

HLIB Research

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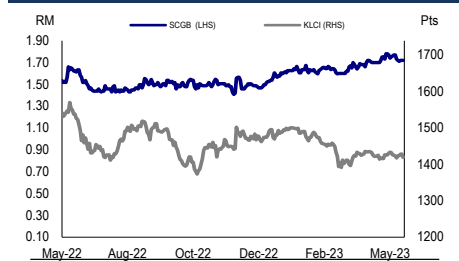
BUY (Maintain)

Target Price: **RM1.94**
Previously: **RM1.94**
Current Price: **RM1.72**

Capital upside	12.8%
Dividend yield	2.9%
Expected total return	15.7%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	1.2	3.6	7.5
Relative	1.4	6.9	17.3

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	2,224
3-mth average volume ('000)	366
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Berhad	54.6%
EPF	9.7%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	143.9	161.3	173.0
EPS - core (sen)	11.1	12.5	13.4
P/E (x)	15.5	13.8	12.9

Sunway Construction Group

Slow start

SunCon reported 1QFY23 earnings of RM27.8m (-19.4% YoY), a slight miss to our and consensus expectations at 17%/18% of forecasts. We expect stronger performance in 2HFY23 driven by its data centre project. Outstanding orderbook stands at RM6.0bn (2.8x cover). Encouraging developments for its VN power plant job suggests RM8.0bn wins in FY23 looks increasingly possible. Precast segment should continue to benefit from healthy demand in SG. Minor tweaks to forecasts. Maintain BUY with unchanged TP of RM1.94. SunCon presents a safer exposure to future infrastructure project rollouts, backed by strong support from parent-co.

Slight miss. SunCon reported 1QFY23 results with revenue of RM522.1m (3.7% QoQ, -16.4% YoY) and core PATAMI of RM27.8m (-39.6% QoQ, -19.4% YoY). We deem the results a slight miss to both our and consensus expectations coming in at 17%/18% of full year forecasts. We believe SunCon's FY23 will be a tale of two halves as recognition for its RM1.7bn data centre contract will only ramp up in 2HFY23 onwards.

Eis. We make no adjustments to SunCon's 1QFY23 earnings.

Dividends. No DPS was declared in 1QFY23. Dividends are normally declared in 2Q and 4Q.

QoQ. Core PATAMI declined by -39.6% despite revenue coming in 3.7% higher. The higher revenue was construction driven (+5.7%) offsetting a -10.9% decline in precast revenue. Construction top-line was driven by ramp up of sustainable energy projects while slower precast came due to completion of several projects. Nevertheless, the stronger sequential construction revenue did not translate to stronger bottom-line as there was absence of upward margin recalibration in 1QFY23 vs 4QFY22 (PBT margin: -3.8 ppts). Additionally, we believe there was lower margin project mix in the quarter.

YoY. Core PATAMI declined by -19.4% falling in tandem with lower revenue of -16.4%. This was dragged by the construction segment (PBT: -21.6% YoY) as precast contribution was flattish. Recall that there was accelerated recognition for its projects nearing completion in 1QFY22 while margins were also elevated due to final accounts. Active projects in 1QFY23 were also largely in the initial phase, in particular its RM1.7bn data centre contract (2.6% recognition progress).

Orderbook. SunCon's latest outstanding orderbook stands at RM6.0bn (2.8x cover). Contract wins tally for FY23 YTD stands at RM1.28bn, an encouraging pace in our view. Moving forward, we foresee further internal contract wins as well as potential jobs from MRT3, precast in SG, commercial developments and a mixture of warehouses/data centre opportunities. We believe SunCon is on the brink of converting its massive ~RM6bn VN power plant job into active orderbook (possibly in late 3QCY23 – pending financial close). The project owner recently received indicative terms & conditions for its syndicated loan and could achieve financial close once signed and finalised. Should this materialise, pathway towards RM8.0bn total wins in FY23 looks unencumbered (vs HLIBf: RM2.2bn). Elsewhere, latest developments involving potential federal funding for Bayan Lepas LRT (RM9.5bn) could result in earlier kick-start which would benefit SunCon – the company participated in a prequalification exercise last year where validity period was extended to July-23.

Precast. SunCon's 49% owned ICPH precast plant has started operating in Jan-23 and could start contributing positively towards the latter part of FY23. HDB launches came in at 4,428 and 5,480 units in Feb-23 and May-23 with another 5,200 to 6,200

units slated for Aug-23. Progress is strutting along, tracking in-line with expectations. The construction sector in SG remains expansionary expanding by 1.8% QoQ in 1QCY23, reaffirming the positive 2023 outlook painted by the Building and Construction Authority. This should bode well for SunCon's precast segment.

Forecast. Tweak FY23/24 earnings forecasts by -3.5%/+0.8%. Introduce FY25 core PATAMI forecasts of RM171.3m.

Maintain BUY, TP: RM1.94. Maintain BUY with unchanged TP of RM1.94 despite the marginal tweak in forecasts as we rollover our valuation base to mid-FY24 EPS. TP is derived by pegging mid-FY24 EPS to 15x P/E multiple. SunCon presents a safer exposure to future infrastructure project rollouts, backed by strong support from parent-co. Nevertheless, our call is premised on no disruptive infrastructure policies going forward. Risks: MRT3 cancellation, political risks, elevated materials prices and labour shortage.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Revenue	624.7	503.4	522.1	3.7	(16.4)
EBIT	42.9	64.7	41.7	(35.6)	(2.9)
Finance income	2.2	4.4	4.1	(7.0)	84.7
Finance cost	(1.2)	(10.5)	(8.3)	(21.1)	617.6
PBT	47.2	56.7	37.5	(33.8)	(20.5)
PAT	35.6	45.9	28.6	(37.6)	(19.6)
Core PATMI	34.5	46.0	27.8	(39.6)	(19.4)
Reported PATMI	34.5	45.6	27.8	(39.0)	(19.4)
Core EPS (sen)	2.7	3.6	2.2	(39.6)	(19.4)
EBIT margin (%)	6.9	12.9	8.0		
PBT margin (%)	7.6	11.3	7.2		
PATMI margin (%)	5.5	9.1	5.3		

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Cash	98.8	491.6	1,158.8	885.2	881.7
Receivables	660.8	1,077.6	1,128.8	1,208.0	957.6
Inventories	46.2	53.4	28.3	30.5	24.1
PPE	124.7	107.5	99.9	90.9	80.5
Others	933.7	505.9	501.5	518.5	538.0
Assets	1,864.2	2,236.0	2,917.3	2,733.0	2,481.8
Debts	237.9	480.7	825.5	445.0	351.1
Payables	873.2	895.4	1,130.8	1,219.2	962.0
Others	36.3	39.2	39.2	39.2	39.2
Liabilities	1,147.4	1,415.3	1,995.5	1,703.3	1,352.3
Shareholder's equity	699.1	737.1	838.2	946.0	1,045.8
Minority interest	17.6	83.7	83.7	83.7	83.7
Equity	716.8	820.8	921.8	1,029.7	1,129.5

Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	185.0	192.8	213.5	222.2	219.1
Depreciation & amortisation	27.4	23.8	27.6	29.0	30.4
Changes in working capital	157.9	(401.8)	209.4	6.9	(0.3)
Share of JV profits	(13.3)	(1.7)	4.4	(17.0)	(19.5)
Taxation	(41.5)	(45.3)	(47.9)	(45.1)	(43.9)
Others	(76.8)	17.3	-	-	-
Operating cash flow	238.7	(215.0)	407.0	196.0	185.8
Net capex	(40.6)	(2.9)	(20.0)	(20.0)	(20.0)
Others	(133.4)	426.7	-	-	-
Investing cash flow	(174.0)	423.8	(20.0)	(20.0)	(20.0)
Changes in borrowings	(63.0)	242.8	344.8	(380.5)	(93.9)
Issuance of shares	-	-	-	-	-
Dividends paid	(77.0)	(71.1)	(64.5)	(69.2)	(75.4)
Others	17.7	(29.0)	-	-	-
Financing cash flow	(122.4)	142.7	280.2	(449.7)	(169.2)
Net cash flow	(57.7)	351.4	667.2	(273.7)	(3.5)
Forex	-	-	-	-	-
Others	(43.5)	41.3	-	-	-
Beginning cash	200.1	98.8	491.6	1,158.8	885.2
Ending cash	98.8	491.6	1,158.8	885.2	881.7

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	1,729.2	2,155.2	2,575.0	2,755.7	2,184.5
EBITDA	199.6	219.0	263.9	251.3	234.7
EBIT	172.2	195.2	236.3	222.3	204.3
Net finance income/ (cost)	(0.4)	(4.2)	(18.4)	(17.0)	(4.7)
Associates & JV	13.3	1.7	(4.4)	17.0	19.5
Profit before tax	185.0	192.8	213.5	222.2	219.1
Tax	(41.5)	(45.3)	(47.9)	(45.1)	(43.9)
Net profit	143.5	147.4	165.6	177.0	175.2
Minority interest	1.8	(3.6)	(4.2)	(4.0)	(3.9)
Core PATAMI	145.3	143.9	161.3	173.0	171.3
Exceptional items	(32.8)	(8.7)	-	-	-
Reported earnings	112.6	135.2	161.3	173.0	171.3

Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	11.2	11.1	12.5	13.4	13.2
P/E (x)	15.3	15.5	13.8	12.9	13.0
EV/EBITDA (x)	10.7	9.7	8.1	8.5	9.1
DPS (sen)	6.0	5.5	5.0	5.4	5.8
Dividend yield	3.5%	3.2%	2.9%	3.1%	3.4%
BVPS (RM)	0.5	0.6	0.6	0.7	0.8
P/B (x)	3.2	3.0	2.7	2.4	2.1
EBITDA margin	11.5%	10.2%	10.2%	9.1%	10.7%
EBIT margin	10.0%	9.1%	9.2%	8.1%	9.4%
PBT margin	10.7%	8.9%	8.3%	8.1%	10.0%
Net margin	8.3%	6.8%	6.4%	6.4%	8.0%
ROE	21.8%	20.0%	20.5%	19.4%	17.2%
ROA	7.1%	6.1%	4.7%	4.5%	4.9%
Net gearing	19.9%	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Construction	1,149	2,414	2,000	2,000	2,000
Precast	296	168	200	400	300
Total new job wins	1,445	2,582	2,200	2,400	2,300

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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