

14 June 2023

# Sunway Construction Group

## Awash with Opportunities

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SUNCON is bidding for work packages of the Customs, Immigration and Quarantine (CIQ) Complex in Johor and various data centres as well as fit-out and renovation works of SUNWAY's properties. It has extended its MRT3 tender validity, while the RM6b coal-fired power plant construction job in Vietnam is firming up with the project's financial close being well in sight. We maintain our forecasts, TP of RM2.13 and OUTPERFORM call.

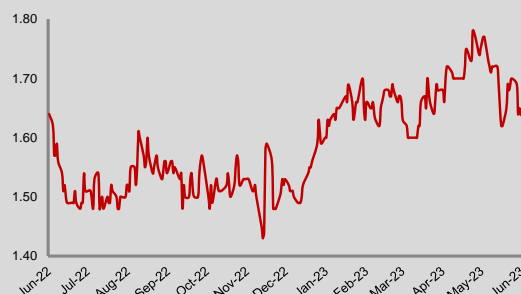
We came away from a recent engagement with the company feeling reassured of its prospects. The key takeaways are as follows:

- Its RM6b coal-fired power plant construction job in Vietnam (which constitutes up to half of its outstanding order book of RM12b) is firming up with its client, i.e. Bursa Malaysia-listed TOYOVEN, and on track to meet conditions precedent for the project's syndicated loan and hence to achieve financial close by Sep 2023, after a slight delay from Jun 2023.
- YTD, it has secured RM1.3b new jobs, on track to meet our assumption and its internal target of RM2b. It has a healthy tender book of RM22.7b, with notable projects including MRT3 (CMC01, CMC02 packages), various packages for data centres, warehouse jobs and others. Additionally, it expects to secure related-party jobs from SUNWAY, such as further fit-out works for Sunway Medical Damansara, and renovation works for Sunway Pyramid and Sunway Carnival Mall. These internal jobs are individually valued at RM100m-200m each.
- SUNCON has been asked by MRT Corp to extend its tender validity by three months to end-Sep 2023. Should it secure the MRT job by this year, it would surpass its FY23 internal replenishment target and our FY23 job win assumption.
- Meanwhile, it is bidding for additional packages related to the Rapid Transit System (RTS) project, namely the CIQ Complex and its surrounding structures worth c.RM800-RM1b, which are expected to offer attractive margins due to the tight completion deadlines by 2026. The tenders will be closing by 30<sup>th</sup> June 2023 with awards expected by year-end.
- It is bullish on building jobs for data centres. It has a first-mover advantage given that it first entered the market over a year ago. While the technical requirements for the construction of data centres are not high, there are significant entry barriers including the ability to coordinate a large number of subcontractors and meet tight deadlines, and huge working capital requirement for the purchase of equipment and fittings (such as server racks) that typically accounts for c.60% of the total project value. Its on-going RM1.7b data centre job, comprising three notices to proceed (NTP) has seen a slight delay for NTP2, worth c.RM1b, as the end-client is still finalizing its equipment requirements. However, the NTP1 that was initially valued at RM50m has been topped up for on-going civil works.

# OUTPERFORM ↔

**Price:** RM1.61  
**Target Price:** RM2.13 ↔

### Share Price Performance



KLCI	1,380.61
YTD KLCI chg	-7.7%
YTD stock price chg	3.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,075.9
Shares Outstanding	1,289.4
52-week range (H)	1.79
52-week range (L)	1.41
3-mth avg daily vol:	362,624
Free Float	14%
Beta	0.8

### Major Shareholders

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

### Summary Earnings Table

FYE 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
<b>Net Profit</b>	135.2	163.7	171.6
<b>Core Net Profit</b>	137.1	163.7	171.6
Consensus (NP)	126.3	-	-
Earnings Revision	-	-	-
Core EPS (sen)	10.6	12.7	13.3
Core EPS growth (%)	23	19	5
NDPS (sen)	5.5	5.0	5.0
NTA per Share (RM)	0.59	0.67	0.75
Price to NTA (x)	2.8	2.5	2.2
PER (x)	15.4	12.9	12.3
Net Gearing (x)	-0.5	0.0	-0.1
Return on Equity (%)	18	19	18
Net Div. Yield (%)	3.4	3.0	3.0

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6. Its new Industrialized Building System (IBS) precast plant in Singapore mainly catering for the country's Housing & Development Board (HDB) development there has been operational since January 2023. Currently, the plant is running at 10% utilization (as of March 2023), but it aims to achieve an optimal utilization rate of 60%-70% within the next three years. It is hopeful that the precast plant will break even by the end of the year through ramp-up efforts and cost optimization. Over the foreseeable future, it believes its Singapore plant has a competitive edge compared to other Johor-based plants which are subject to traffic congestion and unexpected road closures. Additionally, increasing regulations for HDB contractors to use local precast supplies are also expected to benefit SunCon. The anticipated payback period for its initial capital expenditure of SGD80m is 7-9 years.
7. It maintained its guidance for an EBIT margin of 5%-8%. In terms of balance sheet strength, it turned net debt (net gearing of 0.07x) in 1QFY23. This was primarily due to the progress made on its RM823m projects in India, which involved fixed payments over a 15-year period upon completion. Additionally, the payment for its two LSS4 projects is only due six months after handover. Nonetheless, it still has ample room to leverage its balance sheet, with a maximum limit of 0.6x net gearing.

**Forecasts. Maintained.**

We also maintain our TP of RM2.13 based on 16x PER, at the upper range of our coverage ascribed, of 9x to 18x PER for contractors' given SUNCON's larger sized market cap and its sterling track record within the local construction space with multiple successful mega infrastructure project completions.

We like SUNCON for: (i) its strong replenishment pipeline from parent SUNWAY, (ii) its dominant position in the local construction space with extensive capabilities in building, infrastructure, solar, mechanical, electrical and plumbing works, and (iii) its strong balance sheet that allows it to participate in deferred payment model projects. We accord a 5% premium to its TP given a 4-star ESG rating as appraised by us (see Page 4). Maintain **OUTPERFORM**.

**Risks to our call 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.



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## Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings 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.	1-Yr. Fwd.	1-Yr. Fwd.		
GAMUDA BHD	OP	4.17	5.15	23.5%	11,095.3	Y	07/2023	35.0	43.6	7.4%	24.7%	11.5	9.2	1.2	10.4%	50.0	12.0%				
IJM CORP BHD	MP	1.61	1.67	3.7%	5,655.1	Y	03/2024	9.2	8.6	-2.1%	-6.3%	17.7	18.9	0.6	4.0%	6.0	3.7%				
KERJAYA PROSPEK GROUP BHD	OP	1.09	1.50	37.6%	1,374.5	Y	12/2023	12.2	14.0	31.0%	14.6%	9.0	7.8	1.2	14.6%	6.0	5.5%				
KIMLUN CORP BHD	OP	0.735	0.900	22.4%	259.7	Y	12/2023	10.3	14.1	-5.4%	37.1%	7.4	6.3	0.4	5.2%	1.0	1.4%				
SUNWAY CONSTRUCTION GROUP BHD	OP	1.61	2.13	32.3%	2,075.9	Y	12/2023	12.6	13.2	19.4%	4.8%	12.7	12.1	3.1	24.9%	5.0	3.1%				
WCT HOLDINGS BHD	OP	0.425	0.600	41.2%	602.3	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.9	11.5	0.2	2.7%	0.5	1.2%				
<b>Simple Average</b>					<b>21,062.8</b>							<b>6.7%</b>	<b>16.1%</b>	<b>13.1</b>	<b>11.3</b>	<b>0.9</b>	<b>6.6%</b>				<b>4.5%</b>

Source: Bloomberg, Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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