

HLIB Research

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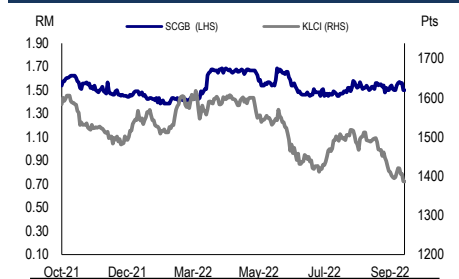
BUY (Maintain)

Target Price: RM2.06
Previously: RM1.83
Current Price: RM1.59

Capital upside	29.6%
Dividend yield	3.0%
Expected total return	32.6%

Sector coverage: Construction

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

Share price


Historical return (%)	1M	3M	12M
Absolute	7.4	3.2	3.2
Relative	7.3	-1.3	8.1

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	2,056
3-mth average volume ('000)	102
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Tan Sri Dato' Seri Dr Jefferey Cheah	64.7%
EFP	9.4%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	145.3	130.3	151.9
EPS - core (sen)	11.2	10.1	11.8
P/E (x)	14.1	15.8	13.5

Sunway Construction Group

Last-gasp winner

SunCon entered into a RM1.7bn data centre contract with Yellowwood. This win takes FY22 contract wins to RM2.6bn, surpassing our and consensus expectations as well as management's guidance. Accounting for this, orderbook increases by 42% to RM5.7bn. Recognition ramp-up should be quick with a short construction period. We believe SunCon will be in a prime position to secure additional work should there be expansion plans. Going forward, SunCon could secure a bumper RM5.8bn contract for the Vietnam power plant if things go smoothly. Increase FY23 & 24 core PATAMI forecasts by 14.2% and 30.3% respectively. Maintain BUY with higher TP of RM2.06. SunCon presents a safer exposure to future infrastructure project rollouts due to its lower reliance on public infra spending. Risks: MRT3 cancellation, political uncertainty, elevated materials prices and labour shortage.

NEWSBREAK

On 31-Dec 2022, SunCon entered into a contract with Yellowwood Properties Sdn Bhd carrying an approximate contract value of RM1.7bn. The contract is for the design, development, construction and completion of a data centre located in Sedenak Tech Park (STeP) in Johor. Works have commenced on 31-Dec-2022 and will span ~21 months finishing in 3QCY24.

HLIB'S VIEW

Beats forecasts. The latest contract takes total wins for FY22 to RM2.6bn surpassing our forecasts (RM900m) and management's guidance (RM2bn). Accounting for this, orderbook increases by 42% to RM5.7bn; translates to 3.3x cover on FY21 revenue. We expect project EBIT margin in the range of 5-8%. Earnings recognition will be supercharged with a short construction period relative to the contract value. We believe SunCon will be in a prime position to secure additional work should Yellowwood explore expansion opportunities for the said project.

More to look forward to. Management is expecting to ink the final Engineering, Procurement and Construction (EPC) agreement with Toyo Ink worth RM5.8bn (based on 60% stake) by 3QCY23 while the financial close could come in 1QCY23. This would result in a doubling of unbilled orderbook to a record high of >RM10bn (factoring in burn). Nevertheless, we have left the project unaccounted for in our forecasts pending financial close. We gather that EXIM Bank of Malaysia had offered their services as lead arranger and bookrunner for the project's syndicated financing facilities in mid-Nov 2022.

Forecast. We increase FY23 & 24 core PATAMI forecasts by 14.2% and 30.3% respectively, post-incorporating the latest contract win.

Maintain BUY, TP: RM2.06. Maintain BUY with higher TP of RM2.06 (from RM1.83) post-earnings adjustments. TP is derived by pegging FY23 EPS to 15x (unchanged) ex-cash 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 from the new government. Risks: MRT3 cancellation, political uncertainty, elevated materials prices and labour shortage.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Cash	200.1	98.8	114.2	270.4	444.2
Receivables	904.9	660.8	948.4	1,118.8	1,355.3
Inventories	34.3	46.2	24.1	28.4	34.4
PPE	107.3	124.7	105.4	88.3	69.3
Others	659.6	933.7	940.3	955.6	982.5
Assets	1,906.1	1,864.2	2,132.5	2,461.5	2,885.7
Debts	300.9	237.9	351.9	415.2	502.0
Payables	947.4	873.2	964.0	1,137.6	1,375.4
Others	19.1	36.3	36.4	36.4	36.4
Liabilities	1,267.5	1,147.4	1,352.3	1,589.2	1,913.8
Shareholder's equity	636.9	699.1	762.5	854.7	954.3
Minority interest	1.7	17.6	17.7	17.6	17.6
Equity	638.6	716.8	780.2	872.3	971.9

Cash Flow Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	120.3	185.0	179.1	191.7	230.8
Depreciation & amortisation	33.4	27.4	39.3	37.1	38.9
Changes in working capital	0.9	157.9	(174.7)	(1.2)	(4.6)
Share of JV profits	(0.1)	(13.3)	(6.6)	(15.2)	(27.0)
Taxation	(28.8)	(41.5)	(47.9)	(38.8)	(44.9)
Others	(37.9)	(76.8)	-	-	-
Operating cash flow	87.8	238.7	(10.9)	173.7	193.4
Net capex	(1.9)	(40.6)	(20.0)	(20.0)	(20.0)
Others	(171.3)	(133.4)	-	-	-
Investing cash flow	(173.2)	(174.0)	(20.0)	(20.0)	(20.0)
Changes in borrowings	14.7	(63.0)	114.0	63.4	86.8
Issuance of shares	-	-	-	-	-
Dividends paid	(62.3)	(77.0)	(67.8)	(60.8)	(86.4)
Others	(99.7)	17.7	-	-	-
Financing cash flow	(147.3)	(122.4)	46.2	2.6	0.4
Net cash flow	(232.7)	(57.7)	15.3	156.2	173.8
Forex	-	-	-	-	-
Others	(259.9)	(43.5)	-	-	-
Beginning cash	692.6	200.1	98.8	114.2	270.4
Ending cash	200.1	98.8	114.2	270.4	444.2

Income Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	1,552.7	1,729.2	2,163.6	2,552.4	3,091.7
EBITDA	143.2	199.6	213.5	221.0	252.4
EBIT	109.7	172.2	174.2	183.9	213.5
Net finance income/ (cost)	10.5	(0.4)	(1.7)	(7.4)	(9.6)
Associates & JV	0.1	13.3	6.6	15.2	27.0
Profit before tax	120.3	185.0	179.1	191.7	230.8
Tax	(27.8)	(41.5)	(47.9)	(38.8)	(44.9)
Net profit	92.5	143.5	131.2	152.9	186.0
Minority interest	(0.7)	1.8	(0.9)	(1.0)	(1.1)
Core PATAMI	91.9	145.3	130.3	151.9	184.9
Exceptional items	(19.2)	(32.8)	-	-	-
Reported earnings	72.7	112.6	130.3	151.9	184.9

Valuation & Ratios

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	7.1	11.2	10.1	11.8	14.3
P/E (x)	22.4	14.1	15.8	13.5	11.1
EV/EBITDA (x)	15.1	10.8	10.1	9.8	8.5
DPS (sen)	4.0	6.0	5.2	4.7	6.7
Dividend yield	2.5%	3.7%	3.3%	3.0%	4.2%
BVPS (RM)	0.5	0.5	0.6	0.7	0.7
P/B (x)	3.2	2.9	2.7	2.4	2.2
EBITDA margin	9.2%	11.5%	9.9%	8.7%	8.2%
EBIT margin	7.1%	10.0%	8.1%	7.2%	6.9%
PBT margin	7.7%	10.7%	8.3%	7.5%	7.5%
Net margin	6.0%	8.3%	6.1%	6.0%	6.0%
ROE	14.6%	21.8%	17.8%	18.8%	20.4%
ROA	4.6%	7.1%	6.2%	6.1%	6.1%
Net gearing	15.8%	19.9%	31.2%	16.9%	6.1%

Assumptions

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Construction	2,281	1,149	2,414	2,000	2,000
Precast	38	296	168	400	200
Total new job wins	2,319	1,445	2,582	2,400	2,200

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Stock rating guide

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.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.