

22 March 2024

# Sunway Construction Group

## Secures RM748m Data Centre Job

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SUNCON has secured a RM747.8m building job for a data centre owned by a US-based MNC in Cyberjaya, boosting its YTD job wins to RM1.6b. We raise our FY24F job win assumption to RM3.5b (from RM3b). Consequently, we increase our FY24F and FY25F earnings forecasts by 7% and 6%, respectively, lift our TP by 5% to RM3.16 (from RM3.00) and maintain our OUTPERFORM call.

SUNCON has been awarded a RM747.8m contract by an US-based multinational technology corporation to build a data centre in Cyberjaya. The project is scheduled to commence in May 2024 with expected completion by 2QFY27.

We are positive on the data centre contract win which has increased its YTD job wins to RM1.6b and lifted its outstanding order book by 12% to RM6.9b. Typically, data centre building jobs can fetch an EBIT margin that is at the higher end of the range of 5% to 8% for building jobs. Our forecasts assume an average EBIT margin of 7.5%.

**Outlook.** We expect a significant revitalisation of the construction sector in 2024 backed by: (i) the roll-out of the RM45b MRT3 project, RM9.5b Bayan Lepas LRT and several flood mitigation projects reportedly to be worth RM13b, and (ii) a vibrant private sector construction market, backed by massive investment in new semiconductor foundries and data centres. SUNCON is eyeing opportunities in data centre building jobs, MRT3 and Bayan Lepas LRT work packages, and contracts from parent and sister companies.

**Forecasts:** We upgrade our FY24F and FY25F net profit forecasts by 7% and 6%, respectively, as we raise our FY24F job win assumption to RM3.5b (from RM3b, which is also SUNCON's own FY24 job win target). We keep our FY25F job win assumption of RM3.5b.

**Valuations.** Correspondingly, we lift our TP by 5% to RM3.16 (from RM3.00) based on an unchanged 18x FY25F PER, which is in-line with our valuation for big cap construction companies, i.e. **GAMUDA (OP; TP: RM5.45)** and **IJM (OP; TP: RM2.54)**. Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by us (see Page 4).

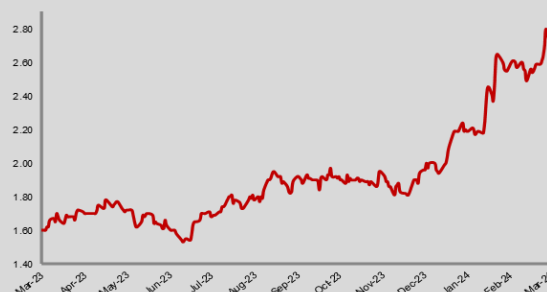
**Investment case.** We like SUNCON for: (i) strong job prospects of the sector as a whole with the imminent roll-out of key public infrastructure projects, (ii) its strong earnings visibility underpinned by RM6.9b outstanding order book and recurring jobs from parent and sister companies, and (iii) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works. Maintain **OUTPERFORM**.

**Risks to our recommendation include:** (i) weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

# OUTPERFORM ↔

Price: **RM2.73**  
Target Price: **RM3.16** ↑

### Share Price Performance



KLCI	1,541.41
YTD KLCI chg	6.0%
YTD stock price chg	40.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	3,520.0
Shares Outstanding	1,289.4
52-week range (H)	2.82
52-week range (L)	1.53
3-mth avg. daily vol.	2,860,372
Free Float	16%
Beta	0.9

### Major Shareholders

Sunway Holdings Sdn	54.6%
Sungei Way Corp Sdn	10.1%
Employees Provident	6.8%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	2671.2	2878.4	3615.9
EBIT	210.1	226.5	293.9
PBT	188.6	216.5	283.9
<b>Net Profit</b>	145.1	164.7	216.0
<b>Core Net Profit</b>	170.1	164.7	216.0
Consensus	-	178.9	204.0
Earnings Revision (%)	-	+6.8	+5.5
Core EPS (sen)	13.2	12.8	16.7
Core EPS Growth (%)	18.2	-3.2	31.1
NDPS (sen)	6.0	6.0	6.0
NTA Per Share (RM)	0.63	0.70	0.81
Price to NTA (x)	4.3	3.9	3.4
PER (x)	20.7	21.4	16.3
Net Gearing (x)	0.41	0.27	0.01
ROE (%)	20.7	18.2	20.7
Net Div. Yield (%)	2.2	2.2	2.2

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### Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	1729	2155	2671	2878	3616
OP	139	187	224	226	294
JVA	13	2	-14	0	0
EBIT	153	188	210	226	294
Finance costs	0	-4	-21	-10	-10
PBT	152	184	189	216	284
Taxation	-41	-45	-43	-52	-68
PAT	111	139	146	165	216
MI	-2	4	1	0	0
Net Profit	113	135	145	165	216
Exceptionals	1	-9	-25	0	0
Core Net Profit	112	144	170	165	216

### Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	125	108	99	99	99
Intangibles	0	0	0	0	0
JVA	127	223	253	253	253
NC Inventories (Lanc	0	0	0	0	0
Inventories	46	53	46	50	50
Receivable	661	989	1596	1600	1600
Other Assets	210	328	548	548	548
Cash	696	535	541	639	878
<b>Total Assets</b>	<b>1864</b>	<b>2236</b>	<b>3083</b>	<b>3189</b>	<b>3428</b>
Payables	861	917	1243	1250	1350
ST Borrowings	93	172	438	438	438
LT Borrowings	145	309	438	450	450
Other Liabilities	49	18	72	72	72
<b>Total Liabilities</b>	<b>1147</b>	<b>1415</b>	<b>2191</b>	<b>2210</b>	<b>2310</b>
<b>Net Assets</b>	<b>717</b>	<b>821</b>	<b>892</b>	<b>979</b>	<b>1118</b>
Share Cap	228	221	230	230	230
Reserves	471	516	590	677	816
<b>Share Equity</b>	<b>699</b>	<b>737</b>	<b>820</b>	<b>907</b>	<b>1046</b>
MI	18	84	72	72	72
<b>Total Equity</b>	<b>717</b>	<b>821</b>	<b>892</b>	<b>979</b>	<b>1118</b>

### Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	239	-215	-286	174	326
Investing CF	-174	424	-88	-300	-422
Financing CF	-122	143	349	-76	-88
Change in Cash	-58	351	-25	-202	-184

Source: Kenanga Research

### Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
<b>Growth</b>					
Revenue	11%	25%	24%	8%	26%
EBIT	52%	23%	12%	8%	30%
PBT	50%	21%	2%	15%	31%
PAT	50%	25%	5%	13%	31%
Net Profit	55%	20%	7%	14%	31%
Core Net Profit	59%	29%	18%	-3%	31%
<b>Profitability</b>					
EBIT margin	9%	9%	8%	8%	8%
PBT margin	9%	9%	7%	8%	8%
PAT margin	6%	6%	5%	6%	6%
Net Profit margin	7%	6%	5%	6%	6%
CNP margin	6%	7%	6%	6%	6%
Effective Tax Rate	-27%	-25%	-23%	-24%	-24%
ROE	16.0%	19.5%	20.7%	18.2%	20.7%
ROA	6.0%	6.4%	5.5%	5.2%	6.3%
<b>Leverage</b>					
Debt/Equity (x)	0.34	0.65	1.07	0.98	0.85
Net Debt/(Cash)	-458	-55	336	249	11
Net Debt/Equity (x)	-0.65	-0.07	0.41	0.27	0.01
<b>Valuations</b>					
Core EPS (sen)	8.7	11.1	13.2	12.8	16.7
NDPS (sen)	5.3	5.5	6.0	6.0	6.0
BV/share (RM)	0.54	0.57	0.63	0.70	0.81
Core PER (x)	31.5	24.5	20.7	21.4	16.3
Net Div. Yield (%)	1.9	2.0	2.2	2.2	2.2
PBV (x)	5.03	4.78	4.30	3.89	3.37

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
GAMUDA BHD	OP	5.15	5.45	5.8%	14,254.0	Y	07/2024	4.1	4.9	29.5%	19.2%	14.1	11.4	11.8	9.8%	12.0	2.3%
IJM CORP BHD	OP	2.37	2.54	7.2%	8,309.6	Y	03/2024	11.6	12.4	62.5%	7.0%	26.0	27.8	0.9	4.7%	8.0	3.4%
KERJAYA PROSPEK GROUP BHD	OP	1.80	1.90	5.6%	2,269.9	Y	12/2024	14.2	15.8	33.3%	11.3%	14.8	12.9	1.6	13.0%	10.0	5.6%
KIMLUN CORP BHD	MP	0.980	0.890	-9.2%	346.3	Y	12/2024	8.3	8.9	311.3%	7.9%	9.9	8.4	0.5	3.9%	1.0	1.0%
SUNWAY CONSTRUCTION GROUP BHD	OP	2.73	3.16	15.8%	3,520.0	Y	12/2024	12.7	16.7	-3.2%	31.1%	21.5	20.5	3.6	17.6%	6.0	2.2%
WCT HOLDINGS BHD	OP	0.520	0.660	26.9%	737.0	Y	12/2024	2.5	3.0	-85.9%	18.4%	20.6	14.1	0.3	1.2%	0.5	1.0%
<b>SECTOR AGGREGATE</b>					<b>29,436.7</b>					<b>65.2%</b>	<b>16.7%</b>	<b>15.2</b>	<b>13.0</b>	<b>1.1</b>	<b>7.0%</b>		<b>2.6%</b>

Source: Kenanga Research

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### Stock ESG Ratings:

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
<b>SPECIFIC</b>	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
<b>OVERALL</b>		★	★	★	★	

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

### Stock Ratings are defined as follows:

#### Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

#### Sector Recommendations\*\*\*

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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