

HLIB Research

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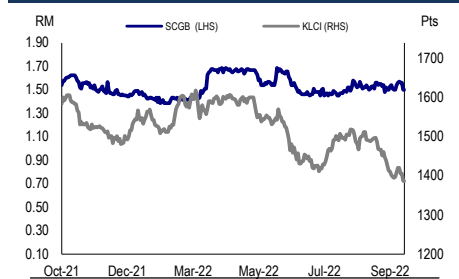
BUY (Maintain)

Target Price: RM1.94
Previously: RM1.94
Current Price: RM1.65

Capital upside	17.6%
Dividend yield	3.1%
Expected total return	20.7%

Sector coverage: Construction

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

Share price


Historical return (%)	1M	3M	12M
Absolute	-	13.8	10.7
Relative	1.8	12.1	18.8

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	2,133
3-mth average volume ('000)	102
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Berhad	54.6%
EPF	9.5%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	143.9	167.2	171.7
EPS - core (sen)	11.1	12.9	13.3
P/E (x)	14.8	12.8	12.4

Sunway Construction Group

A strong beat

SunCon's FY22 earnings of RM143.9m (-0.6 YoY) beat both our and consensus expectations at 110%/114% of forecasts. We expect stronger performance in FY23 driven by its data centre project. Outstanding orderbook stands at RM5.3bn (2.5x cover). SunCon has a base and bull case FY23 replenishment target of RM2.0bn and RM8.0bn respectively. Precast segment should continue to benefit from strong demand in SG. No change 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.

Beats expectations. SunCon reported 4QFY22 results with revenue of RM503.4m (7.3% QoQ, -19.7% YoY) and core PATAMI of RM46.0m (79.0% QoQ, -50.2% YoY). This brings FY22 core PATAMI to RM143.9m, flattish at -0.6% YoY. Results beat both our and consensus expectations coming in at 110%/114% of full year forecasts. Positive deviation was due to higher-than-expected margins.

Els. We have adjusted 4QFY22 core PATAMI for -RM0.4m of net expense.

Dividends. DPS of 2.5 sen going ex. on 14 Mar-23 was declared for the quarter (FY22: 5.5 sen; FY21: 5.25 sen).

QoQ. Core PATAMI increased by 79.0% in tandem with higher revenue of 7.3%. Both construction and precast segments saw PBT increasing by 46.0% and 2x respectively. There was higher progress for newly secured projects and some upward margin recalibration for projects nearing completion on the construction side whereas precast benefitted from higher site progress and to a certain extent, positive forex effect in 4QFY22.

YoY. Core PATAMI declined by -50.2% falling in tandem with lower revenue of -19.7%. This was solely due to the construction segment which saw accelerated billings in 4QFY21, coming from finalisation of accounts and upward recalibration of margins for completing projects. We reckon the high base in 4QFY21 is therefore not a fair basis for comparison.

YTD. Core PATAMI was flattish at -0.6% even as top-line surged by 24.6% (driven by both segments). This was brought about by the aforementioned strong construction billings recognition and margin recalibration in 4QFY21. For context, 4QFY21 quarterly core earnings were its strongest since listing, based on our tabulations.

Orderbook. SunCon's latest outstanding orderbook stands at RM5.3bn (2.5x cover). Wins for FY22 came in at RM2.6bn, its highest since FY17. SunCon's base case replenishment target for FY23 stands at RM2.0bn with a bull case target of RM8.0bn. Making up its RM2.0bn base case target are: (i) Tier 2 MRT 3 works at RM1.2bn, (ii) CP2 at RM300m, (iii) Ipoh mall at RM200m, and (iv) precast jobs at ~RM300m (SGD100m). There are also several other tenders ongoing such as Tier 1 MRT3 packages, RTS packages 1B & 5, mixed development – podium, warehouses and data centres. We expect further developments in 1HFY23 from the yet to be finalised Vietnam power plant project worth RM5.8bn. If successful, SunCon's orderbook could expand to ~RM10bn or ~47% higher than its previous record high orderbook of RM6.8bn achieved in FY17.

Precast. SunCon's 49% owned ICPH precast plant could start contributing positively towards the latter part of FY23. The plant has completed testing and commissioning and began operations in Jan-23. Precast demand could remain healthy in SG on the back of HDB's 2023 launch target amounting to 23k units (flattish vs 2022; +35% higher than 2021). Similarly, the Building and Construction Authority's recent

projections for construction output in 2023 of SGD30-33bn (highest since 2016) reaffirms the positive outlook for precast product demand in FY23.

Forecast. No change.

Maintain BUY, TP: RM1.94. Maintain BUY with unchanged TP of RM1.94. TP is derived by pegging FY23 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)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	626.6	469.3	503.4	7.3	(19.7)	1,729.2	2,155.2	24.6
EBIT	112.6	41.2	64.7	57.0	(42.5)	171.6	196.6	14.5
Finance income	1.0	2.7	4.4	62.1	321.8	4.2	12.5	201.7
Finance cost	(1.1)	(3.2)	(10.5)	225.0	867.9	(4.6)	(18.0)	293.3
PBT	118.7	40.6	56.7	39.6	(52.2)	184.5	192.8	4.5
PAT	92.7	27.0	45.9	70.2	(50.5)	143.0	147.4	3.1
Core PATMI	92.4	25.7	46.0	79.0	(50.2)	144.8	143.9	(0.6)
Reported PATMI	64.7	22.7	45.6	101.0	(29.5)	112.6	135.2	20.1
Core EPS (sen)	7.1	2.0	3.6	79.0	(50.2)	11.2	11.1	(0.6)
EBIT margin (%)	18.0	8.8	12.9			9.9	9.1	
PBT margin (%)	18.9	8.7	11.3			10.7	8.9	
PATMI margin (%)	14.8	5.5	9.1			8.4	6.7	

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Figure #2 Financial forecast

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	1,552.7	1,729.2	2,155.2	2,857.9	2,968.7
EBITDA	143.2	199.6	220.3	275.6	255.0
EBIT	109.7	171.6	196.6	238.4	216.0
PBT	120.3	184.5	192.8	215.7	215.4
PAT	92.5	143.0	147.4	168.3	172.8
PATMI – Core	91.9	144.8	143.9	167.2	171.7
PATMI – Reported	72.7	112.6	135.2	167.2	171.7
Core EPS (sen)	7.1	11.2	11.1	12.9	13.3
P/E (x)	23.2	14.7	14.8	12.8	12.4
EV/EBITDA (x)	14.2	10.2	9.3	7.4	8.0
DPS (sen)	4.0	5.3	5.5	5.2	6.2
Yield (%)	2.4%	3.2%	3.3%	3.1%	3.8%
BVPS (RM/share)	0.5	0.5	0.6	0.7	0.7
P/B (x)	3.3	3.1	2.8	2.5	2.2
ROE (%)	15%	22%	18%	21%	19%
Net Gearing (%)	16%	20%	CASH	16%	4%

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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.
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UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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