

Sunway Construction Group Berhad

TP: RM1.94 (+17.6%)

Earnings Driven by Both Construction and Precast Segments

Last Traded: RM1.65

Buy (ESG: ★★★★★)

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Results Review

- SUNCON's FY22 core profit of RM147.1mn came in above expectations, accounting for 111.5% and 116.4% of ours and consensus' full-year estimates. The positive variance was mainly due to higher-than-expected profit contributions from the India division.
- A second interim dividend of 2.5sen/share was declared, bringing full-year dividend to 5.5sen/share (FY21: 5.25sen/share).
- YoY, FY22 core profit increased 1.2% to RM147.1mn as revenue was 24.6% higher at RM2,155.2mn. The better earnings performance was mainly driven by both construction and precast segments.
- The PBT for the construction segment surged by 16.5% to RM173.3mn from RM148.8mn a year earlier, mainly due to the full resumption of construction activities in Malaysia as well as higher earnings contribution from the India division. Meanwhile, the precast segment saw its PBT jump 209.7% to RM10.7mn, from RM3.5mn a year ago, thanks to full resumption of economic activities in both Malaysia and Singapore.
- QoQ, 4QFY22 core profit grew 70.9% to RM46.3mn while revenue was 7.3% higher at RM503.4mn. The stronger performance was mainly due to higher earnings contribution from both construction and precast segments.

Impact

- Maintain FY23 and FY24 earnings forecasts. Meanwhile, we introduce FY25 numbers with a projected net profit of RM204.0mn, representing an earnings growth of 5.8%.

Outlook

- SUNCON's outstanding order book improved from RM4.0bn a quarter ago to RM5.3bn, translating into 2.7x FY22 construction revenue. The group has set an order book replenishment target of RM2.0bn for FY23. Meanwhile, the group has an active tender book of about RM21.3bn.

Valuation

- After rolling forward our valuation base year to CY24, we revise our target price from RM1.63 to **RM1.94**, based on 13xCY24 earnings. Upgrade the stock from Hold to **Buy**.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.9
Market Cap (RMmn)	2133.3
52-wk Hi/Lo (RM)	1.74/1.41
12-mth Avg Daily Vol ('000 shrs)	340.1
Estimated Free Float (%)	14.3
Beta	0.8

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 (%)	0.0	0.0
Net profit (RMmn)	162.3	192.8
Consensus	152.8	157.3
TA's / Consensus (%)	106.2	122.6
Previous Rating	Hold (Upgraded)	
Consensus Target Price	1.89	

Financial Indicators

	FY23	FY24
Net Debt / Equity (%)	9.0	4.0
CFPS (sen)	2.4	7.9
Price / CFPS (x)	70.0	20.8
ROA (%)	6.9	7.3
NTA/Share (RM)	61.8	68.7
Price/NTA (x)	2.7	2.4

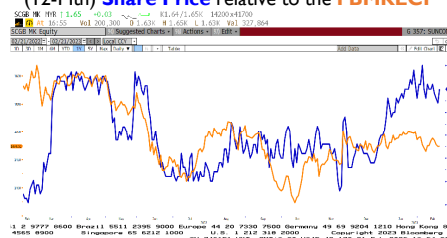
Scorecard

	% of FY	
vs. TA	111.5	Above
vs. Consensus	116.4	Above

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	0.0	(1.8)
3 mth	13.8	1.8
6 mth	3.1	(2.0)
12 mth	10.7	(6.9)

(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	2,672.0	3,220.0	3,350.0
EBITDA	166.8	210.3	221.8	256.1	271.6
EBITDA margin (%)	9.6	9.8	8.3	8.0	8.1
EBIT	139.4	186.5	196.8	234.4	248.5
PBT	152.2	184.1	205.5	244.1	258.2
PAT	112.6	135.2	162.3	192.8	204.0
Core net profit	145.3	147.1	162.3	192.8	204.0
Core EPS (sen)	11.3	11.4	12.6	14.9	15.8
PER (x)	14.6	14.5	13.1	11.1	10.5
Gross dividend (sen)	5.3	5.5	8.0	8.0	8.0
Dividend yield (%)	3.2	3.3	4.8	4.8	4.8
ROE (%)	21.8	19.1	21.1	22.9	21.7

Table 2: 4QFY22 Results Analysis (RMmn)

FYE Dec	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY(%)
Revenue	626.6	469.3	503.4	7.3	(19.7)	1729.2	2155.2	24.6
- Construction	579.9	418.9	444.0	6.0	(23.4)	1606.2	1973.6	22.9
- Precast	46.7	50.3	59.4	18.1	27.3	122.9	181.6	47.7
Operating profit	84.9	36.9	64.3	74.4	(24.2)	139.4	186.5	33.8
Finance income	1.0	4.1	4.4	8.5	321.8	4.2	13.9	234.1
Finance costs	(1.1)	(3.2)	(10.5)	225.0	867.9	(4.6)	(18.0)	293.3
Profit before taxation	91.0	37.6	56.3	49.7	(38.1)	152.2	184.1	20.9
- Construction	88.7	35.1	51.0	45.4	(42.5)	148.8	173.3	16.5
- Precast	2.3	2.5	5.3	109.2	132.5	3.5	10.7	209.7
Income tax expense	(26.0)	(13.6)	(10.8)	(20.9)	(58.5)	(41.5)	(45.3)	9.2
Non-controlling interests	0.3	1.2	(0.1)	<(100.0)	<(100.0)	(1.8)	3.6	<(100.0)
Net profit	64.7	22.7	45.6	101.0	(29.5)	112.6	135.2	20.1
- Construction	62.7	20.5	41.7	103.3	(33.5)	109.6	126.8	15.7
- Precast	2.0	2.2	4.0	79.1	95.8	3.0	8.4	178.2
Core net profit	92.2	27.1	46.3	70.9	(49.8)	145.3	147.1	1.2
Reported EPS (sen)	5.0	1.8	3.5	101.0	(29.5)	8.7	10.5	20.1
Core EPS (sen)	7.2	2.1	3.6	70.9	(49.8)	11.3	11.4	1.2
Dividend (sen)	4.0	0.0	2.5	na	(37.5)	5.3	5.5	4.8
Margin (%):				% pts	% pts			% pts
- Operating	13.5	7.9	12.8	4.9	(0.8)	8.1	8.7	0.6
- Construction	14.2	7.9	12.2	4.3	(2.0)	8.4	8.5	0.1
- Precast	5.8	7.5	17.3	9.8	11.5	3.7	9.9	6.2
- PBT	14.5	8.0	11.2	3.2	(3.3)	8.8	8.5	(0.3)
- PAT	10.4	5.1	9.0	3.4	(5.5)	8.4	6.8	(1.6)
- Effective tax rate	28.6	36.3	19.2	(17.1)	(9.4)	27.3	24.6	(2.6)

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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, February 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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