

"FY23 results above expectations;
good prospects in 2024"

Share price performance



	1M	3M	12M
Absolute (%)	19.2	35.9	61.1
Rel KLCI (%)	13.9	27.4	52.7

	BUY	HOLD	SELL
Consensus	10	4	1

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US\$m)	3,365.2/701.2
Avg daily vol - 6mth (m)	1.1
52-wk range (RM)	1.53-2.73
Est free float	13.5%
Stock Beta	0.87
Net cash/(debt) (RMm)	(385.2)
ROE (2023E)	18.9%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good	NA
Constituent	
FBM EMAS (Top 200)	NA
ESG Rank	
ESG Risk Rating	27.9 (+1.5 yoy)

Key Shareholders

Sunway Holdings	54.6%
Sungei Way Corp	10.1%
EPF	9.0%
ASN	6.4%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Loong Chee Wei, CFA

T (603) 2146 7548

E cheewei.loong@affinhwang.com

Sunway Construction (SCGB MK)

BUY (maintain)

Up/Downside: +11.1%

Price Target: RM2.90

Previous Target (Rating): RM2.26 (BUY)

Strong finish to the year

- Sunway Construction's (SunCon) core net profit grew 6% yoy to RM152m in 2023, which was above expectations, with the ramp up in revenue in 4Q23
- SunCon secured RM2.5bn of new contracts in 2023, replenishing its order book to RM5.3bn. We raise core EPS by 10-14% in 2024-25E to reflect higher new contract wins (RM3bn in 2024-25E) and profit margins
- SunCon remains a top sector mid-cap BUY with a higher 12-month RNAV-based target price (TP) of RM2.90

Above expectations

SunCon's core net profit of RM152m (+6% yoy) in 2023 was higher than market and our forecasts of RM139-140m. Revenue jumped 24% yoy to RM2.67bn in 2023 as new projects kicked in. Similarly, EBIT increased 19% yoy to RM231.3m with sustained operational profitability. However, PBT only grew by 3% yoy to RM188.6m in 2023, mainly due to higher interest expense. Construction PBT eased 2% yoy to RM169.9m in 2023 due to a slightly lower profit margin. Net exceptional and forex losses reduced the net profit to RM145.1m (+7% yoy) in 2023. Its net gearing increased to 43% at end-2023 from a net cash of RM54.6m at end-2022 due to debt funding for 2 Indian highway concessions and deferred payment for 2 Large-Scale Solar Phase 4 (LSS4) projects.

Both segments saw better earnings in 4Q23

Pre-cast concrete PBT surged 75% yoy to RM18.7m on higher revenue (+60% yoy), mainly due to the maiden contribution from its new Industrial Concrete Products Hub (ICPH) in Singapore. Construction PBT margin eased marginally to 7.1% in 2023 compared to 8.8% in 2022. Core earnings grew 48% qoq and 22% yoy to RM56.2m in 4Q23. The strong sequential quarterly performance in 4Q23 was driven by better earnings for both the construction and pre-cast concrete segments.

Reiterate BUY with higher TP of RM2.90

SunCon's high remaining order book of RM5.3bn at end-2023, equivalent to 2x its 2023 revenue, should sustain its construction activities and earnings in 2024-25E. It secured RM2.5bn worth of new contracts in 2023 and exceeded its RM2bn target, with good prospects to expand its order book with an active tender book of RM26.3bn. It submitted bids for the Klang Valley MRT Line 3 (MRT3) Package CMC301 and CMC302, a Vietnam coal-fired power plant, Penang LRT (pre-qualification bid), 4 data centres, warehouses and semiconductor plant projects. We raise our RNAV-based TP to RM2.90 from RM2.26 assuming higher sustainable earnings for the construction and pre-cast concrete segments. SunCon has set a more aggressive new contract win target of RM2.5-3.0bn in 2024. Key downside risks: a slow roll-out of infrastructure projects and higher building material and labour costs.

Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	2,155.2	2,671.2	3,115.5	3,298.0	3,347.2
EBITDA (RMm)	218.9	252.4	274.4	295.4	330.8
Pretax profit (RMm)	184.1	188.6	214.7	229.8	263.2
Net profit (RMm)	135.2	145.1	162.4	173.9	199.3
EPS (sen)	10.5	11.3	12.6	13.5	15.5
PER (x)	24.9	23.2	20.7	19.4	16.9
Core net profit (RMm)	143.8	152.2	162.4	173.9	199.3
Core EPS (sen)	11.1	11.8	12.6	13.5	15.5
Core EPS growth (%)	(0.6)	5.9	6.7	7.0	14.6
Core PER (x)	23.4	22.1	20.7	19.4	16.9
Net DPS (sen)	5.5	6.0	6.5	7.0	8.0
Dividend Yield (%)	2.1	2.3	2.5	2.7	3.1
EV/EBITDA	15.2	14.9	14.2	13.3	11.8
Chg in EPS (%)			+14.4	+10.0	New
Affin/Consensus (x)			1.0	1.0	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	2022	2023	YoY % chg	FY23 Comment
Revenue	503.4	673.5	871.5	29.4	73.1	2,155.2	2,671.2	23.9	FY23: Higher construction (+23% yoy) and pre-cast concrete (+48% yoy) revenue with commencement of its ICPH operation.
Op costs	(433.0)	(611.3)	(777.6)	27.2	79.6	(1,936.4)	(2,418.9)	24.9	
EBITDA	70.4	62.2	93.9	50.8	33.4	218.9	252.4	15.3	
<i>EBITDA margin (%)</i>	<i>14.0</i>	<i>9.2</i>	<i>10.8</i>	<i>1.5 ppt</i>	<i>(3.2 ppt)</i>	<i>10.2</i>	<i>9.4</i>	<i>(0.7 ppt)</i>	Lower profit margin, mainly due to lower construction profit margin, partly offset by improved precast concrete manufacturing efficiency.
Deprn and amort	(5.6)	(5.2)	(5.2)	0.2	(6.6)	(23.8)	(21.0)	(11.6)	
EBIT	64.8	57.0	88.7	55.5	36.8	195.1	231.3	18.6	
<i>EBIT margin (%)</i>	<i>12.9</i>	<i>8.5</i>	<i>10.2</i>	<i>1.7 ppt</i>	<i>(2.7 ppt)</i>	<i>9.1</i>	<i>8.7</i>	<i>(0.4ppt)</i>	
Interest income	4.4	7.0	8.6	22.5	94.9	13.9	26.4	90.6	Higher returns on cash despite lower cash balance.
Interest expense	(10.5)	(13.0)	(15.2)	16.4	44.8	(18.0)	(47.9)	165.8	Higher net debt for concessions and deferred payment construction projects.
Associates	(2.0)	0.0	(14.5)	100.0	636.8	1.7	(14.1)	NA	
Forex gain (losses)	0.9	(0.9)	(1.6)	84.5	(275.3)	2.1	(1.7)	NA	
Exceptional items	(1.4)	(2.0)	(5.2)	159.0	271.2	(10.7)	(5.4)	(49.7)	
Pretax profit	56.3	48.1	60.8	26.3	7.9	184.1	188.6	2.5	Higher construction PBT (+17% yoy) and pre-cast concrete PBT (+210% yoy).
Tax	(10.8)	(12.6)	(12.3)	(2.0)	14.3	(45.3)	(42.8)	(5.6)	
<i>Tax rate (%)</i>	<i>18.5</i>	<i>26.2</i>	<i>16.4</i>	<i>(9.8 ppt)</i>	<i>(2.1 ppt)</i>	<i>24.9</i>	<i>21.1</i>	<i>(3.7ppt)</i>	
Minority interests	0.1	(0.5)	0.8	NA	>100	(3.6)	(0.7)	(79.3)	
Net profit	45.6	35.0	49.3	40.7	7.9	135.2	145.1	7.3	Above expectations.
EPS (sen)	3.5	2.7	3.8	40.4	7.9	10.5	11.3	7.2	
Core net profit	46.1	37.9	56.2	48.0	21.8	143.8	152.2	5.8	Above expectations. Exclude one-off items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	2022	2023	YoY % chg
Construction	444.0	590.6	785.8	33.1	77.0	1,973.6	2,381.0	20.6
Precast concrete	59.4	83.0	85.7	3.3	44.2	181.6	290.2	59.8
Total	503.4	673.5	871.5	29.4	73.1	2,155.2	2,671.2	23.9

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	2022	2023	YoY % chg
Construction	51.0	41.6	53.0	27.4	4.0	173.3	169.9	(2.0)
Precast concrete	5.3	6.5	7.7	19.2	46.0	10.7	18.7	74.8
Total	56.3	48.1	60.8	26.3	7.9	184.1	188.6	2.5

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	4Q22	3Q23	4Q23	QoQ ppt chg	YoY ppt chg	2022	2023	YoY ppt chg
Construction	11.5	7.0	6.7	(0.3)	(4.7)	8.8	7.1	(1.6)
Precast concrete	8.9	7.8	9.0	1.2	0.1	5.9	6.5	0.6
Total	11.2	7.1	7.0	(0.2)	(4.2)	8.5	7.1	(1.5)

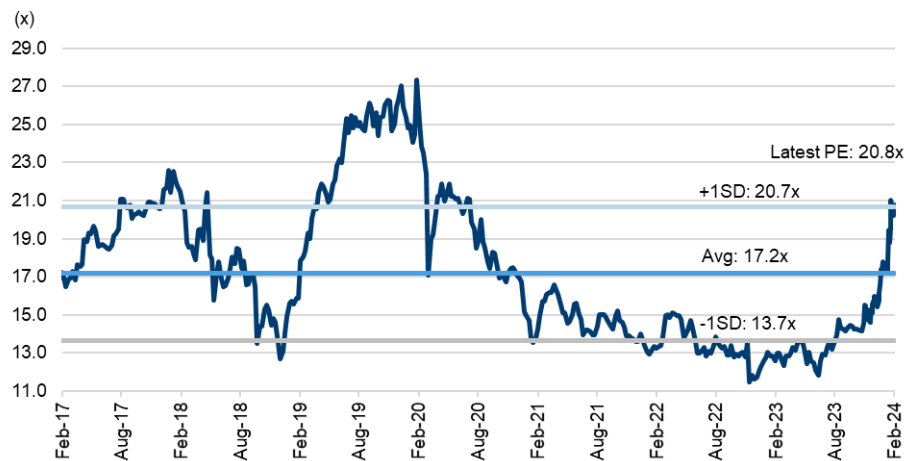
Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PER 16x sustainable earnings of RM200m	100	3,200	2,560	25
Pre-cast concrete @ PER 16x sustainable earnings of RM40m	100	640	400	60
Investment in Singapore IPPH JV @ book value	50	47	44	7
Book value of Indian highways	60	64	61	100
Net cash/(debt)		(214)	(152)	41
RNAV		3,737	2,913	28
No. of shares (m)		1,291	1,291	0
RNAV/share (RM)		2.90	2.26	28
Target price		2.90	2.26	28

Source: Affin Hwang, Company

Fig 5: 12-month forward PER



Source: Affin Hwang, Bloomberg



Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Copyright © 2021 Sustainalytics. All rights reserved.

This report contains information developed by Sustainalytics. Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third-Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com

