

04 July 2023

Sunway Construction Group

Bags RM253m Mall Refurbishment Job

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SUNCON has bagged a RM253m contract to refurbish Sunway Carnival Mall in Penang, boosting its YTD job wins to RM1.5b, on track to meet our FY23F assumption of RM2.2b. We maintain our forecasts, TP of RM2.13 and OUTPERFORM call.

SUNCON has been awarded a refurbishment contract worth RM253m for Sunway Carnival Mall. Awarded by **SUNREIT (OP; TP: RM1.93)**, it comprises a 4-storey shopping complex and a 1-storey cultural/commercial centre with 1-storey basement in Seberang Jaya, Penang. Spanning a construction period of 24 months, the project is scheduled for completion by Jun 2025.

We are positive on this latest contract that boosted SUNCON's YTD job wins to RM1.5b, on track to meet our FY23F assumption of RM2.2b (and the company's own more conservative target of RM2b), and lifted its outstanding orderbook by 2% to RM12.3b. The guided EBIT margin of 5%-8% is also in line with our assumption of 7.5%.

Forecasts: Maintained.

We also keep our TP of RM2.13 based on 16x FY23F PER, at the upper end of the forward PER range of 9x to 18x we ascribed to the construction sector to reflect SUNCON's relatively huge market capitalisation. Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by us (see Page 4).

Outlook. We expect a significant revitalisation of the construction sector in 2HCY23 backed by: (i) the roll-out of the RM45b MRT3 project and six flood mitigation projects reportedly to be worth RM13b, and (ii) an accelerated disbursement of the massive RM97b gross development expenditure budgeted under Budget 2023 (+35% YoY over RM71.6b a year ago). Similarly, the private sector construction market is vibrant underpinned by massive investment in new semiconductor foundries and data centres.

SUNCON is eyeing opportunities in data centre building jobs, MRT3 work packages and contracts from parent and sister companies.

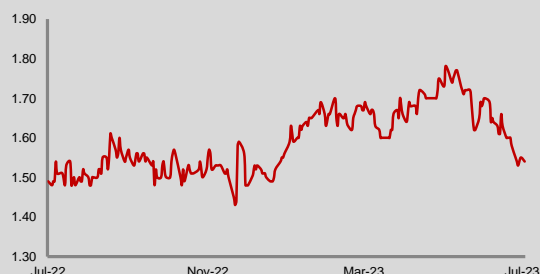
We like SUNCON for: (i) strong job prospects of the sector as a whole with the imminent roll-out of key public infrastructure projects; (ii) its strong earnings visibility underpinned by RM12.3b outstanding order book and recurring jobs from parent and sister companies, and (iii) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works. Maintain **OUTPERFORM**.

Risks to our recommendation include: (i) sustained weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

OUTPERFORM ↔

Price: RM1.54
Target Price: RM2.13 ↔

Share Price Performance



KLCI	1,395.89
YTD KLCI chg	-6.7%
YTD stock price chg	-1.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	1,985.6
Shares Outstanding	1,289.4
52-week range (H)	1.79
52-week range (L)	1.41
3-mth avg daily vol:	346,607
Free Float	14%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund	9.7%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	2155.2	2884.0	2995.0
EBIT	188.2	218.9	235.4
PBT	184.1	213.4	225.4
Net Profit	135.2	163.7	171.6
Core Net Profit	137.1	163.7	171.6
Consensus	-	148.6	160.6
Earnings Revision (%)	-	-	-
Core EPS (sen)	10.6	12.7	13.3
Core EPS growth (%)	22.5	19.4	4.8
NDPS (sen)	5.5	5.0	5.0
NTA Per Share (RM)	0.59	0.67	0.75
Price to NTA (x)	2.6	2.3	2.0
PER (x)	14.5	12.1	11.6
Net Gearing (x)	-0.5	0.0	-0.1
ROE (%)	18.0	19.0	17.7
Net Div. Yield (%)	3.6	3.2	3.2

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	4.40	5.15	17.0%	11,710.2	Y	07/2023	35.0	43.6	7.4%	24.7%	12.1	9.7	1.3	10.4%	50.0	11.4%
IJM	MP	1.50	1.67	11.3%	5,263.6	Y	03/2024	9.2	8.6	-2.1%	-6.3%	16.5	17.6	0.5	4.0%	6.0	4.0%
KERJAYA	OP	1.07	1.50	40.2%	1,349.3	Y	12/2023	12.2	14.0	31.0%	14.6%	8.8	7.7	1.2	14.6%	6.0	5.6%
KIMLUN	OP	0.720	0.900	25.0%	254.4	Y	12/2023	10.3	14.1	-5.4%	37.1%	7.2	6.2	0.4	5.2%	1.0	1.4%
SUNCON	OP	1.54	2.13	38.3%	1,985.6	Y	12/2023	12.6	13.2	19.4%	4.8%	12.1	11.6	2.9	24.9%	5.0	3.2%
WCT	OP	0.410	0.600	46.3%	581.1	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.3	11.1	0.2	2.7%	0.5	1.2%
Sector Aggregate					21,144.3					6.7%	16.1%	13.1	11.3	0.9	6.6%		4.5%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

***Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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