

## Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

**Maintain BUY**

### Job Wins Target for 2023 Surpassed

**Unchanged Target Price: RM2.09**

#### KEY INVESTMENT HIGHLIGHTS

- **2023 job replenishment target of RM2.0b surpassed with two latest wins, totalling RM487.7m.**
- **RM190m data centre project in Johor and a RM595.4m warehouse project for Daiso via a 50:50 JV arrangement**
- **Total of RM2.2b job wins in 2023, outstanding order book stands at approximately RM6.0b**
- **Management actively tendering for projects, comprising ICQC for RTS Link, warehouses and semiconductor factories**
- **Maintain BUY with an unchanged TP of RM2.09**

**Exceeds replenishment target.** Sunway Construction Group Berhad (SunCon) has exceeded its 2023 order book replenishment target with two new contract wins yesterday worth RM487.7m, bringing its 2023 job wins to date to RM2.20b, surpassing its RM2.0b target. The two new job wins came from its wholly-owned subsidiary Sunway Construction Sdn Bhd (SCSB) for a data centre in Johor and a warehouse in Pulau Indah.

**Data centre.** SCSB was awarded the job by K2 Strategic Infrastructure Malaysia Sdn Bhd, a wholly-owned subsidiary of the Kuok Group. This is a RM190m project for the development of a data centre on a site in Johor, which will be completed in phases, with the final phase expected by 4QCY24. Assuming a 5% gross margin, the project is expected to generate RM9.5m of gross profit for the group, most of which would be recognised in FY24.

**Daiso warehouse.** SCSB also secured another job to construct the Daiso Global Distribution Centre Warehouse in Pulau Indah, Port Klang. It is a RM595.4m project awarded by Daiso Malaysia Group Sdn Bhd to an unincorporated 50:50 joint venture (JV) between Kajima (Malaysia) Sdn Bhd (KMSB) and SCSB. KMSB is the leader of the JV and the two companies will soon enter into a detailed JV agreement. SCSB's effective portion of the project with the 50% stake would be RM297.7m. The project will take 34.5 months to complete, with an expected completion period in 2QCY26.

**Strong order book replenishment.** With the current wins, we estimate that SunCon's total outstanding order book is at RM6b, with strong earnings visibility up to FY25. Management is actively tendering for projects, comprising two packages for the immigration, customs and quarantine complex (ICQC) of the Rapid Transit System (RTS) Link and several other tenders involving warehouses and semiconductor factories.

**Earnings estimates.** We are making to changes to our earnings estimates as the replenishments are within our expectations.

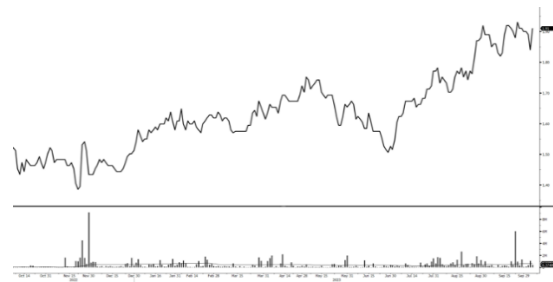
**Target price.** We maintain our **TP** at **RM2.09**, based on SunCon's FY24 EPS of 12.5 sen per share, pegged to a PER of 16.7x based on its two-year mean.

**Maintain BUY.** We view that SunCon remains a secure pick for the construction sector, backed by its strong order book and its consistency in replenishing jobs. We continue to expect the group to be among the

#### RETURN STATISTICS

Price @ 5 <sup>th</sup> Oct 2023 (RM)	1.91
Expected share price return (%)	+9.42
Expected dividend yield (%)	+2.87
Expected total return (%)	+12.29

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.5	2.6
3 months	0.5	13.3
12 months	21.7	22.1

#### INVESTMENT STATISTICS


FYE Dec	2023E	2024F	2025F
Revenue	2,364.70	2,637.10	2,768.96
Operating Profit	169.97	184.38	201.64
Profit Before Tax	193.79	211.48	232.31
Core net profit	140.80	160.86	171.93
Core EPS (sen)	0.109	0.125	0.133
DPS (sen)	6.0	6.0	6.0
Dividend Yield	2.9%	2.9%	2.9%

#### KEY STATISTICS

FBM KLCI	1,415.60
Issue shares (m)	1289.36
Estimated free float (%)	13.43
Market Capitalisation (RM'm)	2,462.68
52-wk price range	RM1.41-RM1.98
3-mth average daily volume (m)	0.63
3-mth average daily value (RM'm)	1.15
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Wav Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.78

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main beneficiaries of infrastructure project rollouts by the government, which is expected to pick up pace following the completion of state polls in Aug-23. The group's precast business is also expected to provide a more significant contribution moving forward with its newly-commissioned ICPH in Singapore, where 90% of its revenue are from the country's Housing and Development Board (HDB) flats. Meanwhile, the group's gearing also remains very low at 7.0%. All factors considered, we reiterate our **BUY** recommendation on **SunCon**. 

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,729.16	2,155.23	2,364.70	2,637.10	2,768.96
Net operating expenses	(1,589.74)	(1,963.75)	(2,182.91)	(2,436.25)	(2,545.70)
Operating profit	139.42	148.41	169.97	184.38	201.64
Profit before tax	152.25	184.06	193.79	211.48	232.31
Net profit	112.59	135.18	140.80	160.86	171.93
Core net profit	110.40	134.44	140.80	160.86	171.93
Core EPS (sen)	8.7	10.5	10.9	12.5	13.3
DPS (sen)	5.0	5.5	6.0	6.0	6.0

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	124.8	107.6	118.4	124.3	130.6
Other investments and assets	724.6	491.1	498.0	511.9	518.9
<b>Non-current assets</b>	<b>849.4</b>	<b>598.7</b>	<b>616.3</b>	<b>636.2</b>	<b>649.6</b>
Cash	98.8	491.6	468.2	522.1	548.3
Trade debtors	850.1	988.7	1,123.5	1,231.3	1,304.2
<b>Current assets</b>	<b>1,014.8</b>	<b>1,637.4</b>	<b>1,730.1</b>	<b>1,905.9</b>	<b>2,013.5</b>
Trade creditors	891.4	916.8	1,121.6	1,193.8	1,277.4
Short-term debt	92.5	172.2	161.6	197.5	197.6
<b>Current liabilities</b>	<b>992.0</b>	<b>1,103.3</b>	<b>1,296.9</b>	<b>1,407.9</b>	<b>1,491.6</b>
Long-term debt	145.4	308.5	203.6	207.6	150.6
<b>Non-current liabilities</b>	<b>155.4</b>	<b>311.9</b>	<b>211.6</b>	<b>212.8</b>	<b>155.4</b>
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	470.8	515.9	579.3	662.8	757.4
<b>Equity</b>	<b>699.1</b>	<b>737.1</b>	<b>837.9</b>	<b>921.4</b>	<b>1,016.0</b>

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	152.2	184.1	193.8	211.5	232.3
Depreciation & amortisation	27.4	23.8	26.1	27.4	28.8
Changes in working capital	83.3	-382.1	100.8	-64.8	-23.9
<b>Operating cash flow</b>	<b>238.7</b>	<b>-215.0</b>	<b>414.9</b>	<b>206.6</b>	<b>297.7</b>
Capital expenditure	-31.5	-1.9	-25.0	-25.0	-25.0
<b>Investing cash flow</b>	<b>-174.0</b>	<b>423.7</b>	<b>-308.0</b>	<b>-123.2</b>	<b>184.8</b>
Debt raised/(repaid)	-70.1	233.4	107.6	193.7	-145.4
Dividends paid	-51.6	-90.3	-77.4	-77.4	-77.4
<b>Financing cash flow</b>	<b>-122.4</b>	<b>142.7</b>	<b>30.2</b>	<b>116.3</b>	<b>-222.8</b>
<b>Net cash flow</b>	<b>-57.7</b>	<b>351.4</b>	<b>137.1</b>	<b>199.7</b>	<b>259.8</b>
<b>Beginning cash flow</b>	<b>117.8</b>	<b>60.6</b>	<b>407.7</b>	<b>544.8</b>	<b>744.4</b>
<b>Ending cash flow</b>	<b>60.6</b>	<b>407.7</b>	<b>544.8</b>	<b>744.4</b>	<b>1004.2</b>

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	8.1%	6.9%	7.2%	7.0%	7.3%
PBT margin	8.8%	8.5%	8.2%	8.0%	8.4%
PAT margin	6.5%	6.3%	6.0%	6.1%	6.2%
Core PAT margin	6.4%	5.8%	6.0%	6.1%	6.2%

Source: Bloomberg, MIDFR

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology