

COMPANY UPDATE

Sunway Construction (SCGB MK)

Banking On Stronger Private Project Flows

Suncon is set to deliver record-high earnings in 2024, underpinned by its robust orderbook of RM5.3b as of end-23 as well as potential margin recovery. We also believe the group is in pole position to exceed its RM3.0b replenishment target on the back of the strong project pipeline from both the public and private segments. Maintain BUY. Target price: RM3.33.

WHAT'S NEW

- **Commendable replenishment performance.** We now have stronger conviction in Sunway Construction's (Suncon) replenishment outlook in 2024, following its commendable contract wins recently. We believe the group is in the pole position to exceed its 2024 replenishment target of RM3.0b, having already secured five new contracts collectively worth RM1.58b (half of the target) within the first three months in 2024 while riding on the huge pipeline of prospective public and private projects. Its tenderbook currently stands at RM26.0b, which comprises mainly bids of RM13b-14b under Mass Rapid Transit 3 (MRT3), RM6b under Song Hau coal-fired power plant, RM5b-6b under multiple industrial projects (data centres, semiconductor plants, warehouses, etc.), as well as RM1.5b for various precast orders.
- **Driven mainly by private project flows amid delayed roll-out of infrastructure projects.** We highlight that replenishment in 2024 may still be primarily driven by private projects (private jobs accounted for 99%/88%/76% of 2021/22/23 replenishments), given the delay in the roll-out of mega projects. That said, one of the key mega projects - MRT3 - may face further delays amid the absence of an official outcome despite reaching the extended tender validity (end-Mar 24). This means the awards of various packages under MRT3 may potentially be deferred for another 1-2 years. On a positive note, the stronger private projects flows would help to cushion the slower infrastructure job flows.
- **More opportunities from the data centre space.** Meanwhile, Suncon continue to see enormous growth opportunities in the data centre space. This is following the group's success in securing its third data centre project recently, which cements its position as one of the go-to contractors for any upcoming greenfield data centres. That said, we understand that the group is still bidding for another three data centre projects (estimated value of RM2b-3b), for which the contract awards may potentially materialise in 2H24. Also, note that these projects typically come with relatively shorter construction periods and better profit margins, thus offering explosive earnings growth.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,155	2,671	3,233	3,529	3,727
EBITDA	163	203	259	288	313
Operating profit	187	224	277	308	336
Net profit (rep./act.)	135	145	199	226	251
Net profit (adj.)	144	170	199	226	251
EPS (sen)	11.2	13.2	15.4	17.5	19.4
PE (x)	26.0	22.0	18.8	16.6	14.9
P/B (x)	5.1	4.6	4.2	3.8	3.4
EV/EBITDA (x)	28.6	22.9	18.0	16.2	14.8
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	6.3	5.4	6.1	6.4	6.7
Net debt/(cash) to equity (%)	9.9	66.1	93.1	78.7	62.7
Interest cover (x)	39.2	9.5	12.6	17.7	26.3
Consensus net profit	-	-	181	208	225
UOBKH/Consensus (x)	-	-	1.10	1.08	1.11

Source: Sunway Construction, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.90
Target Price	RM3.33
Upside	+14.8%

COMPANY DESCRIPTION

A leading construction company in Malaysia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,289.4
Market cap (RMm):	3,739.1
Market cap (US\$m):	790.4
3-mth avg daily t'over (US\$m):	2.1

Price Performance (%)

52-week high/low RM2.97/RM1.53

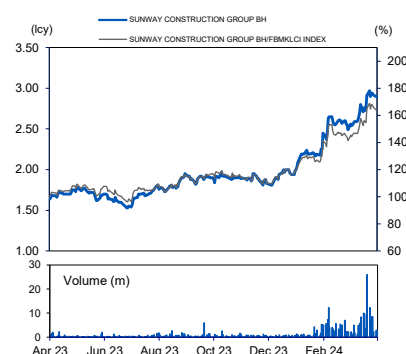
1mth	3mth	6mth	1yr	YTD
16.5	49.5	52.6	74.7	49.5

Major Shareholders

	%
Sunway Holdings Sdn Bhd	54.6
Sungei Way Corp Sdn Bhd	10.1
Amanah Saham Nasional Bhd	6.4

FY24 NAV/Share (RM)	0.70
FY24 Net Debt/Share (RM)	0.65

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Still seeing resilient internal job flows.** Meanwhile, we also believe Suncon will continue to benefit from the resilient internal job flows from its parent company, Sunway Berhad (Sunway). Note that Suncon had earlier secured a sizeable contract worth RM721m from Sunway Lost World Water Park Sdn Bhd, an indirect subsidiary of Sunway. Moving forward, we foresee sustainable internal project flows supported by: a) Sunway's new property launches of RM2b-3b p.a. in the coming years, b) multiple capacity expansions of medical centres which are guided to cost around RM2b, as well as c) potential renovation and refurbishment works for Sunway's existing hotels and malls. These will thus translate into strong contract flows for Suncon, further accelerating the group's earnings growth trajectory.
- **Precast segment's outlook remains solid.** In addition, the earnings trajectory for its precast segment also remains solid, backed by stronger contributions from the Integrated Construction & Prefabrication Hub (ICPH). The demand-supply dynamics remain healthy, driven by Singapore's Housing and Development Board's (HDB) targets to launch 19,600 flats in 2024 and a total of 100,000 flats between 2021 and 2025 to cater to the higher housing demand. This would subsequently help Suncon to lift ICPH's utilisation rate (hovering at 40-50% throughout 2023) while resulting in a sustainable price outlook for its precast concrete products. Meanwhile, we are also mindful of the potential increase in its plant utilisation rate to above 60% once it resolves the storage capacity bottlenecks.
- **To achieve margin improvement in 2024.** While management had earlier guided a profit before tax (PBT) margin of 5-8% for 2024 (vs PBT margin of 7.1% in 2023), we believe margin improvement to the higher end of 8% is reasonably possible in view of the easing building materials prices. Our channel checks suggest that average steel bar prices decreased moderately by 1.3% qoq to RM2,854/tonne in Feb 24 while average prices for bulk cement and bag cement prices were flat mom at RM380/tonne and RM21.6/bag. The margin improvement could also come from better economies of scale as the group gradually ramps up progress billing in new projects.

EARNINGS REVISION/RISK

- Our forecasts are unchanged.

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of RM3.33**, based on 2025F PE of 19x PE (0.5SD above its five-year mean of 17x). The group's fundamentals remain robust, supported by its proven capability to clinch a balanced mix of external and internal projects which will ultimately lead to decent earnings visibility for the next two to three years.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

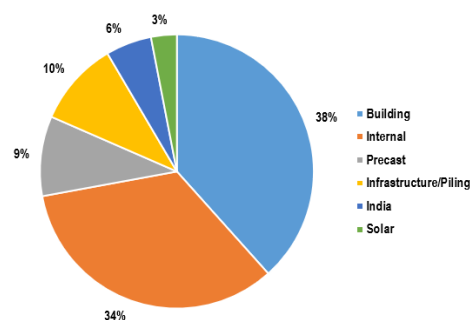
<ul style="list-style-type: none"> • Environmental
- Mitigate the release of emissions, biodiversity impacts, waste disposal, pollution.
<ul style="list-style-type: none"> • Social
- Work with local authorities and communities to ensure projects' success.
<ul style="list-style-type: none"> • Governance
- Independent directors (four out of seven) comprise the majority of the board.

OUTSTANDING ORDERBOOK AS OF END-4Q23

Projects	(RMm)
STeP Data Centre	1,460
RTS Link Package 1B & 5	494
K2 Data Centre	259
Daiso Warehouse	291
India Highways	289
Solar Projects	162
Others	71
Total External (A)	3,026
South Quay Superstructure	872
SW Flora	232
Sunway Carnival Mall Refurbishment	173
Sunway Belfield	112
Others	408
Total Internal (B)	1,797
Precast Concrete (C)	502
Grand Total (A+B+C)	5,325

Source: Suncon

ORDERBOOK BREAKDOWN



Source: Suncon

SEGMENTAL FORECASTS

(RMm)	2024F	2025F	2026F
Revenue	3,233	3,529	3,727
- Construction	2,887	3,061	3,239
- Precast Concrete	346	468	488
Operating profit	277	308	336
- Construction	239	257	282
- Precast Concrete	38	52	54
Orderbok replenishment assumptions			
- Construction	3,000	3,000	3,000
- Precast Concrete	400	400	400

Source: Suncon, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	2,671	3,233	3,529	3,727
EBITDA	203	259	288	313
Deprec. & amort.	(21)	(19)	(21)	(23)
EBIT	224	277	308	336
Associate contributions	(14)	2	2	2
Net interest income/(expense)	(21)	(21)	(16)	(12)
Pre-tax profit	189	258	294	326
Tax	(43)	(57)	(65)	(72)
Minorities	(1)	(3)	(3)	(4)
Net profit	145	199	226	251
Net profit (adj.)	170	199	226	251

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	99	112	127	142
Other LT assets	745	747	749	751
Cash/ST investment	384	40	50	96
Other current assets	1,855	2,147	2,267	2,324
Total assets	3,083	3,046	3,193	3,312
ST debt	438	350	330	310
Other current liabilities	1,264	1,196	1,301	1,368
LT debt	488	526	496	466
Other LT liabilities	1	1	1	1
Shareholders' equity	820	898	986	1,084
Minority interest	72	75	78	82
Total liabilities & equity	3,083	3,046	3,193	3,312

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	(286)	(141)	233	285
Pre-tax profit	189	258	294	326
Tax	(33)	(57)	(65)	(72)
Deprec. & amort.	21	19	21	23
Associates	14	(2)	(2)	(2)
Working capital changes	(498)	(359)	(15)	11
Other operating cashflows	21	0	0	0
Investing	(88)	(32)	(35)	(37)
Capex (growth)	(18)	(32)	(35)	(37)
Proceeds from sale of assets	2	0	0	0
Others	(73)	0	0	0
Financing	349	(171)	(188)	(203)
Dividend payments	(71)	(121)	(138)	(153)
Proceeds from borrowings	421	(50)	(50)	(50)
Others/interest paid	(1)	0	0	0
Net cash inflow (outflow)	(25)	(344)	10	46
Beginning cash & cash equivalent	408	384	40	50
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	384	40	50	96

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	7.6	8.0	8.2	8.4
Pre-tax margin	7.1	8.0	8.3	8.8
Net margin	5.4	6.1	6.4	6.7
Net profit (adj.)	18.3	16.7	13.8	11.0
Leverage				
Debt to total capital	50.9	47.4	43.7	40.0
Debt to equity	112.9	97.6	83.8	71.6
Net debt/(cash) to equity	66.1	93.1	78.7	62.7
Interest cover (x)	9.5	12.6	17.7	26.3

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