

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price: RM2.07
Previously: RM1.95
Current Price: RM1.80

Capital upside	15.0%
Dividend yield	3.0%
Expected total return	18.0%

Sector coverage: Construction

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

Share price


Historical return (%)	1M	3M	12M
Absolute	5.9	5.9	15.5
Relative	3.8	3.6	18.7

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	2,327
3-mth average volume ('000)	457
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Berhad	54.6%
EPF	9.8%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	143.9	141.7	178.7
EPS - core (sen)	11.1	11.0	13.8
P/E (x)	16.2	16.4	13.0

Sunway Construction Group

Just a matter of time

SunCon reported 1HFY23 earnings of RM61.0m (-15.4% YoY) missing our and consensus expectations. Deviation came from slower-than-expected progress for its data centre contract. Outstanding orderbook stands at RM5.8bn (2.7x cover). In addition to its VN power plant, we expect SunCon to enter a more news flow heavy period going forward with several award decisions due. Precast segment should continue to benefit from healthy demand in SG. Tweak FY23f/FY24f/FY25f earnings forecasts by -12.2%/+3.3%/7.4%. Maintain BUY with higher TP of RM2.07.

Missed estimates. SunCon reported 2QFY23 results with revenue of RM604.1m (15.7% QoQ, 8.3% YoY) and core PATAMI of RM33.2m (19.3% QoQ, -11.7% YoY). This brings 1HFY23 core PATAMI to RM61.0m, declining by -15.4% YoY. We deem the results a miss, falling short of our/consensus expectations at 38%/41% of full year forecasts. Negative deviation came from weaker than expected construction revenue and lower than anticipated margin. Execution of SunCon's data centre contract has hit some snags lately with progress timeline delayed by approximately 9 months from the original schedule due to delays on the project owner's end. This has tapered down our expectations of a strong 2H.

EIs. We adjust SunCon's 1HFY23 earnings by RM0.2m of financial asset impairment. 1HFY22 has been adjusted for RM5.3m worth of net expenses.

Dividends. DPS of 3.0 sen was declared in 2QFY23 going ex. on 11-Sept-23.

QoQ. Core PATAMI increased by 19.3%, along with a similar revenue growth of 15.7%. Sequentially, SunCon saw broad base improved performance from its construction and precast segment charting revenue growth of 15.7% and 14.2% respectively. PBT for construction and precast increased by 12.7% and 8.0%. Driving the construction segment was stronger contribution from its sustainable energy projects (LSS4: 100MW) and the kicking in of newer projects contribution. Its LSS4 contracts at mid-point saw progress between 32% and 37% since commencing early this year. The improvements from precast is driven by higher productivity of its ICPH plant.

YoY. Core PATAMI declined by -11.7% despite achieving higher revenue of 8.3% (Construction: +2.4%; Precast: +96.3%). Main culprit was the relative drag from construction profit contribution as margins in 2QFY22 was aided by finalisation of accounts (construction PBT: -0.6ppts YoY).

YTD. Core PATAMI declined by -15.4% stemming from weaker construction contribution at both top-line and bottom-line. Recall that 1HFY22 was boosted by acceleration of projects near completion as well as finalisation of accounts for some completed projects. On the brighter side, precast exhibited strong growth with revenue and PBT growing by 69.2% and 55.2% respectively driven by its new ICPH plant (commenced in Jan-23).

Orderbook. Latest outstanding orderbook stands at RM5.78bn (2.7x cover). Contract wins tally for FY23 YTD stands at RM1.59bn, an encouraging pace in our view. For the remainder of 2023, we foresee further internal contract wins as well as potential jobs from precast in SG, buildings and a mixture of factories/warehouses/data centre opportunities. Additionally, we believe SunCon is on the brink of converting its massive ~RM6bn VN power plant job into active orderbook (possibly from Oct-23 onwards – pending financial close). We expect SunCon to enter a more news flow heavy period going forward considering several award decisions are due then (factories, buildings & internal projects). Tier 1 MRT3

packages are expected to be rolled out in 1QCY24 (bids for CMC301 & CMC302). Latest developments surrounding Penang LRT (RM10-15bn) is positive and we expect SunCon to participate as a works package contractor.

Precast. As explained above, SunCon's 49% owned ICPH precast plant has started contributing and is expected to deliver stronger profitability in 2H on the back of improved productivity after the initial operating phase. HDB launches came in nearly 10k in 1H23 with another 13k to be launched in 2H23, tracking in-line with expectations. The construction sector in SG remains expansionary, expanding by 2.7% QoQ in 2QCY23 (seasonally adjusted), reaffirming the positive 2023 outlook painted by the Building and Construction Authority. This should bode well for precast demand.

CGPP. SunCon through its wholly-owned subsidiary secured a 29.99MWac quota from the recent round of CGPP awards. We estimate the development costs could come to RM130-150m (to be funded by debt-to-equity of 80:20). Earnings stream from this project will only flow in once the plant achieves COD sometime in 2025. This in addition to its track record in LSS4 could position SunCon to benefit from the NETR.

Forecast. Tweak FY23f/FY24f/FY25f earnings forecasts by -12.2%/+3.3%/+7.4% after adjusting for construction progress.

Maintain BUY, TP: RM2.07. Maintain BUY with higher TP of RM2.07 (from RM1.95) as we rollover our valuation base to FY24 EPS. TP is derived by pegging 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)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	557.9	522.1	604.1	15.7	8.3	1,182.5	1,126.2	(4.8)
EBIT	47.7	41.7	46.9	12.5	(1.6)	90.6	88.6	(2.2)
Finance income	3.2	4.1	6.7	63.8	111.8	5.4	10.8	100.6
Finance cost	(3.2)	(8.3)	(11.5)	38.5	260.4	(4.3)	(19.7)	355.4
PBT	48.3	37.5	42.5	13.2	(12.0)	95.4	80.0	(16.2)
PAT	38.9	28.6	33.5	16.9	(14.0)	74.6	62.1	(16.7)
Core PATMI	37.6	27.8	33.2	19.3	(11.7)	72.1	61.0	(15.4)
Reported PATMI	32.3	27.8	33.0	18.6	2.2	66.8	60.8	(9.0)
Core EPS (sen)	2.9	2.2	2.6	19.3	(11.7)	5.6	4.7	(15.4)
EBIT margin (%)	8.5	8.0	7.8			7.7	7.9	
PBT margin (%)	8.7	7.2	7.0			8.1	7.1	
PATMI margin (%)	6.7	5.3	5.5			6.1	5.4	

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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	1,094.4	847.2	937.9
Receivables	660.8	1,077.6	1,059.2	1,186.3	1,144.0
Inventories	46.2	53.4	26.7	29.8	28.9
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	2,781.7	2,672.7	2,729.2
Debts	237.9	480.7	779.4	435.0	421.4
Payables	873.2	895.4	1,067.7	1,191.8	1,154.6
Others	36.3	39.2	39.2	39.2	39.2
Liabilities	1,147.4	1,415.3	1,886.3	1,665.9	1,615.2
Shareholder's equity	699.1	737.1	811.7	923.1	1,030.3
Minority interest	17.6	83.7	83.7	83.7	83.7
Equity	716.8	820.8	895.4	1,006.7	1,114.0

Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	185.0	192.8	187.7	229.6	235.8
Depreciation & amortisation	27.4	23.8	27.6	29.0	30.4
Changes in working capital	157.9	(401.8)	217.5	(6.2)	6.1
Share of JV profits	(13.3)	(1.7)	4.4	(17.0)	(19.5)
Taxation	(41.5)	(45.3)	(42.3)	(46.8)	(47.6)
Others	(76.8)	17.3	-	-	-
Operating cash flow	238.7	(215.0)	394.9	188.7	205.2
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	298.7	(344.4)	(13.6)
Issuance of shares	-	-	-	-	-
Dividends paid	(77.0)	(71.1)	(70.9)	(71.5)	(80.9)
Others	17.7	(29.0)	-	-	-
Financing cash flow	(122.4)	142.7	227.8	(415.9)	(94.5)
Net cash flow	(57.7)	351.4	602.8	(247.2)	90.7
Forex	-	-	-	-	-
Others	(43.5)	41.3	-	-	-
Beginning cash	200.1	98.8	491.6	1,094.4	847.2
Ending cash	98.8	491.6	1,094.4	847.2	937.9

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	1,729.2	2,155.2	2,416.2	2,706.3	2,609.7
EBITDA	199.6	219.0	237.0	257.3	252.9
EBIT	172.2	195.2	209.4	228.3	222.5
Net finance income/ (cost)	(0.4)	(4.2)	(17.2)	(15.6)	(6.3)
Associates & JV	13.3	1.7	(4.4)	17.0	19.5
Profit before tax	185.0	192.8	187.7	229.6	235.8
Tax	(41.5)	(45.3)	(42.3)	(46.8)	(47.6)
Net profit	143.5	147.4	145.5	182.8	188.2
Minority interest	1.8	(3.6)	(3.7)	(4.1)	(4.2)
Core PATAMI	145.3	143.9	141.7	178.7	184.0
Exceptional items	(32.8)	(8.7)	-	-	-
Reported earnings	112.6	135.2	141.7	178.7	184.0

Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	11.2	11.1	11.0	13.8	14.2
P/E (x)	16.0	16.2	16.4	13.0	12.6
EV/EBITDA (x)	11.2	10.2	9.4	8.7	8.8
DPS (sen)	6.0	5.5	5.5	5.5	6.3
Dividend yield	3.3%	3.1%	3.0%	3.1%	3.5%
BVPS (RM)	0.5	0.6	0.6	0.7	0.8
P/B (x)	3.3	3.2	2.9	2.5	2.3
EBITDA margin	11.5%	10.2%	9.8%	9.5%	9.7%
EBIT margin	10.0%	9.1%	8.7%	8.4%	8.5%
PBT margin	10.7%	8.9%	7.8%	8.5%	9.0%
Net margin	8.3%	6.8%	6.0%	6.8%	7.2%
ROE	21.8%	20.0%	18.3%	20.6%	18.8%
ROA	7.1%	6.1%	4.3%	4.8%	5.1%
Net gearing	19.9%	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Construction	1,149	2,414	2,300	2,000	2,000
Precast	296	168	200	400	300
Total new job wins	1,445	2,582	2,500	2,400	2,300

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Published & printed by:

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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.

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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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