

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Reiterate BUY

A last hurrah to end FY22

Unchanged Target Price: RM1.87

KEY INVESTMENT HIGHLIGHTS

- Secured a **RM1.7b** data centre project in Johor on Dec 31
- Project to be completed by **3QCY24**, or within **21 months**
- Total order book replenishment of **RM2.58b** in 2022, exceeding **RM2b** target
- Assuming a margin of **6%**, the project is expected to contribute about **RM102m** to SunCon
- Outstanding order book remains solid at **RM5.7b**
- Maintain **BUY** with unchanged target price of **RM1.87**

On the dot. Sunway Construction Group Berhad (SunCon) clinched a RM1.7b contract to build a data centre at the Sedenak Tech Park (STeP) in Johor on Dec 31, 2022, bringing the group's total order book replenishment to RM2.58b, surpassing its RM2b target.

Job scope. SunCon will undertake the design/design development, construction and the completion of works such as piling, structural precast concrete, architecture works, mechanical, electric services and other associated and external ancillary works. Works commenced on the same date of the award and the project is expected to be completed within 21 months or by 3QCY24.

Financial impact. Assuming a profit margin of 6%, we expect the project to contribute RM102m to the group's bottom line – RM58.3m in FY23 and RM43.7m in FY24, which comes within our expectations.

Stellar order book. This latest win brings SunCon's outstanding order book to RM5.7b, giving it solid earnings visibility up to FY24. We are positive on the group's ability to secure more jobs in FY23, which will bring its order book to record high levels. It is currently negotiating the terms and conditions for the engineering, procurement and construction (EPC) of a coal-fired power plant at the Hau Giang Province in Vietnam, a project worth USD2.2b (RM9.69b) which will be undertaken via a 60:40 joint-venture with Power Engineering Consulting Joint Stock Company 2, a power company listed on the Ho Chi Minh Stock Exchange. In Malaysia, SunCon's prospects would come from internally secured jobs from Sunway Group and potentially one of the main MRT3 packages. The group submitted its bids for package CMC301 and CMC302, which we estimate to be RM3.1b and RM14.8b respectively.

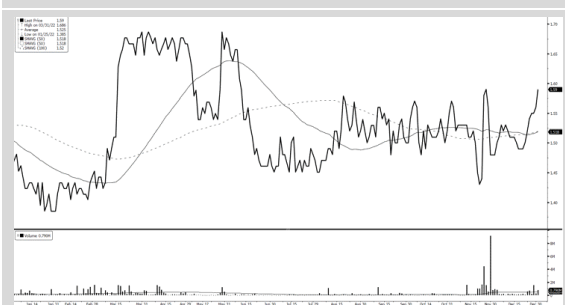
Earnings estimates. We are maintaining our estimates for SunCon.

Target price. Our TP remains unchanged at RM1.87, derived by pegging SunCon's FY23F EPS of 10.7 sen to a forward PE of 17.5x.

RETURN STATISTICS

Price @ 03 rd Jan 2023 (RM)	1.59
Expected share price return (%)	+17.6
Expected dividend yield (%)	+2.1
Expected total return (%)	+19.7

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	7.4	8.0
3 months	1.9	-1.3
12 months	3.2	8.0

KEY STATISTICS

FBM KLCI	1,473.99
Syariah compliant	Yes
F4BGM Index	1289.36
ESH Grading Band (Star rating)	14.35
Issue shares (m)	2,050.08
Estimated free float (%)	RM1.41 - RM1.74
Market Capitalisation (RM'm)	0.87
52-wk price range	5.34
Beta vs FBM KLCI (x)	16.85
3-mth average daily volume (m)	0.52
3-mth average daily value (RM'm)	0.78
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.43

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Reiterate BUY. SunCon remains one of our top picks for the construction sector due to several factors, such as its ability to handle its margins well and its strong balance sheet, which is in a net cash position of RM175.5m. We are also observing that the group is beginning to grow its overseas operations which would diversify it from being predominantly exposed to the Malaysia construction sector. Its RM5.7b outstanding orderbook consisting of projects in India (10.6%) and Singapore (9.4%). We are also confident of the group's ongoing negotiations for the power plant in Vietnam. Recall that SunCon also has its upcoming Integrated Construction & Prefabrication Hub (ICPH) in Singapore, which will cater extensively to the country's Housing and Development Board (HDB) projects. All factors considered, we reiterate our **BUY** recommendation on SunCon. 

INVESTMENT STATISTICS

FYE 31st December	2020A	2021A	2022E	2023F	2024F
All in RM'm unless stated otherwise					
Revenue	1,552.65	1,729.16	2,105.30	2,310.00	2,637.10
Net Operating Expenses	(1,462.13)	(1,589.74)	(1,949.36)	(2,140.95)	(2,448.43)
Operating Profit	90.52	139.42	155.94	169.05	188.67
Finance Income	13.76	4.15	17.16	19.43	18.35
Finance Costs	(6.94)	(4.58)	(9.80)	(11.08)	(10.93)
JV and Associates	4.17	13.26	6.93	9.32	11.66
Profit Before Tax	101.5	152.25	170.12	186.66	207.69
Tax Expense	(27.78)	(41.50)	(38.95)	(43.71)	(52.29)
Reported Net Profit	72.79	112.59	124.21	137.54	160.86
Core Net Profit	69.6	110.4	124.21	137.54	160.86
Reported EPS (sen)	5.6	8.7	9.6	10.7	12.5
Core EPS (sen)	5.4	8.7	9.6	10.7	12.5
DPS (sen)	4.00	5.25	4.00	4.00	4.00
Dividend Yield	2.3%	3.3%	2.1%	2.1%	2.1%

Source: Company, 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