

## Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

### Replenishing Jobs Ahead of Target

#### KEY INVESTMENT HIGHLIGHTS

- **Core net profit recorded at RM26.2m for 1QFY23, a reduction of -23.6%yoy**
- **Construction revenue declined -20.2%yoy, PBT dipped -21.6%yoy. Most active projects currently are still in initial stages**
- **Newly commissioned ICPH plant in Singapore to add 73,500m<sup>3</sup> of precast components capacity**
- **Maintain BUY with a revised TP of RM2.09**

**Below expectations.** Sunway Construction Group Berhad (SunCon) recorded a core net profit of RM26.2m for 1QFY23, which came in -23.6%yoy, mainly due to lower contribution from the construction segment. This came in below ours and consensus expectations, making up only 17.8% and 17.1% of full year estimates.

**Construction segment.** The group's bread and butter business saw a -20.2%yoy reduction in revenue to RM469.1m during the quarter and consequently, its PBT dropped -21.6%yoy to RM36.2m. The higher revenue in 1QFY22 was due to the acceleration of construction progress for projects achieving completion stage. Another factor for the lower construction contribution was attributable to its current active projects that are still in the initial stages. We note that PBT margin stood at 7.7%, almost unchanged from the same quarter last year at 7.9%.

**Precast segment.** The precast segment posted a stronger revenue of RM53.0m, which was a +43.6%yoy increase, delivering a +30%yoy higher PBT to RM1.3m, on the back of higher progress from new projects. SunCon's Integrated Construction & Prefabrication Hub (ICPH) in Singapore commenced operations during the quarter which will add an annual capacity of 73,500m<sup>3</sup> of precast components, on top of its existing capacity of 126,000m<sup>3</sup>. We expect this segment to provide stronger contribution to the group's results in the coming quarters, premised on the group's ability to build the order book for the plant.

**Strong order book replenishment.** The group currently has a total order book of RM6.03b, with earnings visibility up to FY25. As of 1QFY23, SunCon has already achieved RM1.28b of new order book or 64% of its RM2b replenishment target this year. On the back of improving construction job flows coupled with internal jobs flows from Sunway Group, we believe SunCon is able to exceed its replenishment target in FY23.

**Earnings estimates.** We are maintaining our FY23E estimates as we expect the progress of its existing construction jobs to pick up pace and a stronger contribution from its precast segment.

**Target price.** We are upgrading our TP to **RM2.09** as we rollover our valuation base year to FY24. The new TP is 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.

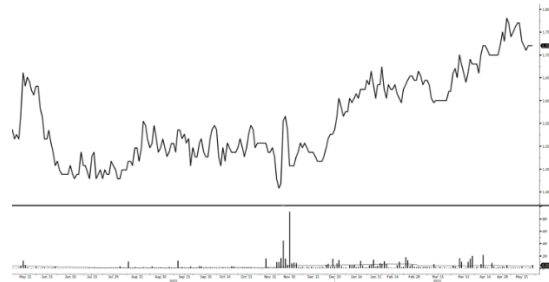
**Maintain BUY**

**Revised Target Price: RM2.09**  
(previously RM2.00)

#### RETURN STATISTICS

Price @ 22 <sup>nd</sup> May 2023 (RM)	1.72
Expected share price return (%)	+21.51
Expected dividend yield (%)	+2.87
<b>Expected total return (%)</b>	<b>+24.38</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.2	1.4
3 months	3.6	6.4
12 months	7.5	16.9

#### 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	1,419.00
Issue shares (m)	1289.36
Estimated free float (%)	14.08
Market Capitalisation (RM'm)	2,217.70
52-wk price range	RM1.41-RM1.79
3-mth average daily volume (m)	0.37
3-mth average daily value (RM'm)	0.62
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Wav Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.70

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**Maintain BUY.** We continue to favour SunCon for our construction sector picks, premised on its strong order book and its faster than expected progress in job replenishments this year. We expect the group to be among the key beneficiaries from the anticipated improvement in construction job and infrastructure project flows from FY23 onwards. The newly commissioned ICPH in Singapore is also expected to deliver stronger earnings to the group with its improved capacity, to cater for Singapore's Housing and Development Board (HDB) flat launches. All factors considered, we reiterate our **BUY** recommendation on **SunCon**. 

### SUNWAY CONSTRUCTION: 1QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
	Q123	Q422	Q122	QoQ	YoY
<b>Income Statement</b>					
Revenue	522.1	503.4	624.7	3.7%	-16%
Net Operating Expenses	(479.5)	(438.5)	(581.7)	-9%	18%
Operating Profit	41.7	64.3	42.9	-35%	-3%
Finance Income	4.1	4.4	2.2	-7%	85%
Finance Costs	(8.3)	(10.5)	(1.2)	21%	-618%
JV and Associates	0.0	(2.0)	3.2	100%	-100%
Profit Before Tax	37.5	56.3	47.2	-33%	-20%
Tax Expense	(8.9)	(10.8)	(11.5)	18%	23%
Minority Interest	0.8	(0.1)	1.1	693%	-27%
Reported Net Profit	27.8	45.6	34.5	-39%	-19%
Core Net Profit	26.2	46.1	34.3	-43%	-23.6%

### 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>

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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>

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### 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