

# Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

**Maintain BUY**

## En route to ending FY22 positively

**Unchanged Target Price: RM1.87**

### KEY INVESTMENT HIGHLIGHTS

- **3QFY22 core earnings grew +15.6%yoy to RM22.5m**
- **Cumulative 9MFY22 earnings within ours but below consensus expectations**
- **Construction revenue up +63.8%yoy to RM419m while precast segment revenue tripled to RM50.3m**
- **Outstanding order book of RM4b provides solid earnings visibility up to FY24**
- **Maintain BUY with a revised target price of RM1.87**

**Within Expectations.** Sunway Construction Group Berhad (SunCon) posted a +15.6%yoy growth in its core earnings to RM22.5m in 3QFY22, backed by a stronger revenue that came in +72.5%yoy to RM469.3m. For the cumulative 9MFY22, core earnings almost doubled, rising +90.2%yoy to RM88.3m. This is within our expectation, making up 71.1% of our full-year estimates but below that of the consensus at 66.6% of full-year expectations.

**Construction segment.** The group's construction segment revenue soared +63.8%yoy for the quarter to RM419m as it was able to ramp up its ongoing jobs post-Covid normalisation. PBT came in +30.1%yoy higher at RM35m, though there was a notable reduction in margins to 8.4% from 10.5% in 3QFY21. The higher margin was due to a re-calibration or margin for projects nearing completion last year.

**Precast segment.** The segment saw its revenue jump three-fold to RM50.3m, pushing its PBT to RM2.6m as compared to a loss of -RM2.4m in the same quarter last year/ The loss was a result of the lockdown forced the temporary closure of both SunCon's precast plants in Johor last year, before commencing operations again in the final week of Sep-21. PBT margins was at 5.2% in 3QFY22, a significant improvement from -14.7% in 3QFY21.

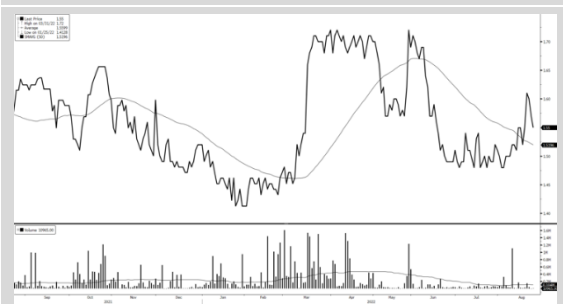
**Stellar order book.** SunCon's outstanding order book currently stands at RM4b, providing it solid earnings visibility up to FY24, though we note that it is still behind on its replenishment target of RM2b this year, with only RM881.3m of jobs secured this year, or 44.1% of its target. Of the RM4b, 49% are internally secured jobs from Sunway Group while 15% comes from India through the Thorapalli Agraharam - Jittandahalli Highway and the Meensurutti - Chidambaram Highway, both in Tamil Nadu. Its precast jobs for Singapore make up 13% of the order book. We believe that the upcoming rollout of the MRT3 contracts will give SunCon's order book a boost this year, apart from other potential job wins. Management is quite positive on the sector, given the increased demand in e-commerce, cloud computing and microchips that gave rise to the need for more semi-conductor factories, warehouses and data centres, apart from mega infrastructure projects.

**Improving sector conditions.** Management also highlighted that the foreign labour shortage situation is easing. SunCon has since received the arrival of 342 Indonesian workers as of November, out of the total of 400 that was approved by the Human Resources Ministry in June. In terms of

### RETURN STATISTICS

Price @ 22 <sup>nd</sup> Nov 2022 (RM)	<b>1.43</b>
Expected share price return (%)	<b>+30.77</b>
Expected dividend yield (%)	<b>+2.14</b>
<b>Expected total return (%)</b>	<b>+32.91</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-5.3	-5.0
3 months	-4.7	-6.0
12 months	-8.9	-3.5

### KEY STATISTICS

FBM KLCI	1,441.29
Syariah compliant	Yes
F4BGM Index	No
ESH Grading Band (Star rating)	N/A
Issue shares (m)	1289.36
Estimated free float (%)	14.48
Market Capitalisation (RM'm)	1,843.78
52-wk price range	RM1.41 - RM1.74
Beta vs FBM KLCI (x)	0.79
3-mth average daily volume (m)	0.14
3-mth average daily value (RM'm)	0.21
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.30

building material prices, SunCon said steel bar prices have declined to about RM2,600 per tonne in October, from a high of RM3,500 per tonne in March.

**Earnings estimates.** We are maintaining our estimates for FY22 to FY24 as the results are in line with our expectations.

**Reiterate BUY.** SunCon remains one of our top picks for the construction sector premised on many factors, from its capability to handle its margins well to maintaining a robust balance sheet, which places it in an ever-ready position to take on mega infrastructure jobs, especially those that require PFI/PPP initiatives. The group is now in a net cash position of RM175.5m, leaving it much headroom to take on further debts, if needed. We expect SunCon to be among the front runners for the main MRT3 packages and we also like the group's upcoming its Integrated Construction & Prefabrication Hub (ICPH) in Singapore, which is scheduled to be commissioned in December, which will cater extensively to Singapore's HDB projects. All factors considered, we reiterate our BUY recommendation on SunCon with an unchanged TP of RM1.87, derived by pegging its FY23F EPS of 10.7sen to a PE ratio of 17.5x. 

## INVESTMENT STATISTICS

FYE 31st December	2020A	2021A	2022E	2023F	2024F
All in RM'm unless stated otherwise					
Revenue	1,552.65	1,729.16	2,105.30	2,310.00	2,637.10
Net Operating Expenses	(1,462.13)	(1,589.74)	(1,949.36)	(2,140.95)	(2,448.43)
Operating Profit	90.52	139.42	155.94	169.05	188.67
Finance Income	13.76	4.15	17.16	19.43	18.35
Finance Costs	(6.94)	(4.58)	(9.80)	(11.08)	(10.93)
JV and Associates	4.17	13.26	6.93	9.32	11.66
Profit Before Tax	101.5	152.25	170.12	186.66	207.69
Tax Expense	(27.78)	(41.50)	(38.95)	(43.71)	(52.29)
Reported Net Profit	72.79	112.59	124.21	137.54	160.86
Core Net Profit	69.6	110.4	124.21	137.54	160.86
Reported EPS (sen)	5.6	8.7	9.6	10.7	12.5
Core EPS (sen)	5.4	8.7	9.6	10.7	12.5
DPS (sen)	4.00	5.25	4.00	4.00	4.00
Dividend Yield	2.3%	3.3%	2.1%	2.1%	2.1%

Source: Company, MIDFR

## SUNWAY CONSTRUCTION: 3QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	Q322	Q222	Q321	QoQ	YoY	9MFY22	9MFY21	YoY
Revenue	469.3	557.9	272.1	-15.9%	72%	1,651.8	1,102.5	50%
Net Operating Expenses	(428.0)	(515.5)	(250.0)	17%	-71%	(1,525.3)	(1,048.0)	-46%
Operating Profit	36.9	4.3	22.1	768%	67%	84.1	54.5	54%
Finance Income	4.1	3.2	1.0	28%	316%	9.5	3.1	205%
Finance Costs	(3.2)	(3.2)	(0.9)	-1%	-249%	(7.6)	(3.5)	-116%
JV and Associates	(0.1)	0.6	2.4	-121%	-105%	3.7	7.1	-48%
Profit Before Tax	37.6	43.0	24.5	-13%	54%	127.8	61.2	109%
Tax Expense	(13.6)	(9.3)	(5.0)	-46%	-175%	(34.5)	(15.5)	-123%
Minority Interest	1.2	1.3	0.2	-6%	458%	3.7	(2.1)	276%
Reported Net Profit	22.7	32.3	19.3	-30%	18%	89.5	47.9	87%
Core Net Profit	22.5	31.5	19.3	-29%	17%	88.3	46.4	90%

Source: Company, MIDFR

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#### 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