

### COMPANY RESULTS

## Sunway Construction (SCGB MK)

2Q23: Within Expectations

Suncon's 1H23 earnings came in within expectations, despite accounting for only 41% of our forecasts and 39% of consensus estimates. We anticipate higher earnings in 2H23 underpinned by stronger progress billing as well as improved labour intake. The group's near-term earnings outlook remains promising backed by its robust outstanding orderbook of RM5.8b as of end-2Q23 (2.7x cover ratio of its 2022 revenue). **Maintain HOLD. Target price: RM1.69.**

### 2Q23 RESULTS

Year to 31 Dec (RMm)	2Q23	qoq % chg	yoy % chg	1H23	yoy % chg	Comments
Revenue	604.1	15.7	7.4	1,126.2	(4.8)	Lower progress billing
- Construction	535.6	14.2	2.1	1,004.7	(9.5)	
- Precast Concrete	68.5	29.3	91.2	121.5	69.3	
Operating profit	46.7	12.0	10.1	88.4	3.6	Slightly higher EBIT margins
- Construction	40.4	7.4	1.2	78.0	(4.2)	
- Precast Concrete	6.3	54.5	269.9	10.3	167.3	
Pre-tax Profit	42.3	12.7	(1.5)	79.8	(11.5)	Higher finance costs
PATAMI	33.0	18.6	2.0	60.8	(9.0)	
Core PATAMI	32.3	25.0	(15.2)	58.1	(19.9)	
Margins	%	+/-ppt	+/-ppt	%	+/-ppt	
EBIT:	7.7	-0.3	0.1	7.8	0.6	
- Construction	7.5	-0.5	-0.1	7.8	0.4	High base in 2Q22
- Precast Concrete	9.1	1.5	2.1	8.5	3.1	
PBT	7.0	-0.2	-0.7	7.1	-0.5	
Core PATMI	5.3	0.4	-1.4	5.2	-1.0	

Source: Sunway Construction, UOB Kay Hian

### RESULTS

• **1H23 earnings within expectation.** Sunway Construction (Suncon) reported a core net profit of RM32.3m (+25.0% qoq, -15.2% yoy) on the back of a revenue of RM604.1m (+15.7% qoq, +7.4% yoy). This brought 1H23 core net profit to RM58.1m (-19.9% yoy) which we deem within expectations despite accounting for only 41% of our forecasts and 39% of consensus estimates. This is premised on anticipations of higher earnings in 2H23 underpinned by stronger progress billing as well as improved labour intake. The group also declared a first interim dividend of 3 sen/share which represents a 64% payout ratio.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,729	2,155	3,156	3,107	3,156
EBITDA	167	210	234	254	265
Operating profit	139	187	200	222	233
Net profit (rep./act.)	113	135	138	153	162
Net profit (adj.)	113	135	138	153	162
EPS (sen)	8.7	10.5	10.7	11.8	12.5
PE (x)	20.6	17.2	16.9	15.2	14.4
P/B (x)	3.3	3.1	2.9	2.7	2.5
EV/EBITDA (x)	15.2	12.1	10.8	10.0	9.6
Dividend yield (%)	2.9	3.1	3.7	4.0	4.2
Net margin (%)	6.5	6.3	4.4	4.9	5.1
Net debt/(cash) to equity (%)	25.4	9.9	16.0	16.0	17.0
Interest cover (x)	387.8	50.6	19.5	17.4	20.7
Consensus net profit	-	-	149	161	170
UOBKH/Consensus (x)	-	-	0.92	0.95	0.95
UOBKH/Consensus (x)	-	-	-	12.45	2.56

Source: Sunway Construction, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM1.80
Target Price	RM1.69
Upside	-5.9%
(Previous TP)	RM1.57)

### COMPANY DESCRIPTION

A leading construction company in Malaysia.

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,289.4
Market cap (RMm):	2,320.8
Market cap (US\$m):	498.1
3-mth avg daily t'over (US\$m):	0.2
Price Performance (%)	

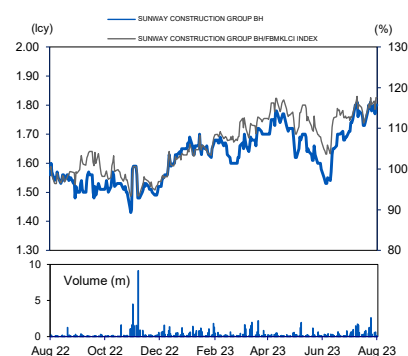
52-week high/low RM1.81/RM1.43

1mth	3mth	6mth	1yr	YTD
6.5	6.5	7.8	16.1	15.4

### Major Shareholders

Shareholder	%
Sunway Berhad	54.6
Sungei Way Corp Sdn Bhd	10.1
Employees Provident Fund	9.8
FY23 NAV/Share (RM)	0.62
FY23 Net Debt/Share (RM)	0.10

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- Construction division dragged by yoy weaker margins.** The construction division reported a profit before tax (PBT) of RM39.1m (+8.0% qoq, -4.9% yoy) on a higher revenue of RM535.6m (+14.2% qoq, +2.4% yoy) in 2Q23. We understand that the higher revenue mainly stemmed from improved progress of newer projects. However, we highlight that 2Q23 PBT was weaker yoy due to lower profit margins as a result of the high-base effect in 2Q22 on finalisation of accounts for completed projects.
- Resilient precast segment.** The precast segment's PBT more than doubled RM3.2m (+146.2% qoq, +68.4% yoy) on a higher revenue of RM68.5m (+29.2% qoq, +96.3% yoy) largely due to the increased progress in Integrated Construction & Prefabrication Hub (ICPH) projects. Singapore's Housing and Development Board (HDB) launched 9,908 flats in Feb-May 23 and is planning to launch 6,700 more in Sep 23. Furthermore, the HDB aims to launch up to 100,000 flats between 2021 and 2025, adjusting based on housing demand. This should further propel earnings growth for Suncon's precast division given that HDB flats typically contribute to >90% of the precast sales.

### STOCK IMPACT

- On track to hit RM2b replenishment target.** Suncon's near-term earnings outlook remains promising backed by its robust outstanding orderbook of RM5.8b as of end-2Q23 (2.7x cover ratio of its 2022 revenue). Furthermore, the group is on track to achieve its targeted orderbook replenishment of RM2.0b, having already secured a number of new projects collectively valued at RM1.6b as of ytd. That said, we believe Suncon will be able to consistently replenish its orderbook from an active tenderbook of >RM27.0b amid a better construction sector outlook.
- Potential awards of mega infrastructure projects in 2H23.** We also remain upbeat on Suncon's potential involvement in upcoming mega infrastructure projects for the likes of Mass Rapid Transit 3 (MRT3) and Bayan Lepas Light Rail Transit (BLLRT). It is worth highlighting that both projects are widely anticipated to be awarded in 2H23 which pave the path for tremendous job flows for local contractors. Recall that Suncon previously submitted bids for CMC301 and CMC302 under MRT3's packages in 3Q22. CMC301 involves the depot segment and a 6KM elevated section while CMC302 entails a 27km elevated section and 1.2km of ground tunnels. The company is also eyeing a part in BLLRT, with its bid submitted in 4Q22 and pre-qualification validity extended to Jul 23.

### EARNINGS REVISION/RISK

- Raise 2024/25 earnings forecasts by 18%/6%,** as we factor in higher orderbook replenishment assumptions while increasing the construction division's profit margins to account for greater economies of scale.

### VALUATION/RECOMMENDATION

- Maintain HOLD with a higher target price of RM1.69,** upon rolling forward our valuation base year to 2024. Our target price implies a 2024F PE of 14x, which is in line with the Bursa Malaysia Construction Index's one-year forward PE. The group's fundamentals remain sound underpinned by its proven capability to clinch a balanced mix of external and internal projects which ultimately leads to decent earnings visibility for the next two to three years.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

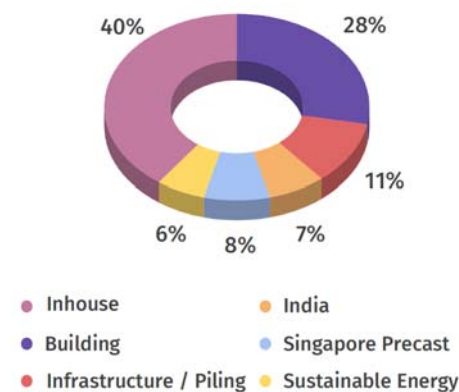
<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>- Mitigate the release of emissions, biodiversity impacts, waste disposal, pollution.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li>- Work with local authorities and communities to ensure projects' success.</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>- Independent directors (four out of seven) comprise the majority of the board.</li> </ul> </li> </ul>
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### OUTSTANDING ORDERBOOK AS OF END-2023

Projects	(RMm)
STeP Data Centre	1,593
RTS Link Package 1B & 5	587
LRT 3 GS06-08	67
Sustainable Energy	346
India Highway	403
Others	43
<b>Total External (A)</b>	<b>3,039</b>
Sunway Belfield	202
South Quay Square Superstructure	417
South Quay Square Superstructure VO	607
Sunway Carnival Refurbishment	253
Sunway Velocity 2B	112
Sunway Medical Centre Damansara	153
Sunway Medical Centre Ipoh + VO	165
Sunway Flora	266
Others	110
<b>Total Internal (B)</b>	<b>2,285</b>
Precast Concrete (C)	451
<b>Grand Total (A+B+C)</b>	<b>5,775</b>

Source: Suncon

### ORDERBOOK BREAKDOWN



Source: Suncon

### ORDERBOOK REPLENISHMENT ASSUMPTIONS

(RMm)	2022	2023F	2024F	2025F
Construction	2,500	2,000	1,800	1,800
Precast Concrete	170	250	250	250

Source: Suncon, UOB Kay Hian

### VALUATION

	(RMm)	Valuation (RMm)	Remarks
2024F net profit (ex net interest cost)	167	2,173	13x PE
End-22 net debt		11	
<b>Total SOTP</b>		<b>2,184</b>	
Share base		1,289	
TP (RM)		1.69	

Source: Suncon, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	2,155	3,156	3,107	3,156
EBITDA	210	234	254	265
Deprec. & amort.	24	34	32	32
EBIT	187	200	222	233
Associate contributions	2	0	0	0
Net interest income/(expense)	(4)	(12)	(15)	(13)
Pre-tax profit	184	188	207	220
Tax	(45)	(46)	(50)	(53)
Minorities	(4)	(4)	(5)	(6)
Net profit	135	138	153	162
Net profit (adj.)	135	138	153	162

### CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	(215)	83	127	127
Pre-tax profit	184	188	207	220
Tax	(51)	(46)	(50)	(53)
Deprec. & amort.	24	34	32	32
Working capital changes	(382)	(97)	(62)	(72)
Other operating cashflows	10	5	0	0
Investing	424	(52)	(45)	(49)
Capex (growth)	(27)	(52)	(45)	(49)
Proceeds from sale of assets	25	0	0	0
Others	426	0	0	0
Financing	143	69	(129)	(146)
Dividend payments	(90)	(86)	(92)	(98)
Proceeds from borrowings	239	155	(37)	(47)
Others/interest paid	(6)	0	0	0
Net cash inflow (outflow)	351	101	(47)	(67)
Beginning cash & cash equivalent	61	408	508	461
Changes due to forex impact	(4)	0	0	0
Ending cash & cash equivalent	408	508	461	395

### BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	108	126	138	155
Other LT assets	491	491	491	491
Cash/ST investment	408	508	461	395
Other current assets	1,230	1,642	1,616	1,638
<b>Total assets</b>	<b>2,236</b>	<b>2,768</b>	<b>2,707</b>	<b>2,679</b>
ST debt	172	222	209	193
Other current liabilities	931	1,247	1,158	1,108
LT debt	309	413	389	358
Other LT liabilities	3	3	3	3
Shareholders' equity	737	794	855	918
Minority interest	84	88	93	98
<b>Total liabilities &amp; equity</b>	<b>2,236</b>	<b>2,768</b>	<b>2,707</b>	<b>2,679</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	9.8	7.4	8.2	8.4
Pre-tax margin	8.5	6.0	6.7	7.0
Net margin	6.3	4.4	4.9	5.1
Net profit (adj.)	20.1	1.7	10.9	6.0
<b>Leverage</b>				
Debt to total capital	36.9	41.9	38.7	35.1
Debt to equity	65.2	80.0	70.0	60.0
Net debt/(cash) to equity	9.9	16.0	16.0	17.0
Interest cover (x)	50.6	19.5	17.4	20.7

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