

Asian Daily

SunCon (SCOG.KL)

## Encouraging orderbook replenishment prospects

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (RM): 2.05

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- SunCon's 4Q22 net profit doubled QoQ (+101%) to RM45.6mn on strong performance from both construction (PBT +46% QoQ) and precast (PBT +100% QoQ) segments. FY22 net profit of RM135.2mn (+20% YoY) was 106%/112% of street/CS estimates.
- Healthy outstanding orderbook of RM5.3bn after achieving RM2.58bn new job win in 2022 (vs RM2bn target). Management is eyeing RM2bn in new orders for 2023, which we view as conservative.
- We adjust our FY23/FY24 net profit estimates by +0.7%/+0.4% and introduced FY25 estimates. Our TP remains unchanged at RM2.05.
- Maintain OUTPERFORM. The group's orderbook replenishment outlook is looking incrementally positive and we think that it is well positioned to participate for works on local infrastructure projects. The stock trades on ex-cash FY23E P/E of 13x close to 1SD below its historical average of 16x.

SunCon's 4Q22 net profit doubled QoQ (+101%) mainly on stronger performance from both its construction (PBT +46% QoQ) and precast (PBT +100% QoQ) segments. This brings the FY22 net profit to RM135.2mn (+20.1% YoY), at 106%/112% of street/CS estimates.

- **Construction** segment's PBT in 4Q22 grew strongly by 46% QoQ as revenue increased by 6% QoQ. 4Q22 PBT margin expanded to 11.5% (from 8.4% in 3Q22) mainly due to the re-calibration of margin for projects nearing completion and reversal of provision (RM8mn in 4Q22). Excluding the reversal of provision, the segment's PBT would have grown by 23% and PBT margin would be at 9.7%. For FY22, the segment's PBT expanded by 16.6% YoY mainly on the absence of pandemic management measures.
- **Precast** segment's 4Q22 PBT climbed by 100% QoQ to RM5.2mn as revenue +18.2% QoQ, contributed by higher progress from newer projects as well as a reversal of provisions for higher raw material prices for completed projects. 4Q22 PBT margin was at 8.7% vs 5.1% in 3Q22. FY22 PBT for the precast segment grew 215% YoY to RM10.7mn, while PBT margin expanded to 5.9% (FY21: 2.8%).

Figure 1: PBT summary by segment

	Revenue (RM' mn)		YoY (%)	PBT (RM' mn)		YoY (%)	PBT margin			
	FY22	FY21		FY22	FY21		FY22	FY21	4Q22	4Q21
Construction	1,973.6	1,606.3	22.9%	173.4	148.8	16.5%	8.8%	9.3%	11.5%	15.3%
Precast	181.6	122.9	47.8%	10.7	3.4	214.7%	5.9%	2.8%	8.7%	4.9%

Source: Company data

**Encouraging orderbook replenishment prospects.** SunCon has surpassed its 2022 new orders win target of RM2bn after achieving RM2.58bn (~83% from external sources) of new contracts, bringing its outstanding orderbook to a healthy RM5.3bn. For 2023, management is eyeing RM2bn in new construction orders, which we view as a conservative target. SunCon is eyeing works on MRT3, JB-Singapore

Figure 2: Summary of results

Year-end 31 Dec	FY22	FY21	% YoY chg	% of CS FY22e	% of str FY22e	4Q22	3Q22	% QoQ chg	4Q21	% YoY chg
Revenue	2,155.2	1,729.2	24.6%	97%	95%	503.4	469.3	7.3%	626.6	-19.7%
EBITDA	210.3	166.8	26.0%	117%	105%	69.9	42.7	63.6%	91.5	-23.6%
PBT	184.1	152.2	20.9%	115%	110%	56.3	37.6	49.7%	91.0	-38.1%
Net profit	135.2	112.6	20.1%	112%	106%	45.6	22.7	101.0%	64.7	-29.5%

Source: Company data, Credit Suisse estimates, I/B/E/S

### Research Analysts

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Price (21-Feb-23, RM)	1.65	Est. pot. % chg. to TP	24.2
Mkt cap (RM/US\$ mn)	2,133 / 482	Blue sky scenario (RM)	3.05
Number of shares (mn)	1,293	Grey sky scenario (RM)	1.18
Free float (%)	14.3	<b>Performance</b>	<b>1M 3M 12M</b>
52-wk range (RM)	1.72 - 1.43	Absolute (%)	0.0 14.6 10.7
ADTO-6M (US\$ mn)	0.2	Relative (%)	1.8 12.5 17.6
<b>Year</b>	<b>12/22A</b>	<b>12/23E</b>	<b>12/24E 12/25E</b>
Revenue (RM mn)	2,155.2	2,701.4	2,850.9 3,002.4
EBITDA (RM mn)	210.3	229.0	249.3 243.7
EBIT (RM mn)	186.5	208.6	228.0 221.7
Net profit (RM mn)	135.2	150.5	158.4 162.6
EPS (CS adj.) (RM)	0.1	0.12	0.12 0.13
Chg. from prev. EPS (%)	n.a.	0.7	0.4 n.a.
Consensus EPS (RM)	n.a.	0.12	0.12 -
EPS growth (%)	20.1	11.3	5.2 2.7
P/E (x)	15.7	14.1	13.4 13.1
Dividend yield (%)	3.3	3.9	4.5 4.6
EV/EBITDA (x)	9.7	8.6	8.1 8.0
P/B (x)	2.89	2.64	2.45 2.28
ROE (%)	18.8	19.5	18.9 18.1
Net debt/equity (%)	(11.2)	(18.2)	(12.4) (17.3)

Source: Company data, Refinitiv, Credit Suisse estimates

RTS, commercial developments from internal sources, additional works on data centres as well as precast projects. Additionally, the group is also exploring opportunities in Vietnam.

- **MRT3** - As one of the most well-established contractors, we opine that SunCon should be a front runner for works on the MRT3. While the group did not come in as one of the lowest bidders for the above ground packages, we believe that it should still have a role to play in the project.
- **Vietnam thermal power plant** - SunCon is also exploring a thermal power plant project in Vietnam and, if successful, this would be its first venture into the power generation space. The group has signed an interim EPC agreement for the construction of Song Hau 2 Thermal Power Plant where the estimated contract sum is approximately US\$2.2bn (RM10bn). If successful, it would be the single largest contract win for the group (~RM6bn) and would be another feather in its cap in terms of engineering track record.

**Stay OUTPERFORM.** We adjust our FY23/FY24 net profit estimates by +0.7%/+0.4% and introduced FY25 estimates. Our TP remains unchanged at RM2.05. We have not incorporated any potential upside from the Vietnam thermal power plant project as there remains some uncertainty over the execution of the project. We stay OUTPERFORM on SunCon as we believe that the group's orderbook replenishment outlook is looking incrementally positive. SunCon trades on 14.1x FY23E P/E, close to 1SD below its historical average of 18.9x (ex-cash P/E of 13x FY23E P/E vs historical average of 16x).

## Valuation Methodology and Risks

### Target Price and Rating

Valuation Methodology and Risks: (12 months) for SunCon (SCOG.KL)

**Method:** Our target price of RM2.05 is derived by pegging FY23 estimates to SunCon's historical normalized ex-cash P/E average of 16x. We rate the stock OUTPERFORM. The group's orderbook replenishment outlook is looking incrementally positive and we think that it is well positioned to participate for works on local infrastructure projects.

**Risk:** The main risks to our target price of RM2.05 and OUTPERFORM rating for SunCon include: (1) changes in government policy, (2) increase in payment risk from customers on the back of a prolonged slowdown in the construction and property sector, and (3) a spike in raw material prices.

### Companies Mentioned (Price as of 21-Feb-2023)

**SunCon** (SCOG.KL, RM1.65, OUTPERFORM, TP RM2.05)

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### 3-Year Price and Rating History for SunCon (SCOG.KL)

SCOG.KL	Closing Price	Target Price	
Date	(RM)	(RM)	Rating
02-Oct-20	1.88	2.50	O *
24-Feb-21	1.66	2.25	
21-May-21	1.63	2.15	
20-Aug-21	1.61	1.85	
18-Nov-21	1.56	1.80	
24-Feb-22	1.47	2.20	
24-Aug-22	1.56	2.10	
22-Nov-22	1.43	1.96	
18-Jan-23	1.65	2.05	



\* Asterisk signifies initiation or assumption of coverage.

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