

23 May 2023

Sunway Construction Group

A Slow Start, Earnings to Catch Up

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SUNCON's 1QFY23 results met expectations with top line and core net profit easing by double-digit, YoY. However, we are not perturbed as its key jobs were still at the initial construction stages. YTD, it has secured RM1.3b worth of new jobs - in-line to meet our full-year assumption of RM2.2b. We maintain our forecasts, TP of RM2.13 and OUTPERFORM call.

Within expectations. 1QFY23 core net profit of RM26m accounted for only 16% and 18% of our full-year forecast and the full-year consensus estimate, respectively. However, we deem the results within expectations as we expect progress billings and hence earnings to pick up for the rest of the year, underpinned by a sizeable outstanding order book of RM12b (of which RM6b is from a contract agreement for the Song Hau 2 Vietnamese coal-fired power plant pending financial close before works can proceed).

FY22 revenue declined 16% YoY as major jobs won recently i.e. RM1.7b data centre and RM0.6b RTS were still at the initial stages of construction. Core net profit declined 26% for the same reason.

Outlook. YTD, SUNCON has secured RM1.3b worth of new jobs, on track to meet our FY23F replenishment assumption of RM2.2b (vs. the company's more conservative target of RM2.0b). Its job replenishment prospects are bright, underpinned by a strong tender book of RM22.7b comprising: (i) data centre building, (ii) semiconductor factories, (iii) MRT3, and (iv) related party contracts i.e. Sunway.

Forecasts. Maintained.

We also maintain our **TP of RM2.13** based on 16x PER, at the upper range of our coverages ascribed 9 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.

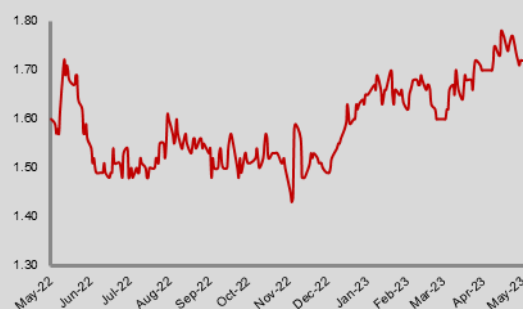
We like SUNCON for: (i) its strong replenishment pipeline from parent SUNWAY, (ii) its dominant position in the local construction space with extensive capabilities in building, infrastructure, solar, mechanical, electrical and plumbing works, and (iii) its strong balance sheet that allows it to participate 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.

OUTPERFORM ↔

Price : RM1.72
Target Price : RM2.13 ↔

Share Price Performance



KLCI	1,419.00
YTD KLCI chg	-5.1%
YTD stock price chg	10.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,217.7
Shares Outstanding	1,289.4
52-week range (H)	1.79
52-week range (L)	1.41
3-mth avg daily vol:	365,791
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
Net Profit	135.2	163.7	171.6
Core Net Profit	137.1	163.7	171.6
Consensus (NP)	126.3	153.2	160.4
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)	2.9	2.6	2.3
PER (x)	16.2	13.5	12.9
Net Gearing (x)	-0.5	0.0	-0.1
Return on Equity (%)	18	19	18
Net Div. Yield (%)	3.2	2.9	2.9

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Results Highlight								
FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Revenue	522.1	503.4	4%	624.7	-16%	522.1	624.7	-16%
Operating Expenses	-484.3	-449.5	8%	-583.1	-17%	-484.3	-583.1	-17%
Other Operating Income	3.9	10.4	-63%	1.4	180%	3.9	1.4	180%
Operating Profit	41.7	64.3	-35%	42.9	-3%	41.7	42.9	-3%
Finance Income	4.1	4.4	-7%	2.2	85%	4.1	2.2	85%
Finance costs	-8.3	-10.5	-21%	-1.2	618%	-8.3	-1.2	618%
Associates	0.0	0.0	-100%	3.2	-100%	0.0	3.2	-100%
JV	0.0	-2.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
PBT	37.5	56.3	-33%	47.2	-20%	37.5	47.2	-20%
Tax	-8.9	-10.8	-18%	-11.5	-23%	-8.9	-11.5	-23%
PAT	28.6	45.5	-37%	35.6	-20%	28.6	35.6	-20%
MI	0.8	-0.1	n.a.	1.1	-27%	0.8	1.1	-27%
Net Profit	27.8	45.6	-39%	34.5	-19%	27.8	34.5	-19%
Exceptionals	1.9	-0.4	n.a.	-0.4	n.a.	1.9	-0.4	n.m.
CNP	25.9	46.0	-44%	34.9	-26%	25.9	34.9	-26%
DPS	0.0	2.5	-100%	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	8%	13%		7%		8%	7%	
Pretax margin	7%	11%		8%		7%	8%	
NP margin	5%	9%		6%		5%	6%	
CNP margin	5%	9%		6%		5%	6%	
Net gearing (x)	0.1	-0.1		-0.5		0.1	-0.5	
Effective tax	24%	19%		24%		24%	24%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Construction	469.1	444.0	6%	587.8	-20%	469.1	587.8	-20%
Precast Concrete	53.0	59.4	-11%	36.9	44%	53.0	36.9	44%
Total Revenue	522.1	503.4	4%	624.7	-16%	522.1	624.7	-16%
Pre-tax Segmentation								
Construction	36.2	51.0	-29%	46.2	-22%	36.2	46.2	-22%
Precast Concrete	1.3	5.3	-76%	1.0	28%	1.3	1.0	28%
Total PBT	37.5	56.3	-33%	47.2	-20%	37.5	47.2	-20%
PAT Segmentation								
Construction	28.3	41.5	-32%	34.9	-19%	28.3	34.9	-19%
Precast Concrete	0.4	4.0	-91%	0.8	-53%	0.4	0.8	-53%
Total PAT	28.6	45.5	-37%	35.6	-20%	28.6	35.6	-20%
Net Profit Segmentation								
Construction	27.5	41.7	-34%	33.8	-19%	27.5	33.8	-19%
Precast Concrete	0.4	4.0	-91%	0.8	-53%	0.4	0.8	-53%
Total Net Profit	27.8	45.6	-39%	34.5	-19%	27.8	34.5	-19%
PBT margins								
Construction	8%	11%		8%		8%	8%	
Precast Concrete	2%	9%		3%		2%	3%	
Total	7%	11%		8%		7%	8%	

Source: Company, Kenanga Research

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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.				
GAMUDA BHD	OP	4.12	5.15	25.00%	10,960.4	Y	07/2023	35.0	43.6	7.4%	24.7%	11.3	9.1	1.2	10.4%	50.0	12.1%
IJM CORP BHD	MP	1.58	1.67	5.70%	5,550.4	Y	03/2023	8.6	9.2	26.2%	6.9%	18.5	17.3	0.6	3.8%	6.0	3.8%
KERJAYA PROSPEK GROUP BHD	OP	1.12	1.50	33.93%	1,412.4	Y	12/2023	12.2	14.0	31.0%	14.6%	9.2	8.0	1.3	14.6%	6.0	5.4%
KIMLUN CORP BHD	OP	0.785	1.12	42.68%	277.4	Y	12/2023	12.9	15.6	18.9%	20.5%	6.4	5.2	0.4	6.6%	2.0	2.5%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.72	2.13	23.84%	2,217.7	Y	12/2023	12.6	13.2	19.4%	4.8%	13.5	12.9	3.3	24.9%	5.0	2.9%
WCT HOLDINGS BHD	OP	0.425	0.600	41.18%	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%
Simple Average					21,020.5					12.8%	18.7%	13.2	11.1	0.9	6.5%		4.7%

Source: Bloomberg, Kenanga Research

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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