

## Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

### Third Data Centre Job in the Bag

#### KEY INVESTMENT HIGHLIGHTS

- **Second major win for FY24 – RM750m data centre in Selangor; third data centre job won**
- **Three-year project from May-24 to 2QCY27, divided into four sections**
- **Assuming 6%-8% margin, the project is expected to deliver RM44.9m to RM59.8m of gross profit to SunCon**
- **RM1.58b of new jobs secured YTD; 52.6% of FY24 target**
- **Downgrade to NEUTRAL with unchanged TP of RM2.86**

**RM750m data centre.** Sunway Construction Group Berhad (SunCon) has secured its second major win for the year, a data centre project with a contract size of RM747.8m. The project was secured by the group's wholly-owned subsidiary Sunway Construction Sdn Bhd from a US-based multinational technology corporation.

**Project details.** The project will take about three years to complete, starting from 15<sup>th</sup> May 2024 in Selangor. The project will be divided into four sections, each with its designated completion dates and the expected completion of the final section by 2QCY27.

**Financial impact.** Assuming gross profit margins from 6% to 8%, SunCon is expected to generate a gross profit of RM44.9m to RM59.8m from the project. Pending further details, we expect the gross profit contribution to be up to RM7m for FY24, RM15.4m in FY25, RM24.9m in FY26 and RM12.5m in FY27.

**Way ahead of replenishment target.** SunCon has an order book replenishment target of RM3.0b for FY24 and it has since secured RM1.58b of new jobs or 52.6% of its annual target. Its outstanding order book now stands at RM6.9b, with strong earnings visibility up to FY25. Other than data centres and infrastructure projects, jobs on SunCon's replenishment radar include warehouses and semiconductor foundries.

**Earnings estimates.** We are maintaining our estimates for FY24E-FY25F as the new project is within the order book replenishment target.

**Target price.** We maintain our **TP** at **RM2.86**, based on SunCon's FY24 EPS of 13.9 sen per share, pegged to a PER of 20.5x, which is +0.5SD above its mean since 2017.

**Downgrade to NEUTRAL.** We view that the upcoming pipeline of projects remains healthy for the sector and the group is expected to be among the main beneficiaries of the rise in data centres and from the development initiatives lined out in the Budget 2024 and the Mid-Term Review of the 12th Malaysia Plan. However, we do not discount the possibility of further delays in the implementation of mega projects such as the MRT3 and Penang LRT. SunCon has been among our top picks since Mar-22 when we upgraded the construction sector from NEUTRAL to POSITIVE. In terms of valuation, we believe the strong run-up in its share price by +40.7% year-to-date fairly values the group's prospects for now. At its current share price, SunCon is trading at 20x FY24E PE.

## Downgrade to NEUTRAL

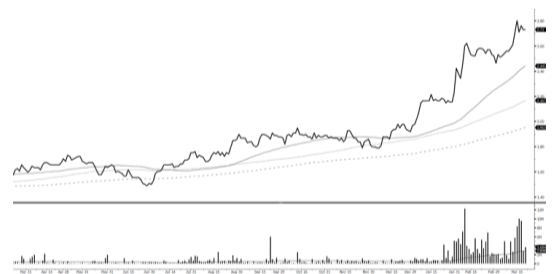
(Previously BUY)

**Unchanged Target Price: RM2.86**

#### RETURN STATISTICS

Price @ 21 <sup>st</sup> Mar 2024 (RM)	2.73
Expected share price return (%)	+4.76
Expected dividend yield (%)	+2.45
Expected total return (%)	+7.21

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.0	5.3
3 months	40.7	28.8
12 months	68.5	54.4

#### INVESTMENT STATISTICS


FYE Dec	2023A	2024F	2025F
Revenue	2,671.23	2,978.96	3,127.90
Operating Profit	224.27	217.27	239.58
Profit Before Tax	188.65	230.45	251.35
Core net profit	143.90	178.74	189.36
Core EPS (sen)	11.3	13.9	14.7
DPS (sen)	6.0	7.0	7.0
Dividend Yield	2.9%	2.5%	2.5%

#### KEY STATISTICS

FBM KLCI	1,541.41
Issue shares (m)	1289.36
Estimated free float (%)	15.65
Market Capitalisation (RM'm)	3,519.95
52-wk price range	RM1.53-RM2.82
3-mth average daily volume (m)	2.86
3-mth average daily value (RM'm)	7.26
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	6.79

#### Analyst

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As such, we are downgrading our recommendation on SunCon from BUY to **NEUTRAL**, though there remains a little upside in its share price to our **TP** of **RM2.86**. Rerating catalysts include stronger than expected job replenishments and swift rollout of mega projects. 

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024E	2025F
Revenue	1,729.16	2,155.23	2,364.70	2,978.96	3,127.90
Net operating expenses	(1,589.74)	(1,963.75)	(2,182.91)	(2,655.54)	(2,749.01)
Operating profit	139.42	148.41	169.97	217.27	239.58
Profit before tax	152.25	184.06	193.79	230.45	251.35
Net profit	112.59	135.18	140.80	178.74	189.36
Core net profit	110.40	134.44	140.80	178.74	189.36
Core EPS (sen)	8.7	10.5	10.9	0.139	0.147
DPS (sen)	5.0	5.5	6.0	7.0	7.0

Balance Sheet (RM'm)	2021A	2022A	2023A	2024E	2025F
Fixed assets	124.8	107.6	118.4	124.3	130.6
Other investments and assets	724.6	491.1	498.0	511.9	518.9
<b>Non-current assets</b>	<b>849.4</b>	<b>598.7</b>	<b>616.3</b>	<b>636.2</b>	<b>649.6</b>
Cash	98.8	491.6	468.2	522.1	548.3
Trade debtors	850.1	988.7	1,123.5	1,231.3	1,304.2
<b>Current assets</b>	<b>1,014.8</b>	<b>1,637.4</b>	<b>1,730.1</b>	<b>1,905.9</b>	<b>2,013.5</b>
Trade creditors	891.4	916.8	1,121.6	1,193.8	1,277.4
Short-term debt	92.5	172.2	161.6	197.5	197.6
<b>Current liabilities</b>	<b>992.0</b>	<b>1,103.3</b>	<b>1,296.9</b>	<b>1,407.9</b>	<b>1,491.6</b>
Long-term debt	145.4	308.5	203.6	207.6	150.6
<b>Non-current liabilities</b>	<b>155.4</b>	<b>311.9</b>	<b>489.1</b>	<b>212.8</b>	<b>155.4</b>
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	470.8	515.9	579.3	662.8	757.4
<b>Equity</b>	<b>699.1</b>	<b>737.1</b>	<b>837.9</b>	<b>921.4</b>	<b>1,016.0</b>

Cash Flow (RM'm)	2021A	2022A	2023A	2024E	2025F
PBT	152.2	184.1	193.8	211.5	232.3
Depreciation & amortisation	27.4	23.8	26.1	27.4	28.8
Changes in working capital	83.3	-382.1	100.8	-64.8	-23.9
<b>Operating cash flow</b>	<b>238.7</b>	<b>-215.0</b>	<b>414.9</b>	<b>206.6</b>	<b>297.7</b>
Capital expenditure	-31.5	-1.9	-25.0	-25.0	-25.0
<b>Investing cash flow</b>	<b>-174.0</b>	<b>423.7</b>	<b>-308.0</b>	<b>-123.2</b>	<b>184.8</b>
Debt raised/(repaid)	-70.1	233.4	107.6	193.7	-145.4
Dividends paid	-51.6	-90.3	-77.4	-77.4	-77.4
<b>Financing cash flow</b>	<b>-122.4</b>	<b>142.7</b>	<b>30.2</b>	<b>116.3</b>	<b>-222.8</b>
<b>Net cash flow</b>	<b>-57.7</b>	<b>351.4</b>	<b>137.1</b>	<b>199.7</b>	<b>259.8</b>
<b>Beginning cash flow</b>	<b>117.8</b>	<b>60.6</b>	<b>407.7</b>	<b>544.8</b>	<b>744.4</b>
<b>Ending cash flow</b>	<b>60.6</b>	<b>407.7</b>	<b>544.8</b>	<b>744.4</b>	<b>1004.2</b>

Profitability Margins	2021A	2022A	2023A	2024E	2025F
Operating profit margin	8.1%	6.9%	7.2%	7.3%	7.7%
PBT margin	8.8%	8.5%	8.2%	7.7%	8.0%
PAT margin	6.5%	6.3%	6.0%	6.0%	6.1%
Core PAT margin	6.4%	5.8%	6.0%	6.0%	6.1%

Source: Bloomberg, MIDFR

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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology