover:	US\$0.21m
	RM0.96m
Current shares o/s:	1,293m
Free float:	28.9%

\*Source: Bloomberg

**Key changes in this note**

- Raising FY24F/25F EPS by 1%/7%
- Lifting SOP-derived TP to RM2.70



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	15.3	13.5	34.4
Relative (%)	12.8	10.3	34.7

Major shareholders	% held
Sunway Berhad	54.4
EPF	9.4
Amanah Saham	7.3

**Analyst(s)**



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# Sunway Construction Group Bhd

## Vietnam project closer to an award

- Vietnam Song Hau 2 power plant is closer to an award which will eclipse Suncon's FY24F new order target of RM2.5bn.
- Sedenak data centre progressing; could bid for other data centre projects.
- Reiterate Add, raising FY24-FY25F EPS and lifting TP to RM2.70.

### Reiterate Add, raising FY24-FY25F EPS and lifting TP

We reiterate our Add rating and lift our SOP-based TP of RM2.70, equivalent to 16.7x FY25F P/E (below its mean of 18x since 2015). We also raise our FY24/FY25F EPS by 1%/7% to factor in higher new order wins. We like Suncon for its strong execution track record, ready pipeline from Sunway Berhad, and market-leading ROEs of 18-22% for FY23-FY25F. Key downside risks are increased raw material costs and labour shortages. Re-rating catalysts are a faster rollout of MRT 3 and more data centre projects.

### FY24F new order win target of RM2.5bn; more data centre projects

Over the last seven years, Suncon has clinched an average of RM1.6bn-4bn new order wins a year (see Fig 3). For FY24F, it has set a new order win target of RM2.5bn (FY23: RM2.3bn wins) which will be driven by RM1bn internal projects from Sunway and data centre/industrial warehouses. We believe Suncon will bid for more sizeable data centre projects. It has two existing data centre projects and progress for the larger RM1.7bn data centre in Sedenak Tech Park, Johor (26% of total orderbook of RM5.8bn) was slow in 2023. We believe this has since picked up as the client has seen stronger demand for rentals and is in the midst of negotiating higher lease rates. We view any risk of cancellation as remote as core building and infrastructure are in place, but we have factored in delays. In our view, Suncon is a front runner for MRT 3 and Penang LRT and may participate in construction works for Sunway's recent JV project with Equalbase, a Singapore based property company, to develop a warehouse with multi-tenant facility on 135 acres of land in Johor (GDV of RM8bn over a 10-year period). Assuming construction cost is 50% of GDV, this represents RM4bn of potential orders.

### Vietnam project gaining ground; will be game changer

The biggest catalyst for Suncon is the US\$2.4bn Song Hau 2 Power Plant Vietnam project where its 55% stake is worth c.RM6bn. In our view, there were two important milestones which could facilitate this award by mid-CY24F: i) On 5 Oct, Suncon was awarded preliminary works not exceeding US\$9.5m (c.RM45m), which forms part of the total contract value, and ii) in Nov 23, Toyo Ink Group (Not Rated) appointed Export-Import Bank of Malaysia as lead arranger for the syndicated financing facilities, which we believe should help facilitate financial closure for the project. We have now built in RM2.8bn/RM4.3bn of new orders for FY24/FY25F (vs. RM2.2bn p.a. previously), which only reflect a quarter of its Vietnam project for FY25F. Our blended FY24/FY25F pretax margin for new wins is 7%, below our margin forecast of over 10% for Vietnam.

### Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (RMm)	1,729	2,155	2,539	3,108	3,867
Operating EBITDA (RMm)	180.2	221.0	217.7	264.2	328.0
Net Profit (RMm)	112.6	135.2	141.0	169.0	209.0
Core EPS (RM)	0.09	0.11	0.11	0.13	0.16
Core EPS Growth	53.7%	17.1%	(1.6%)	19.8%	23.7%
FD Core P/E (x)	23.15	19.76	20.08	16.76	13.55
DPS (RM)	0.040	0.053	0.055	0.065	0.081
Dividend Yield	1.82%	2.40%	2.51%	2.98%	3.69%
EV/EBITDA (x)	16.58	13.14	13.45	11.79	9.56
P/FCFE (x)	NA	6.3	36.8	100.9	26.6
Net Gearing	19.4%	(1.3%)	1.5%	20.4%	20.3%
P/BV (x)	4.05	3.84	3.51	3.17	2.84
ROE	18.3%	19.9%	18.3%	19.9%	22.1%
% Change In Core EPS Estimates			0.00%	0.92%	7.08%
EPS/Consensus EPS (x)			1.01	1.04	1.20

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Vietnam project closer to an award

### Raising FY24-FY25F EPS

We summarise the changes in our FY24F/FY25F revenue, EBITDA and net profit forecasts in Figure 1. Our earnings uplift factors in stronger new orderbook replenishment (including precast) of RM2.8bn/RM4.3bn for FY25F/FY26F (vs. RM2.2bn/RM2.2bn previously). This factors in potentially a quarter of the expectations (or RM1.6bn) it will convert the US\$2.4bn Song Hau 2 Power Plant project in Vietnam where its 55% stake in the consortium would be worth c.RM6bn. This assumes that RM2.8bn new order wins (ex its RM6bn share for Song Hau 2 Power Plant) are sustainable.

Our FY24F revenue and EPS assumptions are balanced off by a slower recognition for its RM1.7bn Sedenak data centre project to err on the conservative side. We believe the risk of the project being scaled down is low given enquiries from the client's end users have picked up with negotiations on higher rentals while the core building structure is ready and all the infrastructure (Tenaga substations) in place. So far, RM200m or 12% has been recognised from this RM1.7bn contract as at 30 Sep 23.

**Figure 1: Revisions to our Suncon forecasts**

	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue (RMm)	2,538.8	2,928.9	3,319.4	2,538.8	3,108.4	3,866.7	0.0%	6.1%	16.5%
EBITDA (RMm)	217.7	259.2	300.8	217.7	264.2	328.0	0.0%	1.9%	9.1%
Net profit (RMm)	141.0	167.5	195.2	141.0	169.0	209.0	0.0%	0.9%	7.1%
EPS (Sen)	10.9	13.0	15.1	10.9	13.1	16.2	0.0%	0.9%	7.1%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

### Lifting SOP-derived TP to RM2.70

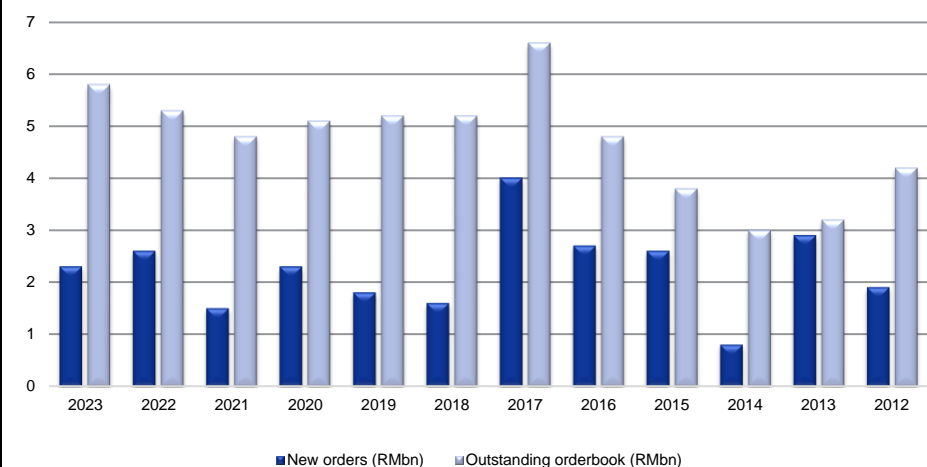
We also lift our SOP-derived TP to RM2.70 by rolling forward our base year to FY25F. We believe the earnings base in FY25F will be more reflective of the normalised recognition it would be able to realise from the larger projects in its orderbook, such as its Sedenak data centre project, some expectations of the Song Hau 2 Power Plant project and potentially new wins from other data centres. Given its strong execution track record, we believe this is not over optimistic. At our revised TP of RM2.70, the stock will trade at FY25F P/E of 16.7x, which is still below its mean of 18x since 2015.

**Figure 2: Sum-of-parts (SOP) valuation**

SOP Method	Earnings (RMm)	P/E (x)	Stake	Attributed Value (RMm)	Per Share (RM)
Construction	194	16	100%	3,108.0	2.40
Precast	21	18	100%	381.6	0.30
SOP Value				3,489.6	2.70
Implied PE FY25F (x)					16.7

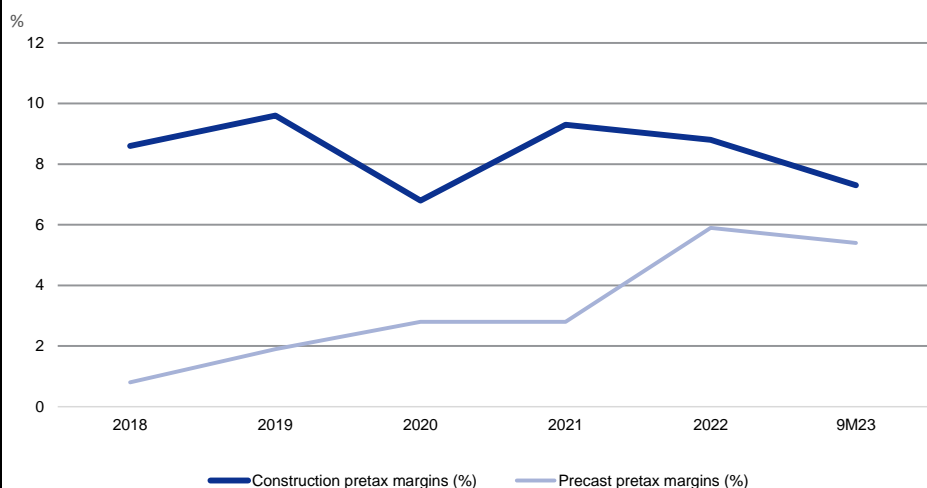
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 3: Suncon's new order replenishment ranged from RM1.6bn to RM4bn for FY12-FY23**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 4: Construction and precast margins have held up**



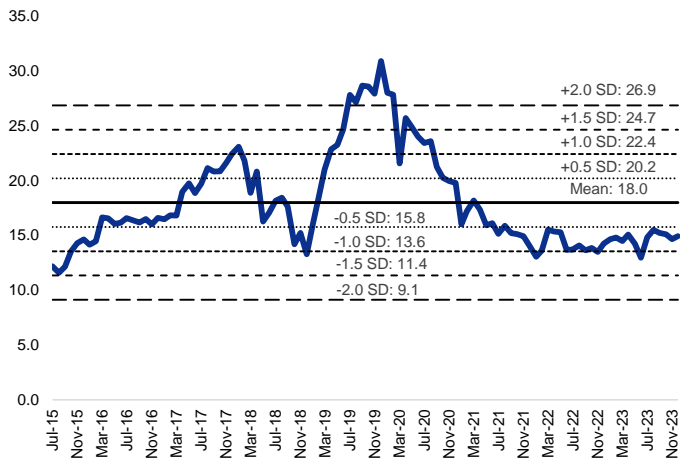
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 5: Peers Comparison (as at 12 Jan 24)**

Company	Bbg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY23F	P/E (x) CY24F	P/E (x) CY25F	2-year EPS CAGR (%)	P/BV (x) CY23F	P/BV (x) CY24F	Recurring ROE (%) CY23F	Dividend Yield (%) CY23F
Gamuda	GAM MK	Add	4.90	6.50	2,884	14.0	12.1	10.8	9.0%	1.18	1.11	8.7%	6.9%
IJM Corp Bhd	IJM MK	Add	2.11	2.15	1,593	21.0	17.2	15.1	17.5%	0.74	0.72	3.7%	1.7%
WCT Holdings	WCTHG MK	Add	0.52	0.71	157	9.7	8.0	7.2	4.7%	0.18	0.18	1.9%	1.5%
Sunway Construction Group Bhd	SCGB MK	Add	2.19	2.70	608	20.1	16.8	13.5	6.0%	3.51	3.17	18.4%	2.5%
Muhibbah Engineering	MUHI MK	Add	0.83	0.90	129	25.6	12.1	9.5	na	0.45	0.44	1.8%	1.2%
HSS Engineers	HSS MK	Add	1.06	1.21	113	19.7	14.5	12.3	30.8%	2.01	1.83	10.9%	1.5%
YTL Corporation	YTL MK	Add	2.24	2.13	5,289	17.2	14.4	16.4	86.5%	1.63	1.53	10.1%	2.5%
Malayan Cement Bhd	LMC MK	Add	4.83	6.00	1,363	26.7	19.7	17.7	59.5%	1.05	1.02	4.1%	1.7%
Sunway Bhd	SWB MK	Add	2.31	2.57	2,717	18.1	16.3	16.3	7.7%	0.87	0.83	5.1%	1.6%
<b>Malaysia average</b>						<b>18.1</b>	<b>13.2</b>	<b>11.2</b>	<b>9.3%</b>	<b>1.2</b>	<b>1.1</b>	<b>6.9%</b>	<b>2.8%</b>

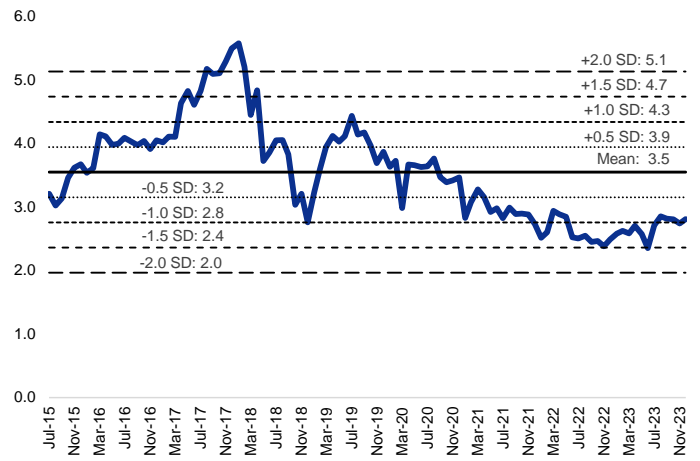
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS  
DATA AS AT 12 Jan 24

Figure 2: Suncon P/E trading band



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Suncon P/BV trading band



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



## ESG in a nutshell

We deem Sunway Construction Group Bhd's (Suncon) ESG practices as some of the most progressive in the local construction industry. In 2022, SunCon reviewed its Sustainability Framework to better align its strategic approach to ESG with industry best practices as well as to adopt more stringent reporting disclosures. Suncon is bidding for more ESG-based projects such as renewable energy and green building projects; this is positive for its ESG journey, in our view. Two large scale solar (LSS) projects bagged in FY21-22 marked the beginning of this foray.

### Keep your eye on

The group is looking to expand further in the solar energy space; it is currently an engineering, procurement, construction and commissioning (EPCC) contractor for two large scale solar (LSS) projects. Besides this, there is growing demand for more sustainable or ESG-based projects in Malaysia, such as thermal energy storage (TES), district cooling systems (DCS), energy efficient or "smart" buildings, solar farms and solar panels. It was one of 22 most recent winners of the Corporate Green Power Programme (CGPP) announced by the Energy Commission (EC) on 7 Aug.

### Implications

There was a delay in the rollout of renewable (RE) projects in Malaysia, especially LSS farms, due to the high prices of solar panels but prices have since abated. The Energy Commission (EC) announced new measures to maintain the viability of projects identified under the fourth round of LSS awards (LSS4), such as the extension of the duration of Power Purchase Agreements (PPA) by four years from 21 years to 25 years. While Suncon is just an EPCC contractor, this is still positive for the company, in our view.

On 20 July 2022, SunCon commenced construction of a district cooling system (DCS) at the mixed development in South Quay Square, Sunway City Kuala Lumpur, in collaboration with ENGIE South East Asia.

### ESG highlights

In 2022, SunCon continued to focus on driving its ESG performance. This included addressing energy consumption and emissions, improving labour practices and also improving waste management and recycling efforts across all aspects of its operations.

2022 saw Suncon align its related disclosures with the Task Force on Climate-Related Financial Disclosures (TCFD). The inclusion of the TCFD disclosures is in line with Suncon's continued strategic approach of embedding material ESG matters within its strategy.

### Implications

We consider Suncon's ESG efforts to be progressive and among the best among the local contractors. SunCon is working towards achieving 30% women representation on its board, according to its FY22 annual report.

### Trends

SunCon may be looking to participate in Malaysia's voluntary carbon market (VCM) as a buyer of carbon credits to offset emissions. It may also potentially generate carbon credits through its carbon negative projects, according to its FY22 annual report.

The construction industry's increased focus on climate change and sustainability provides more opportunities for green building design and construction. SunCon's continued progress in and focus on green and sustainable infrastructure development could boost its access to green bonds and sustainable financing, in our view.

Suncon is rated AA for ESG by MSCI but is not in the FTSE4GOOD as it was excluded from FTSE EMAS due to liquidity issues.

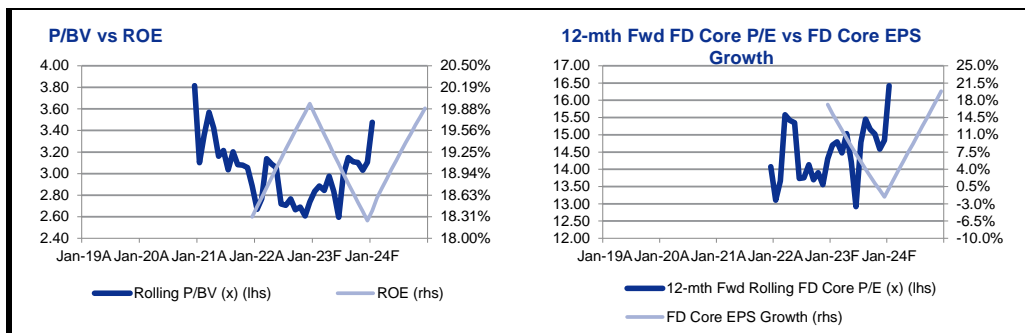
### Implications

While it is early days, we think Suncon will continue to tick more boxes for ESG where it can also leverage on its parent company Sunway Berhad to achieve this.

All Sunway Berhad's ESG initiatives are aligned with five global megatrends i.e. rapid urbanisation, social change, technological breakthroughs, resource scarcity, and shifting economic power. These trends will become more central in 202F, in our view. Sunway Berhad also targets that, by 2030, it would have achieved green building certification for all Sunway-owned and/or managed townships and buildings completed from 2025 onwards. This will bode well for Suncon, in our view.

SOURCES: CGS-CIMB RESEARCH

## BY THE NUMBERS



### Profit & Loss

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>1,765</b>	<b>2,177</b>	<b>2,553</b>	<b>3,122</b>	<b>3,881</b>
<b>Gross Profit</b>	<b>399</b>	<b>475</b>	<b>474</b>	<b>523</b>	<b>590</b>
<b>Operating EBITDA</b>	<b>180</b>	<b>221</b>	<b>218</b>	<b>264</b>	<b>328</b>
Depreciation And Amortisation	-27	-24	-23	-28	-33
<b>Operating EBIT</b>	<b>153</b>	<b>197</b>	<b>195</b>	<b>236</b>	<b>295</b>
Financial Income/(Expense)	-0	-4	-6	-9	-14
Pretax Income/(Loss) from Assoc.	13	2	2	2	2
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>166</b>	<b>195</b>	<b>191</b>	<b>228</b>	<b>282</b>
Exceptional Items	-13	-11	0	0	0
<b>Pre-tax Profit</b>	<b>152</b>	<b>184</b>	<b>191</b>	<b>228</b>	<b>282</b>
Taxation	-41	-45	-50	-59	-73
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>111</b>	<b>139</b>	<b>141</b>	<b>169</b>	<b>209</b>
Minority Interests	2	-4	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>113</b>	<b>135</b>	<b>141</b>	<b>169</b>	<b>209</b>
Recurring Net Profit	122	143	141	169	209
<b>Fully Diluted Recurring Net Profit</b>	<b>122</b>	<b>143</b>	<b>141</b>	<b>169</b>	<b>209</b>

### Cash Flow

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>180.2</b>	<b>221.0</b>	<b>217.7</b>	<b>264.2</b>	<b>328.0</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	122.5	(120.5)	(67.4)	(248.0)	(108.3)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	8.7	(16.3)	(17.5)	(19.5)	(25.5)
Other Operating Cashflow	(31.1)	(249.6)	0.0	0.0	0.0
Net Interest (Paid)/Received	(0.4)	(4.2)	(6.3)	(9.2)	(14.4)
Tax Paid	(41.5)	(45.3)	(49.5)	(59.4)	(73.4)
<b>Cashflow From Operations</b>	<b>238.3</b>	<b>(215.0)</b>	<b>77.0</b>	<b>(71.9)</b>	<b>106.4</b>
Capex	(34.8)	(27.1)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(138.5)	450.8	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(173.4)</b>	<b>423.7</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(50.0)</b>
Debt Raised/(repaid)	(68.5)	242.8	50.0	150.0	50.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(51.6)	(90.3)	(70.5)	(84.5)	(104.5)
Preferred Dividends					
Other Financing Cashflow	(486.1)	31.5	19.2	21.2	27.2
<b>Cash Flow From Financing</b>	<b>(606.2)</b>	<b>184.0</b>	<b>(1.3)</b>	<b>86.7</b>	<b>(27.3)</b>
Total Cash Generated	(541.2)	392.8	25.7	(35.2)	29.1
<b>Free Cashflow To Equity</b>	<b>(3.6)</b>	<b>451.6</b>	<b>77.0</b>	<b>28.1</b>	<b>106.4</b>
<b>Free Cashflow To Firm</b>	<b>69.6</b>	<b>226.8</b>	<b>46.2</b>	<b>(100.7)</b>	<b>83.6</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	99	492	517	482	511
Total Debtors	850	989	1,322	1,661	2,066
Inventories	46	53	27	39	49
Total Other Current Assets	20	104	104	104	104
<b>Total Current Assets</b>	<b>1,015</b>	<b>1,637</b>	<b>1,969</b>	<b>2,286</b>	<b>2,730</b>
Fixed Assets	125	108	135	157	174
Total Investments	724	223	223	223	223
Intangible Assets	0	264	264	264	264
Total Other Non-Current Assets	1	3	3	3	3
<b>Total Non-current Assets</b>	<b>849</b>	<b>599</b>	<b>626</b>	<b>648</b>	<b>665</b>
Short-term Debt	93	172	172	172	172
Current Portion of Long-Term Debt					
Total Creditors	891	917	1,156	1,259	1,566
Other Current Liabilities	8	14	14	14	14
<b>Total Current Liabilities</b>	<b>992</b>	<b>1,103</b>	<b>1,342</b>	<b>1,446</b>	<b>1,752</b>
Total Long-term Debt	145	309	359	509	559
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>145</b>	<b>309</b>	<b>359</b>	<b>509</b>	<b>559</b>
Total Provisions	10	3	3	3	3
<b>Total Liabilities</b>	<b>1,147</b>	<b>1,415</b>	<b>1,704</b>	<b>1,958</b>	<b>2,314</b>
Shareholders' Equity	699	737	808	892	997
Minority Interests	18	84	84	84	84
<b>Total Equity</b>	<b>717</b>	<b>821</b>	<b>891</b>	<b>976</b>	<b>1,080</b>

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	11.4%	24.6%	17.8%	22.4%	24.4%
Operating EBITDA Growth	39.7%	22.6%	(1.5%)	21.3%	24.2%
Operating EBITDA Margin	10.4%	10.3%	8.6%	8.5%	8.5%
Net Cash Per Share (RM)	-0.11	0.01	-0.01	-0.15	-0.17
BVPS (RM)	0.54	0.57	0.62	0.69	0.77
Gross Interest Cover	33.34	10.94	10.15	11.11	10.84
Effective Tax Rate	27.3%	24.6%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	40.9%	61.9%	50.0%	50.0%	50.0%
Accounts Receivables Days	200.4	155.7	166.1	175.6	175.9
Inventory Days	10.75	10.68	7.06	4.67	4.90
Accounts Payables Days	246.8	193.9	182.0	170.0	156.6
ROIC (%)	60%	139%	33%	34%	31%
ROCE (%)	16.4%	18.6%	15.2%	16.1%	17.7%
Return On Average Assets	6.61%	7.49%	6.10%	6.44%	7.06%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
New order wins	1,474.0	150.0	180.0	2,800.0	4,300.0
Construction revenue	1,606.2	1,973.6	2,357.3	2,952.4	3,602.7
Precast revenue	122.9	181.6	181.5	156.0	264.0
Construction EBIT margins	8.4	8.5	7.5	7.4	7.4
Precast EBIT margins	3.7	9.9	10.5	10.8	11.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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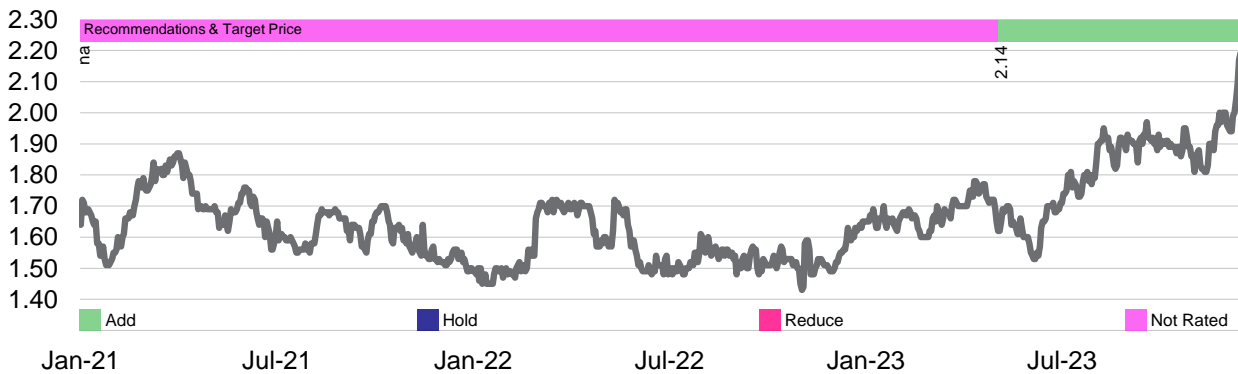
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**

**Sunway Construction Group Bhd (SCGB MK)**

— Price Close



**Recommendation Framework**

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Definition:

**Add** The stock's total return is expected to exceed 10% over the next 12 months.

**Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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