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Sunway Construction Group Berhad

TP: RM1.73 (-8.5%)

Gaining Momentum in the Precast Segment

Last Traded: RM1.89

SELL (ESG: ★★★★★)

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Results Review

- SUNCON's 9MFY23 core profit of RM96.4mn came in within our expectation but below the consensus forecast, accounting for 71.9% and 68.7% of ours and consensus' full-year estimates, respectively.
- YoY, 9MFY23 core profit dropped 4.4% to RM96.4mn although revenue was 9.0% higher at RM1,799.7mn. The weaker bottom line was largely due to the construction segment. The PBT for the construction segment fell by 4.5% to RM116.9mn from RM122.3mn a year ago, as the profit margin in the preceding year was higher due to the finalisation of accounts for certain completed projects. Nevertheless, the precast segment's PBT doubled to RM11.0mn from RM5.4mn a year earlier thanks to higher revenue due to higher contributions from both integrated construction and prefabrication hubs in Singapore and newer projects.
- QoQ, 3QFY23 core profit jumped 18.7% to RM38.3mn while revenue was 11.5% higher at RM673.5mn. Both construction and precast segments mainly contributed to the stronger earnings performance.

Impact

- Maintain FY23 to FY25 earnings forecasts.

Outlook

- The group's current outstanding construction order book is around RM5.8bn, translating to about 2.7x FY22 revenue. YTD, the group has secured RM2.2bn of new contracts. Meanwhile, the group has an active tender book of about RM26.4bn. The group will continue focusing on bidding for jobs from niche segments such as data centres, semiconductor factories, and warehouses.

Valuation

- The target price is maintained at **RM1.73**, based on unchanged 14x CY24 earnings. Maintain a **Sell** call on the stock on valuation grounds.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.9
Market Cap (RMmn)	2443.6
52-wk Hi/Lo (RM)	1.99/1.41
12-mth Avg Daily Vol ('000 shrs)	534.9
Estimated Free Float (%)	12.5
Beta	0.7

Major Shareholders (%)

Sunholdings	54.6
Sungei Way Corp Sdn Bhd	10.1
Employee Provident Fund	10.0
Amanah Saham Nasional Bhd	6.4

Forecast Revision

	FY23	FY24
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	134.1	159.7
Consensus	140.4	161.6
TA's / Consensus (%)	95.5	98.8
Previous Rating	Sell (Maintained)	
Consensus Target Price	2.05	

Financial Indicators

	FY23	FY24
Net Debt / Equity (%)	Net Cash	Net Cash
CFPS (sen)	13.2	8.1
Price / CFPS (x)	14.3	23.4
ROA (%)	5.6	5.9
NTA/Share (RM)	59.3	63.6
Price/NTA (x)	3.2	3.0

Scorecard

	% of FY	
vs. TA	71.9	Within
vs. Consensus	68.7	Below

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(0.5)	1.3
3 mth	6.8	0.6
6 mth	9.9	2.2
12 mth	32.2	0.8

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2021	2022	2023F	2024F	2025F
Revenue	1,729.2	2,155.2	2,272.0	2,720.0	2,780.0
Gross profit	357.6	365.8	431.7	544.0	558.8
EBITDA	166.8	210.3	187.9	215.5	242.0
EBITDA margin (%)	9.6	9.8	8.3	7.9	8.7
EBIT	139.4	186.5	161.0	192.4	216.2
PBT	152.2	184.1	169.7	202.1	225.9
PAT	112.6	135.2	134.1	159.7	178.5
Core net profit	145.5	147.1	134.1	159.7	178.5
Core EPS (sen)	11.3	11.4	10.4	12.3	13.8
PER (x)	16.7	16.6	18.2	15.3	13.7
Gross dividend (sen)	5.3	5.3	8.0	8.0	8.0
Dividend yield (%)	2.8	2.8	4.2	4.2	4.2
ROE (%)	21.8	20.5	17.8	20.1	20.7

Table 2: 3QFY23 Results Analysis (RMmn)

FYE Dec	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY(%)
Revenue	469.3	604.1	673.5	11.5	43.5	1651.8	1799.7	9.0
- Construction	418.9	535.6	590.6	10.3	41.0	1529.7	1595.2	4.3
- Precast	50.3	68.5	83.0	21.0	64.8	122.1	204.5	67.4
Operating profit	36.9	46.7	54.1	15.9	46.7	122.2	142.5	16.6
Finance income	4.1	6.7	7.0	4.5	72.7	9.5	17.8	88.6
Finance costs	(3.2)	(11.5)	(13.0)	13.8	304.4	(7.6)	(32.8)	333.7
Profit before taxation	37.6	42.3	48.1	13.8	27.9	127.8	127.9	0.1
- Construction	35.1	39.0	41.6	6.6	18.7	122.3	116.9	(4.5)
- Precast	2.5	3.2	6.5	101.5	156.3	5.4	11.0	103.0
Income tax expense	(13.6)	(9.0)	(12.6)	40.1	(7.7)	(34.5)	(30.5)	(11.8)
Non-controlling interests	1.2	0.3	0.5	88.4	(59.6)	3.7	1.6	(57.2)
Net profit	22.7	33.0	35.0	6.1	54.1	89.5	95.8	7.0
- Construction	20.5	29.8	31.7	6.4	54.6	85.1	88.9	4.5
- Precast	2.2	3.2	3.3	2.9	50.0	4.4	6.9	56.7
Core net profit	27.1	32.3	38.3	18.7	41.6	100.8	96.4	(4.3)
Reported EPS (sen)	1.8	2.6	2.7	6.1	54.1	6.9	7.4	7.0
Core EPS (sen)	2.1	2.5	3.0	18.7	41.6	7.8	7.5	(4.3)
Dividend (sen)	0.0	3.0	0.0	(100.0)	na	3.0	3.0	0.0
Margin (%):				% pts	% pts			% pts
- Operating	7.9	7.7	8.0	0.3	0.2	7.4	7.9	0.5
- Construction	7.9	7.5	7.6	0.0	(0.3)	7.5	7.7	0.2
- Precast	7.5	9.1	11.4	2.2	3.9	6.2	9.7	3.4
- PBT	8.0	7.0	7.1	0.1	(0.9)	7.7	7.1	(0.6)
- PAT	5.1	5.5	5.3	0.3	(0.1)	6.1	5.4	(0.7)
- Effective tax rate	36.3	21.3	26.2	4.9	(10.1)	27.0	23.8	(3.2)

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★★★★★	★★★★
Remark	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build A Home, which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management, and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management, and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Wednesday, November 22, 2023, the analyst, Chan Mun Chun, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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