

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Maintain BUY

Construction and Precast to Improve Further

Unchanged Target Price: RM2.09

KEY INVESTMENT HIGHLIGHTS

- **Core net profit recorded at RM33.3m for 2QFY23, an improvement of +5.8%yoy; 1HFY23 core net profit however declined -9.5%yoy to RM59.6m**
- **Construction revenue rose +2.4%yoy to RM535.6m but PBT slipped -4.9%yoy to RM39.1m**
- **Precast segment revenue almost doubled to RM68.5m, mainly due to Singapore ICPH projects**
- **Maintain BUY with an unchanged TP of RM2.09**

Below expectations. Sunway Construction Group Berhad (SunCon) recorded a core net profit of RM33.3m for 2QFY23, which came in higher by +5.8%yoy. The cumulative 1HFY23 core net profit was -9.5%yoy lower at RM59.6m, due to a decline in the construction segment. This was below expectations, making up 42.3% and 39.7% of ours and consensus' full-year projections respectively. SunCon declared its first interim dividend for FY23 at 3 sen per share.

Construction segment. The construction segment registered a revenue of RM535.6m for the quarter, which improved +2.4%yoy. The PBT however, declined -4.9%yoy to RM39.1m. Margins slipped slightly to 7.3% from 7.9% in the same quarter last year, mainly due to the finalisation of accounts for completed projects.

Precast segment. Revenue from the precast business almost doubled to RM68.5m during the quarter, with an improvement in PBT by +68.4%yoy to RM3.2m, mainly due to the stronger progress in its Integrated Construction Precast Hub (ICPH) projects. There was a slight decline in margins from 5.4% to 4.7%.

Strong order book replenishment. The group currently has a total outstanding order book of RM5.78b, with earnings visibility up to FY25. As of 1HFY23, SunCon has already replenished RM1.59b of jobs or 79.5% of its full year target of RM2b this year. On the back of expectations of improving construction job flows starting this year and the internal job flows from Sunway Group, we believe SunCon will be able to surpass its order book replenishment target.

Upcoming tenders. SunCon will be tendering for two packages for the immigration, customs and quarantine complex (ICQC) of the Rapid Transit System (RTS) Link. The group has also, through strategic partnerships, participated in several tenders involving logistics warehouses and semiconductor manufacturing.

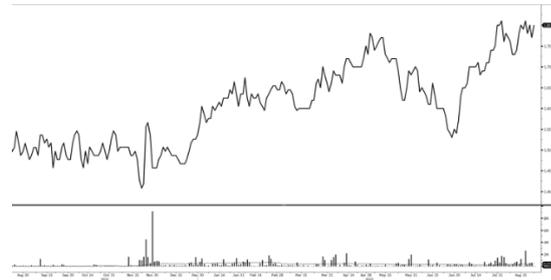
Earnings estimates. We are maintaining our FY23E estimates as we expect the progress of its existing construction jobs to pick up pace and the finalisation of several projects by the year end, coupled with a stronger contribution from its precast segment.

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.

RETURN STATISTICS

Price @ 23 rd Aug 2023 (RM)	1.80
Expected share price return (%)	+16.1
Expected dividend yield (%)	+2.9
Expected total return (%)	+19.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	6.5	4.5
3 months	16.1	4.4
12 months	16.1	19.6

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	1,440.11
Issue shares (m)	1289.36
Estimated free float (%)	13.40
Market Capitalisation (RM'm)	2,320.85
52-wk price range	RM1.41-RM1.84
3-mth average daily volume (m)	0.46
3-mth average daily value (RM'm)	0.79
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Wav Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.81

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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 main beneficiaries of the expected improvement in job flows, especially after the conclusion of the state elections. 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. Recall that HDB released 4,428 and 5480 flats in Feb-23 and May-23 respectively and is planning to introduce 6,700 more flats in Sept-23. All factors considered, we reiterate our **BUY** recommendation on **SunCon**. 

SUNWAY CONSTRUCTION: 2QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	2QFY23	1QFY23	2QFY22	QoQ	YoY	1HFY23	1HFY22	YoY
Income Statement								
Revenue	604.1	522.1	557.9	15.7%	8%	1,126.2	1,182.5	-4.8%
Net Operating Expenses	(257.2)	(479.5)	(515.5)	46%	50%	(736.7)	(1,097.3)	32.9%
Operating Profit	46.7	41.7	4.3	12%	998%	88.4	47.2	87.2%
Finance Income	6.7	4.1	3.2	64%	112%	10.8	5.4	100.6%
Finance Costs	(11.5)	(8.3)	(3.2)	-39%	-260%	(19.7)	(4.3)	-355.4%
JV and Associates	0.3	0.0	0.6	-	-50%	0.3	3.8	-91.7%
Profit Before Tax	42.3	37.5	43.0	13%	-2%	79.8	90.1	-11.5%
Tax Expense	(9.0)	(8.9)	(9.3)	-1%	4%	(17.9)	(20.9)	14.4%
Minority Interest	0.3	0.8	1.3	-67%	-80%	1.1	2.5	-55.9%
Reported Net Profit	33.0	27.8	32.3	19%	2%	60.8	66.8	-9.0%
Core Net Profit	33.3	26.2	31.5	27%	5.8%	59.6	65.8	-9.5%

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
Non-current assets	849.4	598.7	616.3	636.2	649.6
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
Current assets	1,014.8	1,637.4	1,730.1	1,905.9	2,013.5
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
Current liabilities	992.0	1,103.3	1,296.9	1,407.9	1,491.6
Long-term debt	145.4	308.5	203.6	207.6	150.6
Non-current liabilities	155.4	311.9	211.6	212.8	155.4
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	470.8	515.9	579.3	662.8	757.4
Equity	699.1	737.1	837.9	921.4	1,016.0

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
Operating cash flow	238.7	-215.0	414.9	206.6	297.7
Capital expenditure	-31.5	-1.9	-25.0	-25.0	-25.0
Investing cash flow	-174.0	423.7	-308.0	-123.2	184.8
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
Financing cash flow	-122.4	142.7	30.2	116.3	-222.8
Net cash flow	-57.7	351.4	137.1	199.7	259.8
Beginning cash flow	117.8	60.6	407.7	544.8	744.4
Ending cash flow	60.6	407.7	544.8	744.4	1004.2

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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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