

### COMPANY RESULTS

## Sunway Construction (SCGB MK)

2Q22: Positive Momentum So Far

SunCon's earnings came in within expectations at RM33m, accounting for 52% of our forecast. The yoy improvement was mainly due to improved construction billings as lockdown measures were lifted, coupled with the re-calibration of nearly-completed projects' margins. The potential rollout of the MRT3 project in 2022 could benefit SunCon, given its participation in MRT1 and MRT2. Rising material costs and labour shortage are expected to ease in 2H22. Maintain HOLD. Target price: RM1.57.

### 2022 RESULTS

Year to 31 Dec (RMm)	2Q22	1Q22	qoq % chg	yoy % chg	1H22	yoy % chg
Revenue	557.9	624.7	(10.7)	48.7	1,182.5	42.4
Construction	523.0	587.8	(11.0)	49.8	1,110.7	44.2
Precast Concrete	34.9	36.9	(5.4)	33.8	71.8	19.8
EBIT	42.4	42.9	(1.4)	563.5	85.3	162.5
Construction	39.9	41.5	(3.9)	546.0	81.4	185.5
Precast Concrete	2.4	1.4	72.9	1,088.3	3.9	(2.6)
Pre-tax Profit	43.0	47.2	(8.9)	351.7	90.1	145.2
PATAMI	32.3	34.5	(6.4)	288.1	66.8	133.9
Core PATAMI	32.8	34.2	(4.0)	314.3	67.0	137.1
<b>Margins</b>	<b>%</b>	<b>%</b>	<b>+/- ppt</b>	<b>+/- ppt</b>	<b>%</b>	<b>+/- ppt</b>
Construction	7.6	7.1	0.6	5.9	7.3	3.6
Precast Concrete	7.0	3.8	3.2	6.2	5.4	(1.2)
PBT	7.7	7.6	0.2	5.2	7.6	3.2
PATAMI	5.8	5.5	0.3	3.6	5.7	2.2

Source: Sunway Construction, UOB Kay Hian

### RESULTS

• **2Q22 earnings within expectations.** Sunway Construction Group (SunCon) reported a core net profit of RM32.8m (-4.0% qoq, +314.3% yoy) and revenue of RM557.9m (-10.7% qoq, +48.7% yoy) in 2Q22. This accounts for around 52% of our and consensus' full-year forecasts. The yoy improvement was mainly due to the low-base effect, higher productivity level and improved construction billings given the absence of COVID-19-related lockdowns this year. PBT margin also increased yoy due to final accounting for some of the nearly-completed projects. However, on a qoq basis, revenue and earnings fell by 11% and 4% respectively mainly due to higher billings achieved in the previous quarter on the back of the recalibration of margins for certain tail-end projects in 1Q22.

• **Dividend.** The company declared an interim dividend of 3.0 sen, translating to a 58% payout rate for 6M22. We think the company should be able to maintain its 60% payout track record given its sturdy balance sheet.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,553	1,729	2,276	2,452	2,196
EBITDA	124	167	175	195	163
Operating profit	91	139	157	169	151
Net profit (rep./act.)	73	113	127	143	132
Net profit (adj.)	92	113	127	143	132
EPS (sen)	7.1	8.8	9.9	11.0	10.2
PE (x)	20.8	16.8	15.8	14.1	14.5
P/B (x)	3.0	2.9	2.8	2.6	2.6
EV/EBITDA (x)	12.5	13.4	9.5	8.0	8.5
Dividend yield (%)	2.7	3.5	3.8	4.3	4.3
Net margin (%)	4.7	6.6	5.6	6.0	6.5
Net debt/(cash) to equity (%)	(53.3)	(50.4)	(51.4)	(52.2)	(55.2)
ROE (%)	11.6	17.0	18.4	19.2	19.1
Consensus net profit	-	-	134	146	136
UOBKH/Consensus (x)	-	-	0.95	0.98	0.97

Source: Sunway Construction, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	RM1.55
Target Price	RM1.57
Upside	+1.3%

### 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):	2,063.0
Market cap (US\$m):	460.7
3-mth avg daily t'over (US\$m):	0.2

### Price Performance (%)

52-week high/low RM1.72/RM1.45

1mth	3mth	6mth	1yr	YTD
8.1	0.0	7.4	1.3	2.6

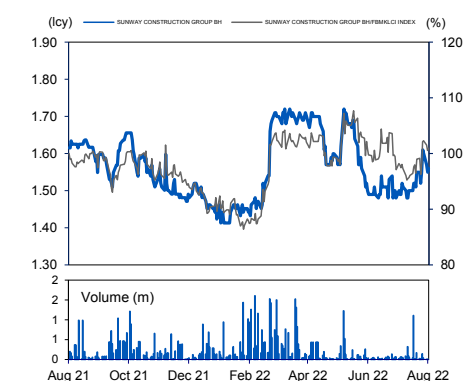
### Major Shareholders

	%
Sunway Berhad	54.4
Employees Provident Fund	9.2

FY22 NAV/Share (RM) 0.55

FY22 Net Cash/Share (RM) 0.28

### PRICE CHART



### ANALYST(S)

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- Construction division remained resilient.** SunCon's construction arm reported a higher PBT of RM41.1m (+330.7% yoy) on revenue of RM523.0m (+49.8% yoy) in 2Q22 due to accelerated progress billings post lockdown. Margins also improved to 7.6% in 2Q22 (+0.6ppt qoq, +5.9ppt yoy). We believe this may be due to the gradual easing in raw material costs coupled with the recalibration of margins for certain tail-end projects after better visibility and certainty of the projects' costs. We expect margins to remain around this level in the coming quarters.
- Precast: Rebounded stronger.** The division's 2Q22 PBT profit increased to RM1.9m (+86.7% qoq, >100% yoy) on revenue of RM34.9m (-5.4% qoq, +33.8% yoy). It reported higher earnings mainly due to the gradual decline in steel bar prices during the quarter, given global supply recovery. Currently, steel bar prices have eased by >10% to around RM3,000 from its peak in 1Q22. We believe the economic reopening in both Malaysia and Singapore after the easing of nationwide lockdowns will continue to support the earnings growth going forward.

### STOCK IMPACT

- Robust orderbook...** Suncon continued to secure new orders worth RM297.5m in 2Q22, bringing total job wins ytd to RM563.1m. The group's outstanding orderbook now stands at RM4.2b (2x of revenue cover). With the economic reopening, we believe SunCon will be able to replenish its orderbook by RM2b in 2022 on the back of its strong tenderbook of RM17.4b. SunCon is among the frontrunners for the civil packages of the railway jobs given its strong execution track record, coupled with its strong balance sheet that can help to meet the PFI requirement.
- ... to be further strengthened by upcoming mega infrastructure jobs.** SunCon will bid for both civil packages of MRT3 elevated portions, Civil Package 1 (CP1) and Civil Package (CP2), with the aim of securing CP2 that offers a higher value of around RM12b vs CP1 that is worth about RM2b. CP1 will involve a 6km elevated section including the main depot, while CP2 consists a 27km elevated section and 1.2km of ground tunnels. Tenders for CP1 and CP2 will close on 30 Aug 22 and 30 Sep 22 and should be awarded in 4Q22. To fulfil the 60% bumiputera shareholding requirement, we believe SunCon will form a JV with a local partner for this job. It is also eyeing the Bayan Lepas LRT (Penang Transport Master Plan) as the pre-qualification tender is currently underway.
- Raw material costs and labour shortage will stabilise.** Steel and cement prices continue to trend downwards by over 10% qoq to around RM3,000/mt and RM300/mt respectively, which could help boost margin. SunCon sources for its construction materials through Sunway Group by purchasing the materials in bulk to minimise the impact of high cost. The company is also expecting gradual improvement in its labour shortage issue, which will help to increase SunCon's progress. It has managed to secure 400 Indonesian workers from the Ministry of Human Resources in 2Q22 while expecting the first 100 workers to arrive as early as Sep 22.

### EARNINGS REVISION/RISK

- None.**

### VALUATION/RECOMMENDATION

- Maintain HOLD with an unchanged target price of RM1.57**, implying 15.9x 2022F PE (implied ex-cash PE: 14x). SunCon is ascribed with a higher-than-peers' PE multiple in view of its solid fundamentals and earnings visibility, underpinned by its ability to clinch a balanced mix of external and internal construction projects.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>Mitigate the release of emissions, biodiversity impact, waste disposal, pollution.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li>Works with local authorities and communities to ensure the projects' success.</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>Independent directors (four out of seven) comprise the majority of the board.</li> </ul> </li> </ul>
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### OUTSTANDING ORDERBOOK AS OF 30 JUN 22

Projects	(RMm)
LRT 3	87
Tenaga HQ Campus (Phase 2)	116
PETRONAS Leadership Centre	25
India Highway	687
Others	826
<b>Total External (A)</b>	<b>1,741</b>
Sunway Medical Centre - Phase 4 + VO	205
Sunway Belfield	332
Sunway Serene	41
Sunway Velocity 2 (Plot A)	51
Sunway Velocity 2 (Plot B)	208
Sunway Carnival Mall	23
South Quay CP2	551
Others	548
<b>Total Internal (B)</b>	<b>1,959</b>
Precast Concrete (C)	530
<b>Grand Total (A+B+C)</b>	<b>4,229</b>

Source: SunCon

### ORDER BOOK REPLENISHMENT ASSUMPTION

(RMm)	2022F	2023F	2024F
Construction	2,000	2,000	1,500
Precast Concrete	250	250	250

Source: UOB Kay Hian

### SEGMENTAL FORECASTS

(RMm)	2022F	2023F	2024F
<b>Revenue</b>	<b>2,276</b>	<b>2,452</b>	<b>2,196</b>
Construction	2,078	2,229	1,958
Precast Concrete	198	223	238
<b>Operating profit</b>	<b>157</b>	<b>169</b>	<b>151</b>
Construction	154	165	147
Precast Concrete	3	4	4

Source: UOB Kay Hian

### VALUATION

	(RMm)	Value (RMm)	Remarks
2022F net profit ex net interest income	126	1,690	13x PE
Net cash	340	340	
<b>Total SOTP value</b>		<b>2,030</b>	
Share base		1,289	
		<b>Implied PE (x)</b>	
TP (RM)		1.57	15.9
TP (RM) (ex-cash)		1.40	14.0

Source: SunCon, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Net turnover</b>	1,729	2,276	2,452	2,196
EBITDA	167	175	195	163
Deprec. & amort.	27	26	26	26
EBIT	139	157	169	151
Total other non-operating income	4	0	0	0
Associate contributions	9	9	9	9
Net interest income/(expense)	0	1	1	2
<b>Pre-tax profit</b>	<b>152</b>	<b>159</b>	<b>179</b>	<b>162</b>
Tax	(41)	(30)	(34)	(30)
Minorities	(2)	(1)	(1)	(1)
<b>Net profit</b>	<b>113</b>	<b>127</b>	<b>143</b>	<b>132</b>
Net profit (adj.)	113	127	143	132

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>99</b>	<b>121</b>	<b>138</b>	<b>136</b>
Pre-tax profit	152	159	179	162
Tax	(41)	(30)	(34)	(30)
Deprec. & amort.	27	26	26	26
Working capital changes	(29)	(24)	(23)	(11)
Non-cash items	(9)	(9)	(9)	(9)
Other operating cashflows	(1)	(1)	(1)	(2)
<b>Investing</b>	<b>(173)</b>	<b>(30)</b>	<b>(12)</b>	<b>(30)</b>
Capex (growth)	(34)	(30)	(12)	(30)
Investments	7	(9)	(9)	(9)
Proceeds from sale of assets	3	0	0	0
Others	183	9	9	9
<b>Financing</b>	<b>(122)</b>	<b>(68)</b>	<b>(80)</b>	<b>(93)</b>
Dividend payments	(52)	(44)	(71)	(85)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	(5)	0	0
Others/interest paid	(70)	(19)	(9)	(8)
<b>Net cash inflow (outflow)</b>	<b>(57)</b>	<b>(29)</b>	<b>21</b>	<b>25</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>118</b>	<b>640</b>	<b>612</b>	<b>632</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>640</b>	<b>612</b>	<b>632</b>	<b>658</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	107	108	95	98
Other LT assets	56	65	73	82
Cash/ST investment	640	612	632	658
Other current assets	1,102	1,307	1,502	1,594
<b>Total assets</b>	<b>1,906</b>	<b>2,092</b>	<b>2,302</b>	<b>2,431</b>
ST debt	234	214	204	194
Other current liabilities	961	1,142	1,313	1,395
LT debt	67	62	62	62
Other LT liabilities	6	6	6	6
Shareholders' equity	637	666	713	770
Minority interest	2	2	4	5
<b>Total liabilities &amp; equity</b>	<b>1,906</b>	<b>2,092</b>	<b>2,302</b>	<b>2,431</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	8.0	6.2	7.7	8.5
Pre-tax margin	6.5	5.2	6.9	7.8
Net margin	6.6	5.6	6.0	6.5
ROA	3.8	3.6	5.4	6.0
ROE	17.0	18.4	19.2	19.1
<b>Growth</b>				
EBITDA	(31.6)	(7.1)	42.0	17.9
Pre-tax profit	(35.8)	(5.6)	54.7	19.6
Net profit	(43.7)	(0.1)	63.1	19.3
Net profit (adj.)	(31.1)	(20.8)	63.1	19.3
EPS	(31.0)	(20.8)	63.1	19.3
<b>Leverage</b>				
Debt to total capital	32.0	29.2	27.1	24.8
Debt to equity	47.2	41.4	37.3	33.2
Net debt/(cash) to equity	(50.4)	(51.4)	(52.2)	(55.2)

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