

**HLIB Research**

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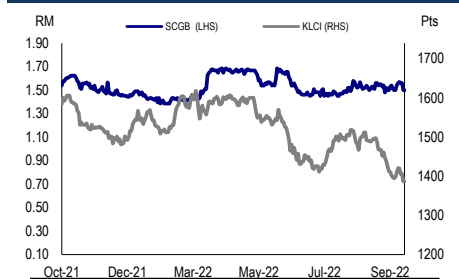
**BUY** (Maintain)

**Target Price: RM1.94**
**Previously: RM1.94**
**Current Price: RM1.66**

Capital upside	16.9%
Dividend yield	3.1%
Expected total return	20.0%

**Sector coverage:** Construction

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

**Share price**


Historical return (%)	1M	3M	12M
Absolute	-1.8	1.8	-2.9
Relative	0.0	5.3	7.5

**Stock information**

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	2,146
3-mth average volume ('000)	102
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

**Major shareholders**

Sunway Berhad	54.6%
EPF	9.7%

**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)	14.9	12.8	12.5

# Sunway Construction Group

## Another one in the bag

SunCon announced an additional contract sum to its existing CP2 project worth RM606.6m. This brings estimated unbilled orderbook to RM6.6bn, just 3% shy of its all-time high. Since Dec-22, SunCon has racked up RM2.97bn of new contracts. Going forward, after a flurry of contract wins, we expect further contract catalysts only in 2H23 coming from internal projects, MRT3 and VN power plant (RM6.0bn). No change in forecasts for now as it falls within our replenishment assumptions. Maintain BUY with unchanged TP of RM1.94. We like the company due to: (i) safer exposure to future infrastructure rollouts (ii) strong support from parent-co, (iii) poised to enter stronger earnings cycle driven by fresh contract wins and (iv) execution of guidance.

**NEWSBREAK**

SunCon announced additional scope of works to its existing South Quay Square contract (CP2) carrying fresh unbilled contract value of RM606.6m. Works are expected to commence imminently spanning 31 months with completion by 31 Oct-25. This would bring total construction work awarded from South Quay Square project to RM1.36bn. Scope of additional works comprises of main building works.

**HLIB'S VIEW**

**Second major win of FY23.** The latest contract win comes hot on the heels of its RM604.9m RTS contract, bringing total wins for FY23 to RM1.27bn (~65% of SunCon's FY23 base case target). The size of the CP2 contract is double of our initial expectations of ~RM300m. SunCon's estimated orderbook thus soars to RM6.6bn representing 3.1x cover on FY22 revenue. We note that this is just ~3% shy of its record orderbook of RM6.8bn amassed in 3Q17 – impressive considering this was achieved without MRT3 rolling out. Recall that SunCon has been getting busy of late chalking up RM2.97bn worth of new contracts since Dec-22. Going forward, after a flurry of contract wins, we expect further contract catalysts only in 2H23 coming from internal projects (Ipoh mall), MRT3 and VN power plant (RM6.0bn).

**Recap of FY23 win targets.** Based on previous guidance, SunCon's base case replenishment target for 2023 stands at RM2.0bn with a bull case target of ~RM8.0bn. The latter scenario is double of its record high wins achieved in FY17. Making up its RM2.0bn base case target are: (i) Tier 2 MRT 3 works at RM1.0-1.2bn, (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 and mixed development – podium, warehouses and data centres. We believe SunCon's upside scenario has incorporated the RM6.0bn Vietnam power plant project (interim EPC signed) but no Tier 1 MRT 3 packages.

**Forecast.** No change for now as it falls within our replenishment assumptions.

**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. We like the company due to: (i) safer exposure to future infrastructure project rollouts (ii) strong support from parent-co, (iii) poised to enter stronger earnings cycle driven by fresh contract wins and (iv) execution of guidance. Key catalyst: contract wins. Risks: MRT3 cancellation, political risks, elevated materials prices and labour shortage.

**Figure #1 Total contract wins YTD**

Projects (2023 new awards)	Client	Duration	Contract Sum (RM'mil)
Bidadari C17 - LPS	Eng Seng Lee Construction Co Pte Ltd	Dec-23	3.9
Precast - Watertanks (various projects)	Jin Cheng Pte Ltd	Various	9.4
Heliosel Solar PV System - Package L3	Heliosel Sdn Bhd	Dec-23	34.0
Heliosel Solar PV System - Package L2	Heliosel Sdn Bhd	Oct-23	10.5
RTS Package 1B and Package 5	Malaysia Rapid Transit System Sdn Bhd	Jun-25	604.9
South Quay Square Mix Development - 2nd SA	Sunway South Quay Sdn Bhd	Oct-25	606.6
<b>Secured in 1Q 2023</b>			<b>1,269.2</b>

SunCon

**Figure #2 Artist impression of South Quay Square project**

SunCon

**Figure #3 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)	23.4	14.8	14.9	12.8	12.5
EV/EBITDA (x)	14.3	10.3	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%	3.7%
BVPS (RM/share)	0.5	0.5	0.6	0.7	0.7
P/B (x)	3.4	3.1	2.8	2.5	2.2
ROE (%)	15%	22%	18%	21%	19%
Net Gearing (%)	16%	20%	CASH	50%	30%

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

### Sector rating guide

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

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