

# Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

**Maintain BUY**

## Back on track

**Revised Target Price: RM2.00**  
*(previously RM1.87)*

### KEY INVESTMENT HIGHLIGHTS

- **FY22 core earnings grew +22.0 to RM134.4m, slightly above ours and consensus expectations**
- **Construction PBT up +16.5% to RM173.4m, but margins dropped slightly from 9.3% to 8.8%**
- **Precast segment PBT tripled to RM10.7m**
- **Outstanding order book of RM5.3b provides solid earnings visibility up to FY24**
- **Maintain BUY with a revised target price of RM2.00**

**Above Expectations.** Sunway Construction Group Berhad (SunCon) posted a -27.7%yoy reduction in its core net profit to RM46.1m, though its cumulative FY22 core net profit came in stronger by +22.0% at RM134.4m. This was slightly above ours and consensus expectations by +8.2% and +6.4% respectively.

**Construction segment.** The group's construction segment revenue rose +22.9%yoy for the year to RM1.97b on the back of normalisation of works to full capacity and the contribution from the group's India division. While the segment's PBT grew +16.5% to RM173.4m, there was a slight reduction in its margin from 9.3% to 8.8%, mainly due to the finalisation of accounts and the recalibration of margins for jobs nearing completion in FY21.

**Precast segment.** The segment recorded a +47.8% increase in revenue to RM181.6m while its PBT tripled to RM10.7m on the back of higher progress of new projects and stock turnover. Margins improved from 2.8% in FY21 to 5.9% in FY22.

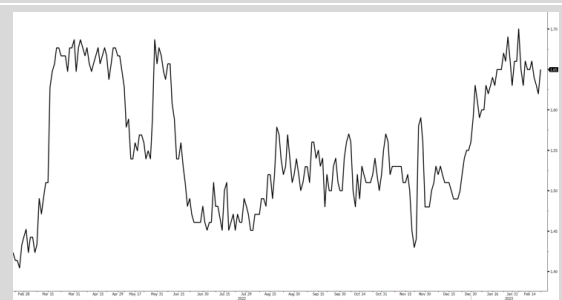
**Stellar order book.** SunCon's outstanding order book currently stands at a strong RM5.3b, giving it earnings visibility up to FY24. Internally secured jobs from Sunway Group made up 33% of the total while the other significant portion of 34% are from building projects. Recall that SunCon clinched a RM1.7b data centre project at the Sedenak Tech Park in Johor on Dec 31, 2022. This is expected to be completed by 3QFY24. The group has pencilled in a new order book target of RM2b in FY23. We expect SunCon to be among the front runners of the MRT3 mega rail project but we do not discount the possibility of further delays in the tender rollouts which should have taken place in Dec-22, due to the change in government that could see a revisiting of the costs and funding and realignments.

**Overseas ventures.** Like its larger counterparts, SunCon is also exploring more opportunities overseas. Recall that the group entered into an interim EPC agreement for the Song Hau 2 thermal power plant in Vietnam in December 2022. This is a USD2.2b (RM9.75b) project which will be undertaken via a 60:40 joint-venture with Power Engineering Consulting Joint Stock Company 2 and discussions on the terms and conditions are still ongoing. Once SunCon seals the deal, it will bring its outstanding order book to a record high level. Other than that, the group currently has RM562m of outstanding orderbook from its highway projects in India and RM481m of precast projects in Singapore.

#### RETURN STATISTICS

|  |               |
|--|---------------|
| Price @ 21 <sup>st</sup> Feb 2023 (RM) | <b>1.65</b>   |
| Expected share price return (%)        | <b>+21.21</b> |
| Expected dividend yield (%)            | <b>+3.00</b>  |
| <b>Expected total return (%)</b>       | <b>+24.21</b> |

#### SHARE PRICE CHART



| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month                     | 0.0      | 1.8      |
| 3 months                    | 5.8      | 11.8     |
| 12 months                   | 10.7     | 18.9     |

#### KEY STATISTICS


|                                  |                 |
|----------------------------------|-----------------|
| FBM KLCI                         | 1,474.01        |
| Syariah compliant                | Yes             |
| F4BGM Index                      | No              |
| ESG Grading Band (Star rating)   | N/A             |
| Issue shares (m)                 | 1289.36         |
| Estimated free float (%)         | 14.25           |
| Market Capitalisation (RM'm)     | 2,127.44        |
| 52-wk price range                | RM1.41 - RM1.74 |
| Beta vs FBM KLCI (x)             | 0.86            |
| 3-mth average daily volume (m)   | 0.72            |
| 3-mth average daily value (RM'm) | 1.11            |
| Top Shareholders (%)             |                 |
| Sunway Holdings Sdn Bhd          | 54.56           |
| Sungei Way Corp Sdn Bhd          | 10.08           |
| Employees Provident Fund Board   | 9.53            |

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**Improving sector conditions.** Management updated that they have since received 394 foreign workers as at Dec-22, out of the 400 that was approved by the Human Resources Ministry in Jun-22. They are in the midst of applying for a second batch of workers, of which 300 from a quota of 600 has been approved by the ministry last month. In terms of commodity prices, management guided that steel bar prices rose in Dec-22 and Jan-23 to about RM2,900 per tonne, after tapering down from Jun-22 until Nov-22 to RM2,600 per tonne.

**Earnings estimate.** We are revising our FY23 estimates upwards by +2.5% in revenue to RM2.36b and +7.2% in core earnings to RM147.4m, in light of the better FY22 performance and better margin expectations.

**Reiterate BUY.** SunCon remains one of our top picks for the construction sector premised on its ability to handle its margins well and a strong balance sheet, which is in a net cash position of RM95.6m. On top of the strong support and job flows from Sunway Group, we are optimistic on SunCon's prospects in securing infrastructure jobs such as the MRT3, though we do not discount the possibility of further delays. We also like that the SunCon is looking at taking on more overseas projects as a means of diversification. All factors considered, we reiterate our BUY recommendation on SunCon with an upgraded **TP of RM2.00**, derived by pegging its FY23F EPS of 11.4 sen to a PE ratio of 17.5x, which is +1SD above its five year mean. 

## INVESTMENT STATISTICS

| FYE 31st December<br>All in RM'm unless stated otherwise | 2020A     | 2021A     | 2022E     | 2023F     | 2024F      |
|--|-----------|-----------|-----------|-----------|------------|
| Revenue  | 1,552.7   | 1,729.2   | 2,155.2   | 2,364.7   | 2,637.10   |
| Net Operating Expenses                                   | (1,462.1) | (1,589.7) | (1,963.8) | (2,156.8) | (2,448.43) |
| Operating Profit   | 90.5      | 139.4     | 148.4     | 169.05    | 188.67     |
| Finance Income   | 13.8      | 4.2       | 13.9      | 19.43     | 18.35      |
| Finance Costs  | (6.9)     | (4.6)     | (18.0)    | (16.2)    | (10.93)    |
| JV and Associates  | 4.2       | 13.3      | 1.7       | 9.32      | 11.66      |
| Profit Before Tax  | 101.5     | 152.3     | 184.1     | 198.8     | 207.69     |
| Tax Expense  | (27.8)    | (41.5)    | (45.3)    | (55.0)    | (52.29)    |
| Reported Net Profit                                      | 72.8      | 112.6     | 135.2     | 147.4     | 160.86     |
| Core Net Profit  | 69.6      | 110.4     | 134.4     | 147.4     | 160.86     |
| Reported EPS (sen)                                       | 5.6       | 8.7       | 10.5      | 11.4      | 12.5       |
| Core EPS (sen)   | 5.4       | 8.7       | 10.4      | 11.4      | 12.5       |
| DPS (sen)  | 4.00      | 5.25      | 5.50      | 6.00      | 6.00       |
| Dividend Yield   | 2.3%      | 3.3%      | 2.9%      | 3.0%      | 3.0%       |

Source: Company, MIDFR

## SUNWAY CONSTRUCTION: 4QFY22 RESULTS SUMMARY

| All in RM'm unless stated otherwise | Quarterly Results |         |         |        |        | Cumulative |           |        |
|-------------------------------------|-------------------|---------|---------|--------|--------|------------|-----------|--------|
|                                     | Q422              | Q322    | Q421    | QoQ    | YoY    | FY22       | FY21      | YoY    |
| <b>Income Statement</b>             |                   |         |         |        |        |            |           |        |
| Revenue                             | 503.4             | 469.3   | 626.6   | 7.3%   | -20%   | 2,155.2    | 1,729.2   | 24.6%  |
| Net Operating Expenses              | (438.5)           | (428.0) | (541.7) | -2%    | 19%    | (1,963.7)  | (1,589.7) | -23.5% |
| Operating Profit                    | 64.3              | 36.9    | 84.9    | 74%    | -24%   | 148.4      | 139.4     | 6.5%   |
| Finance Income                      | 4.4               | 4.1     | 1.0     | 9%     | >+100% | 13.9       | 4.2       | >+100% |
| Finance Costs                       | (10.5)            | (3.2)   | (1.1)   | <-100% | <-100% | (18.0)     | (4.6)     | <-100% |
| JV and Associates                   | (2.0)             | (0.1)   | 6.2     | <-100% | <-100% | 1.7        | 13.3      | -87.2% |
| Profit Before Tax                   | 56.3              | 37.6    | 91.0    | 50%    | -38%   | 184.1      | 152.2     | 20.9%  |
| Tax Expense                         | (10.8)            | (13.6)  | (26.0)  | 21%    | 58%    | (45.3)     | (41.5)    | -9.2%  |
| Minority Interest                   | (0.1)             | 1.2     | 0.3     | <-100% | <-100% | 3.6        | (1.8)     | >+100% |
| Reported Net Profit                 | 45.6              | 22.7    | 64.7    | >+100% | -29%   | 135.2      | 112.6     | 20.1%  |
| Core Net Profit                     | 46.1              | 22.5    | 63.8    | >+100% | -28%   | 134.4      | 110.2     | 22.0%  |

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