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Sunway Construction Group Berhad

TP: RM1.81 (+5.2%)
A Slow Start

Last Traded: RM1.72

Hold (ESG: ★★★★★)

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Results Review

- SUNCON's IQFY23 core profit of RM25.8mn came in below expectations, accounting for 15.9% and 16.9% of ours and consensus' full-year estimates. The variance was mainly due to lower-than-expected profit contributions from the construction segment.
- YoY, IQFY23 core profit fell 26.5% to RM25.8mn as revenue was 16.4% lower at RM522.1mn. The weaker earnings performance was mainly attributed to the construction segment. The PBT for the construction segment dropped by 21.5% to RM36.2mn from RM46.2mn a year ago, due to high base effect given that the group managed to accelerate the construction progress for certain projects in IQFY22. On top of that, some of the existing active projects were still at initial stage.
- QoQ, although IQFY23 revenue increased 3.7% to RM522.1mn, the group saw its core profit fall 44.2% to RM25.8mn, owing primarily to softer earnings performance from both construction and precast segments.

Impact

- Given the weaker-than-expected results, we adjust our revenue recognition assumptions for certain ongoing projects. Consequently, earnings forecasts for FY23/FY24/FY25 are reduced by 11.0%/6.8%/4.8%, respectively.

Outlook

- SUNCON's outstanding order book improved further from RM5.3bn a quarter ago to RM6.0bn, translating into 3.0x FY22 construction revenue. The group maintains its order book replenishment target of RM2.0bn for FY23. YTD, the group has secured RM1.3bn of new contracts. Meanwhile, the group has an active tender book of about RM22.7bn.

Valuation

- After revising the earnings forecasts, we revised the target price from RM1.94 to **RM1.81**, based on 13xCY24 earnings. Downgrade the stock from Buy to Hold.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.9
Market Cap (RMmn)	2223.8
52-wk Hi/Lo (RM)	1.79/1.41
12-mth Avg Daily Vol ('000 shrs)	322.0
Estimated Free Float (%)	14.1
Beta	0.7

Major Shareholders (%)

Sunholdings	- 54.6
Sungei Way Corp Sdn Bhd	- 10.1
Employee Provident Fund	- 9.2
Amanah Saham Nasional Bhd	- 5.5

Forecast Revision

	FY23	FY24
Forecast Revision (%)	(11.0)	(6.8)
Net profit (RMmn)	144.5	179.8
Consensus	153.2	160.4
TA's / Consensus (%)	94.4	112.1
Previous Rating	Buy (Downgraded)	
Consensus Target Price	1.94	

Financial Indicators

	FY23	FY24
Net Debt / Equity (%)	Net Cash	Net Cash
CFPS (sen)	12.4	3.8
Price / CFPS (x)	13.9	44.8
ROA (%)	5.9	6.4
NTA/Share (RM)	60.1	66.0
Price/NTA (x)	2.9	2.6

Scorecard

	% of FY	
vs. TA	15.9	Below
vs. Consensus	16.9	Below

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	1.2	(0.2)
3 mth	3.6	(3.1)
6 mth	20.3	(1.5)
12 mth	7.5	(8.4)

(12-Mth) Share Price relative to the FBMKLCI

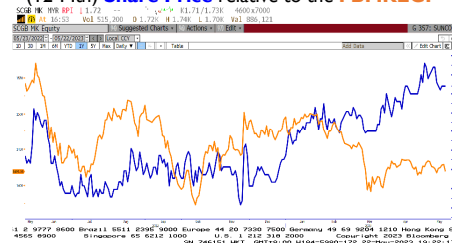


Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2021	2022	2023F	2024F	2025F
Revenue	1,729.2	2,155.2	2,422.0	2,950.0	3,050.0
Gross profit	357.6	365.8	460.2	590.0	613.1
EBITDA	166.8	210.3	201.1	241.0	261.8
EBITDA margin (%)	9.6	9.8	8.3	8.2	8.6
EBIT	139.4	186.5	174.3	217.9	236.0
PBT	152.2	184.1	183.0	227.6	245.7
PAT	112.6	135.2	144.5	179.8	194.1
Core net profit	145.5	147.1	144.5	179.8	194.1
Core EPS (sen)	11.3	11.4	11.2	13.9	15.0
PER (x)	15.2	15.1	15.4	12.4	11.5
Gross dividend (sen)	5.3	5.3	8.0	8.0	8.0
Dividend yield (%)	3.1	3.1	4.7	4.7	4.7
ROE (%)	21.8	20.5	19.1	22.1	21.6

Table 2: IQFY23 Results Analysis (RMmn)

FYE Dec	1Q22	4Q22	4Q23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY(%)
Revenue	624.7	503.4	522.1	3.7	(16.4)	624.7	522.1	(16.4)
- Construction	587.8	444.0	469.1	5.7	(20.2)	587.8	469.1	(20.2)
- Precast	36.9	59.4	53.0	(10.8)	43.6	36.9	53.0	43.6
Operating profit	42.9	64.3	41.7	(35.2)	(2.9)	42.9	41.7	(2.9)
Finance income	2.2	4.4	4.1	(7.0)	84.7	2.2	4.1	84.7
Finance costs	(1.2)	(10.5)	(8.3)	(21.1)	617.6	(1.2)	(8.3)	617.6
Profit before taxation	47.2	56.3	37.5	(33.4)	(20.5)	47.2	37.5	(20.5)
- Construction	46.2	51.0	36.2	(29.0)	(21.5)	46.2	36.2	(21.5)
- Precast	1.0	5.3	1.3	(75.6)	28.4	1.0	1.3	28.4
Income tax expense	(11.5)	(10.8)	(8.9)	(17.8)	(23.0)	(11.5)	(8.9)	(23.0)
Non-controlling interests	1.1	(0.1)	0.8	<(100.0)	(27.5)	1.1	0.8	(27.5)
Net profit	34.5	45.6	27.8	(39.0)	(19.4)	34.5	27.8	(19.4)
- Construction	33.8	41.7	27.5	(34.1)	(18.6)	33.8	27.5	(18.6)
- Precast	0.8	4.0	0.4	(91.0)	(52.8)	0.8	0.4	(52.8)
Core net profit	35.1	46.3	25.8	(44.2)	(26.5)	35.1	25.8	(26.5)
Reported EPS (sen)	2.7	3.5	2.2	(39.0)	(19.4)	2.7	2.2	(19.4)
Core EPS (sen)	2.7	3.6	2.0	(44.2)	(26.5)	2.7	2.0	(26.5)
Dividend (sen)	0.0	2.5	0.0	(100.0)	na	0.0	0.0	na
Margin (%):				% pts	% pts			% pts
- Operating	6.9	12.8	8.0	(4.8)	1.1	6.9	8.0	1.1
- Construction	7.1	12.2	8.0	(4.2)	1.0	7.1	8.0	1.0
- Precast	3.8	17.3	7.7	(9.6)	3.8	3.8	7.7	3.8
- PBT	7.6	11.2	7.2	(4.0)	(0.4)	7.6	7.2	(0.4)
- PAT	5.7	9.0	5.5	(4.2)	(0.7)	5.6	4.9	(0.7)
- Effective tax rate	24.4	19.2	23.7	4.5	(0.8)	24.4	23.7	(0.8)

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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 Tuesday, May 23, 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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