

HLIB Research

PP 9484/12/2012 (031413)

Edwin Woo, CFA
ckwoo@hlib.hongleong.com.my

(603) 2083 1718

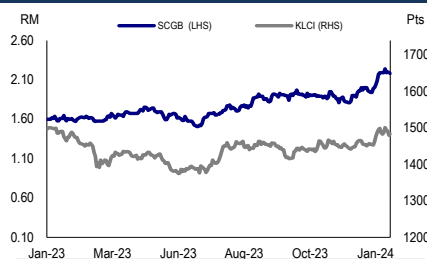
BUY (Maintain)

Target Price: RM2.95
Previously: RM2.95
Current Price: RM2.61

Capital upside	13.0%
Dividend yield	2.3%
Expected total return	15.3%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	21.2	39.2	59.4
Relative	20.1	35.4	56.6

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	3,374
3-mth average volume ('000)	634
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Berhad	54.6%
EPF	8.9%

Earnings summary

FYE (Dec)	FY23	FY24f	FY25f
PATMI - core (RM m)	150.4	172.5	200.7
EPS - core (sen)	11.6	13.3	15.5
P/E (x)	22.4	19.6	16.8

Sunway Construction Group

Big finish

SunCon reported FY23 earnings of RM150.4m beating our expectations. We see multiple upside risks to management's FY24 wins target given vibrant data centre & industrial markets, potential formalisation of its Vietnam project and mega rail rollout. Precast segment should continue to benefit from healthy demand in SG. No change to forecasts. Maintain BUY with unchanged TP of RM2.95. SunCon is a proxy to coming infrastructure project rollouts, vibrant advanced technology facilities sector and a growing parent-co empire.

Beats expectations. SunCon reported 4QFY23 results with revenue of RM871.5m (+29.4% QoQ, +73.1% YoY) and core PATAMI of RM51.6m (+36.5% QoQ, +12.1% YoY). This brings FY23 core PATAMI to RM150.4m, increasing by 4.5% YoY. Results beat our but were within consensus expectations at 109% and 102% of full year forecasts.

Els. We adjust SunCon's 4QFY23 earnings by: (i) RM23.3m of receivables impairment and (ii) RM21m of settlement gain from legacy projects in India.

Dividends. DPS of 3.0 sen going ex. on 14-Mar-24 was declared (FY22: 5.5 sen; FY23: 6.0 sen)

QoQ. Core PATAMI surged by 36.5% with revenue also growing by 29.4%. The construction segment was key to the sequential growth as billings picked up by 33.1% while segment PBT exhibited a similar increase. Acceleration was seen at both LSS4 projects as well as ramp up of newly secured projects which drove the segment. The quarter saw increasing contribution from the precast division, as top-line and PBT expanded by 3.3% and 18.5%, marking three consecutive quarters of expansion.

YoY. Core PATAMI increased by 12.1% even as revenue surged by 73.1% (Construction: +77.0%; Precast: +44.0%). Construction was driven by accelerated progress for new projects while precast growth came from additional ICPH capacity. Nevertheless, weaker construction margins diluted the top-line improvements as 4QFY22 margins were enhanced by finalisation of accounts.

YTD. Core PATAMI came in higher by 4.5% as revenue for both construction (peak progress in India & LSS4) and precast (ICPH driven) divisions expanded by 20.6% and 59.8% respectively. Group bottom-line however, was slowed down by relatively lower construction margins achieved – FY22 saw finalisation of accounts for completed projects.

Orderbook. Latest outstanding orderbook stands at RM5.3bn (2.0x cover on FY23 revenue). FY23 job wins of RM2.5bn matched our expectations but beat management's target. In FY24, SunCon is poised to grow its annual replenishment to RM2.5-3.0bn, higher than its typical RM2.0bn target. Making up its RM2.5-3.0bn target are ~RM1bn internal projects with the remaining RM1.5-2.0bn from external projects such as data centres, precast, warehouses & factories. We expect to see some contracts flowing in by 1QCY24. Additionally, we see multiple upside risks to management's conservative target given that projects like Free Commercial Zone (FCZ) in Iskandar Puteri (Phase 1 to be completed by 2025), mixed development Cochrane project, MRT3 (CMC301 and 302: ~RM13bn) and Song Hau 2 power plant (RM6.3bn) was not included. This adds to opportunities coming on top a vibrant data centre market.

Precast. Its precast division registered revenue of RM290.2m (+59.8% YoY; +50.3% excluding forex effect) coming in towards the higher end of management's guidance. This was achieved on the back of additional capacity from its ICPH plant. We

continue to expect stronger precast contribution going forward. Typically, SunCon maintains a tenderbook of SGD500m focusing on residential products (HDB projects). 2024 HDB launches remains healthy at 19.6k and current strength of SGD vs MYR will aid in boosting margins to its precast division.

Forecast. Despite the earnings beat, we conservatively maintain our forecasts.

Maintain BUY, TP: RM2.95. Maintain BUY with unchanged TP of RM2.95. TP is derived by pegging FY25 EPS to 19.0x (from 15x) P/E multiple based on 5 year average P/E multiple. SunCon is a proxy to coming infrastructure project rollouts, vibrant advanced technology facilities sector and a growing parent-co empire.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	503.4	673.5	871.5	29.4	73.1	2,155.2	2,671.2	23.9
EBIT	64.7	56.9	84.1	47.8	30.0	196.6	229.6	16.8
Finance income	4.4	7.0	8.6	22.5	94.9	12.5	26.4	111.1
Finance cost	(10.5)	(13.0)	(15.2)	16.4	44.8	(18.0)	(47.9)	165.8
PBT	56.7	50.9	63.1	24.0	11.3	192.8	194.0	0.6
PAT	45.9	38.3	50.8	32.5	10.6	147.4	151.2	2.5
Core PATMI	46.0	37.8	51.6	36.5	12.1	143.9	150.4	4.5
Reported PATMI	45.6	35.0	49.3	40.7	7.9	135.2	145.1	7.3
Core EPS (sen)	3.6	2.9	4.0	36.5	12.1	11.1	11.6	4.5
EBIT margin (%)	12.9	8.4	9.7			9.1	8.6	
PBT margin (%)	11.3	7.6	7.2			8.9	7.3	
PATMI margin (%)	9.1	5.6	5.9			6.7	5.6	

HLIB Research, Bursa

Figure #2 Financial forecast

FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	1,729.2	2,155.2	2,671.2	2,722.1	3,016.7
EBITDA	199.6	219.0	250.6	280.6	310.2
EBIT	172.2	195.2	229.6	251.5	279.8
PBT	185.0	192.8	194.0	226.3	263.3
PAT	143.5	147.4	151.2	176.9	205.8
PATMI – Core	145.3	143.9	150.4	172.5	200.7
PATMI – Reported	112.6	135.2	145.1	172.5	200.7
Core EPS (sen)	11.2	11.1	11.6	13.3	15.5
P/E (x)	23.2	23.5	22.4	19.6	16.8
EV/EBITDA (x)	17.3	15.7	13.8	12.3	11.1
DPS (sen)	5.3	5.5	6.0	6.0	6.5
Yield (%)	2.0%	2.1%	2.3%	2.0%	2.6%
BVPS (RM/share)	0.5	0.6	0.6	0.7	0.8
P/B (x)	4.8	4.6	4.2	3.7	3.3
ROE (%)	22%	20%	18%	20%	21%
Net Gearing (%)	19%	CASH	51%	CASH	CASH

HLIB Research

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 20 February 2024, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 20 February 2024, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.