

24 August, 2023

Sunway Construction (SCGB MK)

Below

BUY

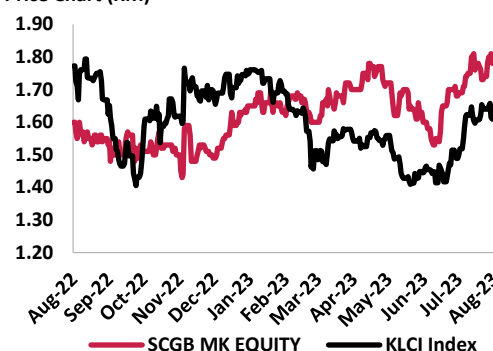
Share Price **RM1.80**
Target Price **▼RM1.99** +10.5%

Orderbook Growth Upholds Optimism

SunCon's core net profit for the 1H2023 amounted to RM60.8mn, falling short of both ours and the street's forecast at 42.2% and 41.5% respectively. The deviation against our forecast was mainly due to the higher-than-expected depreciation and tax expenses. Hence, we revised our assumption and earnings forecast lower by 11%/5% for FY23/FY24F. Nonetheless, our optimism on SunCon's orderbook remains intact. The outstanding orderbook has reached RM5.8bn, bolstered by the acquisition of new orders totalling RM1.6bn up to June 2023. Maintain our BUY recommendation with lower TP of RM1.99.

- **Below expectations.** 1HFY23 core net profit of RM60.8mn (-9% yoy) was below ours and consensus expectations accounting for 42.2% and 41.5% of full year estimates, respectively.
- **Dividend.** SunCon declared a first interim dividend of 3.0sen per share in 1H23 which is equal to 1HFY22 DPS. We project the company to pay a total of 6sen DPS in FY23 which translates to yield of 3.3% based on current market price.
- **QoQ.** SunCon's 2QFY23 revenue improved by 15.7% QoQ to RM604.1m as revenue improved in all segments. In tandem, the group recorded higher PBT of RM42.3mn (12.7% QoQ) and core net profit of RM33.5mn (13.9% QoQ).
- **YoY/ YTD.** SunCon observed an increase of 8.3% in revenue and 3.8% in core net income YoY. Notably, the precast segment stood out with an impressive 96.3% surge in revenue, reaching RM68.5mn. This growth was largely attributed to advancements in ICPH projects. Despite these gains, profit margin remained constant, as higher depreciation on the ICPH plant offset the gains.
- **Outlook.** Our outlook remains optimistic, with the commencement of the ICPH plant, expected to significantly contribute to the precast segment. This further bolstered by the Singapore Housing and Development Board's (HDB) plan to introduce an additional 6,700 flats in 3Q2023. Separately, SunCon was recently selected as one of the successful applicants for the Corporate Green Power Programme (CGPP), with quota of 29.9MW. This could potentially lead to orderbook replenishment of circa RM120-140mn.
- **Forecast.** We revised down our FY23/FY24F earnings forecast by 11%/5% as we increased our depreciation, finance cost and operation cost assumptions.
- **Our call.** Following the earnings revision, our **TP** is lowered to RM1.99 (from RM2.08). Our valuation is based on FY23F EPS of 11.7sen and 5-years mean PER of 17x. We maintain a **BUY** call and continue to like SunCon due to: (i) strong tenderbook in the pipeline (RM27bn), (ii) strong support from parent company, and (iii) beneficiary from healthy precast demand.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	6.5	6.5	20.2
vs FBM KLCI	4.5	4.4	19.6

Stock Data

ESG Rating	Good
Mkt Cap (RM)	2,320.8
Adjusted Beta	0.78
Free float (%)	25.6
Issued shares (mn)	1,289.4
52w H/L (RM)	1.84 / 1.41
3m avg daily volume (mn)	457,309.5

Major Shareholders (%)

Sunway Holdings	54.6
Sungei Way Corp	10.1
Employees Provident Fund	9.8

Research Team

aimannawwr@bimbsec.com.my
(603) 2613 1741

Table 1: Quarterly figures

SunCon FYE 31 Dec (RM m)	Quarterly			Change (%)		Cumulative		YTD	BIMB	
	2Q22	1Q23	2Q23	QoQ	YoY	6M22	6M23	%	FY23F	6M/F
Revenue	557.9	522.1	604.1	15.7%	8.3%	1,182.5	1,126.2	-4.8%	2,282.7	49.3%
Operating Cost	(509.4)	(472.2)	(546.0)	15.6%	7.2%	(1,080.6)	(1,028.1)	-4.9%	(2,095.8)	49.1%
EBITDA	48.5	49.9	58.1	16.4%	20.0%	102.0	98.2	-3.7%	186.8	52.5%
EBIT	42.4	41.7	46.7	12.0%	10.2%	89.6	78.4	-12.5%	161.8	48.5%
Pretax Profit	43.0	37.5	42.3	12.7%	-1.7%	90.1	79.8	-11.5%	176.5	45.2%
Income tax	(9.3)	(8.9)	(9.0)	1.3%	-3.8%	(20.9)	(17.9)	-14.4%	(32.5)	55.0%
Net Profit	33.6	28.6	33.3	16.2%	-1.1%	69.3	61.9	-10.6%	144.0	43.0%
Core Net Profit	32.3	29.5	33.5	13.9%	3.8%	66.8	60.8	-9.0%	144.0	42.2%
EPS (sen) - basic	2.51	2.16	2.56	18.5%	2.0%	5.37	4.80	-10.6%		
DPS declared (sen)	3.00	2.50	3.00	20.0%	0.0%	3.00	3.00	0.0%		
				Chg (ppts)				Chg (ppts)		
EBITDA margin (%)	8.7%	9.6%	9.6%	0.1	0.9	8.6%	8.7%	0.1		
Profit margin (%)	6.0%	5.5%	5.5%	0.0	(0.5)	5.9%	5.5%	(0.4)		
Core profit margin (%)	5.8%	5.6%	5.6%	(0.1)	(0.2)	5.7%	5.4%	(0.2)		
Effective tax rate (%)	21.7%	23.7%	21.3%	(2.4)	(0.5)	21.7%	21.3%	(0.5)		

Source: BIMB Securities, Company

Table 2: Segmental Performance

FYE Dec (RM m)	Quarterly			Change (%)	
	2Q22	1Q23	2Q23	QoQ	YoY
Construction	523.0	469.1	535.6	14.2%	2.4%
Precast concrete	34.9	53.0	68.5	29.2%	96.3%
Total revenue	557.9	522.1	604.1	15.7%	8.3%
Construction	41.1	36.2	39.1	8.0%	-4.9%
Precast concrete	1.9	1.3	3.2	147.2%	68.4%
Total pre-tax profit	43.0	37.5	42.3	12.8%	-1.7%

Source: BIMB Securities, Company

Table 3: Earnings forecast

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Turnover	1,729.2	2,155.2	2,282.7	2,398.0	2,776.0
EBITDA	198.9	210.3	186.8	199.6	202.1
Pretax profit	152.2	184.1	176.5	189.4	199.6
Net Profit	110.8	138.7	144.0	164.4	171.6
Core Net Profit	108.9	135.2	144.0	164.4	171.6
Consensus			149.1	161.1	170.0
EPS (sen)	8.4	10.5	11.17	12.8	13.3
PER (x)	21.3	17.2	16.1	14.1	13.5
DPS (sen)	5.3	5.5	5.5	6.0	6.0
P/B (x)	3.3	3.0	2.8	2.5	2.3
Key Ratios (%)					
ROE	16.6	18.9	17.9	18.6	17.6
EBITDA margin	11.5	9.8	8.2	8.3	7.3
Pretax margin	8.8	8.5	7.7	7.9	7.2
Net margin	6.4	6.4	6.3	6.9	6.2

Source: Bloomberg, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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BIMB SECURITIES

BIMB SECURITIES SDN BHD (290163-X)

*A Participating Organisation of Bursa Malaysia Securities Berhad
Level 34, Menara Bank Islam,*

No. 22, Jalan Perak,

50450 Kuala Lumpur

Tel: 03-2613 1600 Fax: 03-2613 1799

<http://www.bimbsec.com.my>



Noorhayati Maamor
Head of Research