

Sunway Construction Group Berhad

TP: RM3.21 (+20.5%)
Another Sizeable Job Win

Last Traded: RM2.73

Buy (ESG: ★★★★★)

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Secures New Order Worth RM747.8mn

SUNCON has secured a RM747.8mn contract from a multinational technology company based in the United States for the construction of a data centre (DC) located in Selangor. This project is expected to commence on 15 May 2024 and is slated for completion by 2QCY27.

Our View

This marks the third DC construction project secured by the group in 2024, bringing the group's YTD job wins to RM1.6bn. This achievement accounts for 57% of our job replenishment assumptions of RM2.8bn for the year. Following this job win, the group's total outstanding order book stands at approximately RM6.9bn, equivalent to 2.6x FY23 revenue.

Based on a 2-year historical net margin of 6.6%, we anticipate that this project will contribute a net profit of RM49.4mn throughout the construction period.

Meanwhile, we came away from a recent meeting with the management feeling upbeat about the group's earnings outlook. The key takeaways are as follows:

(i) Vast opportunities stem from the thriving ATP landscape

The demand for new DC setups is expected to grow substantially, credited to the increasing usage of artificial intelligence (AI) applications. These applications require vast amounts of raw data for machine learning and processing, along with the need for cloud storage. Consequently, AI operators and cloud service providers are compelled to search for suitable locations that are free from natural disasters and boast good network coverage to establish their DC for storage purposes.

Malaysia emerges as one of the most favoured destinations for DC development, not only due to the aforementioned criteria but also attributed to the government's timely initiatives aimed at attracting foreign direct investments for establishing DCs in the country. Following SUNCON's previous securing of JHBIX0 and K2's DC contracts amounting to RM1.7bn and RM289mn, respectively, we believe that the group is well-positioned to capitalise on the thriving advanced technology projects (ATP) landscape, namely in the DC and semiconductor fields. This assertion is supported by its prominent position in the construction sector and its proven track record in DC building, as evidenced by its renowned client portfolio.

Currently, SUNCON's total tender book stands at approximately RM26bn, with ATP estimated to be c.RM5.5bn (21.2% of the portfolio). Furthermore, SUNCON is strategically reallocating its resources and prioritising ATP projects, which offer better margins and shorter construction periods. We learned that the net margin for DC projects typically falls within the range of 5% to 8%.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	3,520
52-wk Hi/Lo (RM)	2.82/1.53
12-mth Avg Daily Vol ('000 shrs)	1,052.1
Estimated Free Float (%)	15.6
Beta	0.9

Major Shareholders (%)

Sunholdings	- 54.6
Sungei Way Corp Sdn Bhd	- 10.1
Employee Provident Fund	- 7.6
Amanah Saham Nasional Bhd	- 6.4

Forecast Revision

	FY24	FY25
Forecast Revision (%)	4.3	9.2
Net profit (RMmn)	189.7	216.6
Consensus	178.9	204.0
TA's / Consensus (%)	106.0	106.2
Previous Rating	Hold (Upgraded)	
Consensus Target Price	2.87	

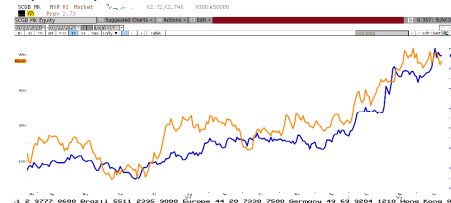
Financial Indicators

	FY24	FY25
Net Debt / Equity (%)	Net Cash	Net Cash
CFPS (sen)	57.4	5.6
Price / CFPS (x)	4.8	49.1
ROA (%)	5.7	5.8
NTA/Share (sen)	71.7	80.6
Price/NTA (x)	3.8	3.4

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	4.6	(0.7)
3 mth	38.6	5.9
6 mth	43.7	6.4
12 mth	70.6	9.6

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

(ii) Song Hau 2 Thermal Power Plant Project in Vietnam: a potential new earnings driver

To recap, in late 2022, SUNCON entered into an EPCC agreement with Toyo Ventures Holdings Bhd and Song Hau 2 Power Company Ltd, forming the Sunway-PECC2 Consortium. This agreement involves the design, engineering, procurement, manufacturing, supply, construction, erection, testing, and commissioning of a 2,120-megawatt coal-fired electric generation plant for the Song Hau 2 thermal power plant project, totalling USD 2.4bn. The project, with a construction period of 5 years, awaits approval for syndicated financing facilities.

We anticipate the finalisation of the financing facility by June-24, if not by the end of this year. Upon confirmation, we estimate a revenue recognition of USD1.3bn (equivalent to RM6.2bn based on a USD/MYR exchange rate of 4.70) from this project, based on its 55% stake in the consortium. Throughout the construction period, it is expected to contribute a net profit of RM341.2mn to the bottom line, based on a net margin assumption of 5.5%.

(iii) Cement costs continue to weigh on the margin

Despite SUNCON posting a record high core earnings of RM169.8mn for FY23, its core net margin experienced a slight decline to 6.4% (-0.4ppt YoY). This decline is primarily attributed to the escalating cost of cement materials, which increased by more than 20% YoY in 2023 due to the oligopolistic nature of the cement industry. We anticipate a slight increase in cement costs this year, which is expected to continue to impact the margin. However, this effect may be partially mitigated by stabilisation of other input costs and better cost management.

Impact

As YTD job wins totalling RM1.6bn have already accounted for 57.1% of our initial job replenishment assumptions of RM2.8bn, we revise our replenishment assumption from RM2.8bn to RM3.0bn for both FY24 and FY25. Additionally, we have adjusted our progress billing assumption based on the latest updates on the outstanding order book. Correspondingly, our FY24/25/26 earnings forecasts are adjusted higher by 4.3%/9.2%/4.6%, respectively.

Valuation

Following the earnings revision, we adjust to a higher PER 19x CY25 EPS (previously PER 18x) and arrive at a new TP of **RM3.21**. This is premised on the 15% discount to the average PER of 22.5x of the big cap construction players under our universe coverage due to its smaller market capitalisation. However, we believe that the valuation is fair given the following: (i) SUNCON is one of the strong contenders for mega infrastructure projects, namely MRT3 and Penang LRT, (ii) strong earnings visibility on the back of robust outstanding order book, (iii) potential new earnings driver from power plant project in Vietnam, and (iv) frontrunner to get more jobs in thriving ATP industry. Upgrade the stock to **Buy** from Hold previously.

Figure I: YTD Job Wins

Projects (2024 New Awards)	Client	Exp. Completion Date	Contract Sum (RM'mn)
Data Centre 3 (DC3)	Multinational technology company	Jun-27	747.8
Sunway Ipoh Mall	Sunway Lost World Water Park Sdn Bhd	Jan-27	721.0
Early Contractor Involvement (ECI) Services – Package A	Multinational technology company	Aug-24	3.4
Early Contractor Involvement (ECI) Services – Package B	Multinational technology company	Aug-24	3.4
Ulu Pandan C1 & C2	CES Engineering & Construction Pte Ltd	Jun-27	103.4
Total			1579.0

Source: SUNCON

Earnings Summary

Profit & Loss (RMmn)

YE Dec 31	2022	2023	2024F	2025F	2026F
Revenue	2,155.2	2,671.2	3,073.5	3,471.5	3,596.7
EBITDA	210.3	245.3	278.0	297.2	308.9
Dep. & amortisation	(23.8)	(21.0)	(21.9)	(23.1)	(24.3)
Net finance cost	(4.2)	(21.5)	(5.4)	12.2	17.2
PBT	184.1	188.6	250.7	286.3	301.8
Taxation	(45.3)	(42.8)	(60.2)	(68.7)	(72.4)
MI	(3.6)	(0.7)	(0.9)	(1.0)	(1.1)
Net profit	135.2	145.1	189.7	216.6	228.3
Core net profit	147.1	169.8	189.7	216.6	228.3
GDPS (sen)	5.5	6.0	7.0	8.0	9.0
Div Yield (%)	2.0%	2.2%	2.6%	2.9%	3.3%

Cash Flow (RMmn)

YE Dec 31	2022	2023	2024F	2025F	2026F
PBT	184.1	188.6	250.7	286.3	301.8
Adjustments	27.9	42.5	27.3	10.9	7.1
Changes in WC	(382.2)	(498.0)	638.5	(45.3)	44.2
Others	0.5	23.9	(0.9)	(1.0)	(1.1)
Operational cash flow	(215.0)	(285.8)	855.4	182.2	279.6
Capex	(27.1)	(17.7)	(20.0)	(20.0)	(20.0)
Others	(146.9)	441.5	(68.1)	0.0	0.0
Investment cash flow	(174.0)	423.8	(88.1)	(20.0)	(20.0)
Debt raised/(repaid)	236.5	0.0	0.0	0.0	0.0
Dividend	(90.3)	(76.9)	(89.8)	(102.6)	(115.4)
Others	(3.6)	425.9	(5.4)	12.2	17.2
Financial cash flow	142.7	349.0	(95.2)	(90.4)	(98.2)
Forex effect	(4.3)	1.1	0.0	0.0	0.0
Deposit	(83.9)	(86.6)	(86.6)	(86.6)	(86.6)
Net cash flow	351.4	(25.0)	740.3	71.7	161.3
Beginning cash	60.6	407.7	383.8	1124.1	1195.8
Ending cash	407.7	383.8	1124.1	1195.8	1357.1
Adjustments	0.0	0.0	0.0	(0.0)	0.0
Cash	407.7	383.8	1124.1	1195.8	1357.1

YE Dec 31	2022	2023	2024F	2025F	2026F
Order book replenishment	2584	2500	3000	3000	3000

Balance Sheet (RMmn)

YE Dec 31	2022	2023	2024F	2025F	2026F
Fixed assets	223.1	253.1	253.1	253.1	253.1
Others	375.6	590.5	588.6	585.5	581.3
NCA	598.7	843.6	841.7	838.7	834.4
Cash and cash equivale	491.6	470.4	1,210.7	1,282.4	1,443.7
Others	1,145.7	1,768.8	1,569.7	1,772.5	1,836.3
CA	1,637.4	2,239.2	2,780.3	3,054.9	3,280.0
Total assets	2,236.0	3,082.8	3,622.1	3,893.6	4,114.5
ST borrowings	172.2	438.2	438.2	438.2	438.2
Other liabilities	931.2	1,263.6	1,702.9	1,860.5	1,968.4
CL	1,103.3	1,701.8	2,141.2	2,298.7	2,406.7
Shareholders' funds	737.1	820.2	920.1	1,034.1	1,146.9
MI	83.7	71.8	71.8	71.8	71.8
LT borrowings	308.5	487.7	487.7	487.7	487.7
Other LT liabilities	3.4	1.3	1.3	1.3	1.3
Total capital	2,236.0	3,082.8	3,622.1	3,893.6	4,114.5

Ratio

YE Dec 31	2022	2023	2024F	2025F	2026F
EBITDA Margins (%)	9.8	9.2	9.0	8.6	8.6
Core EPS (sen)	11.5	13.2	14.8	16.9	17.8
EPS Growth (%)	1.6	15.5	11.7	14.2	5.4
PER (x)	23.8	20.6	18.5	16.2	15.3
GDPS (sen)	5.5	6.0	7.0	8.0	9.0
Div Yield (%)	2.0	2.2	2.6	2.9	3.3
Net cash (RMmn)	10.9	(455.6)	284.7	356.4	517.8
Net gearing (%)	(1.5)	55.5	(30.9)	(34.5)	(45.1)
ROE (%)	18.8	18.6	21.8	22.2	20.9
ROA (%)	6.6	5.5	5.7	5.8	5.7
NTA/share (sen)	57.5	64.0	71.7	80.6	89.4
P/NTA(x)	4.7	4.3	3.8	3.4	3.1

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★★★★★	★★★★
Remark	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build A Home which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Friday, March 22, 2024, the analyst, Raymond Ng Ing Yeow, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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