

21 February 2024

Sunway Construction Group

Ends FY23 on a High Note

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SUNCON's FY23 results beat expectations on robust progress billings during the final quarter. It raised its guidance for new job wins in FY24 to RM3b (from RM2.5b). We maintain our FY24F earnings forecast and project a 33% earnings growth in FY25F. We lift our TP by 33% to RM3.00 (from RM2.26). Maintain OUTPERFORM.

SUNCON's FY23 core profit of RM170.1m beat our forecast and the consensus estimate by a whopping 25% and 22%, respectively. The variance against our forecast came largely from stronger-than-expected progress billings during 4QFY23. It declared a 2nd interim NDPS of 3.0 sen (ex-date: 14 Mar; 09 Apr), bringing FY23 NDPS to 6.0 sen against 5.5 sen paid in FY22 and our FY23 assumption of 5.0 sen.

YoY, its FY23 revenue leapt 24% to RM2.67b largely due to higher revenue recorded in 4QFY23, attributable to accelerated progress in newer projects. As such, its FY23 core profit grew 18% to RM170.1m. Note that its interest cost jumped 91% to RM26.4m, largely from borrowings to fund its projects in India.

QoQ, its 4QFY23 revenue soared 29% while core profit almost doubled to RM74.0m due to higher progress billings from sustainable energy projects as well as the acceleration in work progress of newer projects. The RM74.0m core profit was largely adjusted for RM23.3m impairment for receivables from a reported net profit of RM49.3m.

Outlook. We expect a significant revitalisation of the construction sector in 2024 backed by: (i) the roll-out of the RM45b MRT3 project, RM9.5b Bayan Lepas LRT and six flood mitigation projects reportedly to be worth RM13b, and (ii) a vibrant private sector construction market, backed by massive investment in new semiconductor foundries and data centres. SUNCON is eyeing opportunities in data centre building jobs, MRT3 and Bayan Lepas LRT work packages, and contracts from parent and sister companies. Against this backdrop, it raised its guidance for new job wins in FY24 to RM3b (from RM2.5b).

Forecasts. We maintain our FY24F net profit forecast (as we have already assumed RM3b new job wins in FY24F). We project a 33% earnings growth for FY25F based on a job win assumption of RM3.5b.

Valuations. We upgrade our TP by 33% to RM3.00 (from RM2.26) as we roll over our valuation base year to FY25F (from FY24F) with an unchanged 18x forward PER, which is in-line with our valuation for big cap construction companies, i.e. **GAMUDA (OP; TP: RM5.45)** and **IJM (OP; TP: RM2.31)**. Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by us (see Page 4).

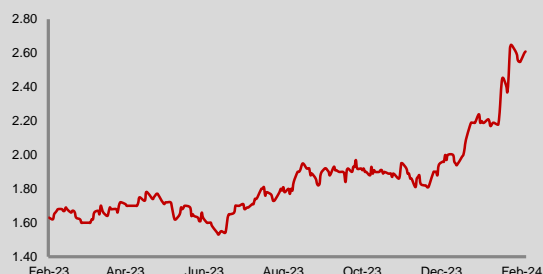
Investment case. We like SUNCON for: (i) strong job prospects of the sector as a whole with the imminent roll-out of key public infrastructure projects; (ii) its strong earnings visibility underpinned by RM5.50b outstanding order book and recurring jobs from parent and sister companies, and (iii) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works. Maintain **OUTPERFORM**.

Risks to our recommendation include: (i) weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

OUTPERFORM ↔

Price: **RM2.61**
Target Price: **RM3.00** ↑

Share Price Performance



KLCI 1,555.59
YTD KLCI chg 6.9%
YTD stock price chg 34.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	3,365.2
Shares Outstanding	1,289.4
52-week range (H)	2.73
52-week range (L)	1.53
3-mth avg daily vol:	1,517,827
Free Float	13%
Beta	0.9

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.0%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	2671.2	2698.4	3430.9
EBIT	210.1	212.6	279.1
PBT	188.6	202.6	269.1
Net Profit (NP)	145.1	154.2	204.8
Core net profit	170.1	154.2	204.8
Consensus (NP)		170.2	182.1
Earnings Revision (%)		-	New
Core EPS (sen)	13.2	11.9	15.8
Core EPS growth (%)	18.2	-9.4	32.8
NDPS (sen)	6.0	6.0	6.0
NTA per Share (RM)	0.63	0.69	0.79
Price to NTA (x)	4.1	3.8	3.3
PER (x)	19.8	21.9	16.5
Net Gearing (x)	0.41	0.29	0.03
ROE (%)	20.7	17.2	20.0
Net Div. Yield (%)	2.3	2.3	2.3

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Income Statement								
FYE Dec (RM m)	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	871.5	673.5	29%	503.4	73%	2,671.2	2,155.2	24%
Operating Expenses	-807.1	-622.8	30%	-449.5	80%	-2,476.7	-1,991.1	24%
Other Operating Income	17.4	3.4	414%	10.4	66%	29.7	22.4	33%
Operating Profit	81.8	54.1	51%	64.3	27%	224.3	186.5	20%
Finance Income	8.6	7.0	22%	4.4	95%	26.4	13.9	91%
Finance costs	-15.2	-13.0	16%	-10.5	45%	-47.9	-18.0	166%
Associates	0.2	0.0	N/A	0.0	525%	0.5	3.7	-85%
JV	-14.7	0.0	N/A	-2.0	635%	-14.7	-2.0	635%
PBT	60.8	48.1	26%	56.3	8%	188.6	184.1	2%
Tax	-12.3	-12.6	-2%	-10.8	14%	-42.8	-45.3	-6%
PAT	48.4	35.5	36%	45.5	6%	145.8	138.7	5%
MI	-0.8	0.5	-268%	-0.1	518%	0.7	3.6	-79%
Net Profit	49.3	35.0	41%	45.6	8%	145.1	135.2	7%
Exceptional items	-24.7	-2.9	757%	-0.4	6084%	-25.0	-8.8	185%
Core net profit	74.0	37.9	95%	46.0	61%	170.1	144.0	18%
DPS	3.0	0.0	N/A	2.5	20%	6.0	5.5	9%
EBIT margin	9.4%	8.0%		12.8%		8.4%	8.7%	
Pretax margin	7.0%	7.1%		11.2%		7.1%	8.5%	
NP margin	5.6%	5.3%		9.0%		5.5%	6.4%	
CNP margin	8.5%	5.6%		9.1%		6.4%	6.7%	
Effective tax	20.3%	26.2%		19.2%		22.7%	24.6%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM m)	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue								
Construction	785.8	590.6	33%	444.0	77%	2,381.0	1,973.6	21%
Precast Concrete	85.7	83.0	3%	59.4	44%	290.2	181.6	60%
Total Revenue	871.5	673.5	29%	503.4	73%	2,671.2	2,155.2	24%
Pre-tax Segmentation								
Construction	53.0	41.6	27%	51.0	4%	169.9	173.3	-2%
Precast Concrete	7.7	6.5	19%	5.3	46%	18.7	10.7	75%
Total PBT	60.8	48.1	26%	56.3	8%	188.6	184.1	2%
PAT Segmentation								
Construction	43.7	32.2	36%	41.5	5%	134.2	130.3	3%
Precast Concrete	4.7	3.3	40%	4.0	18%	11.6	8.4	38%
Total PAT	48.4	35.5	36%	45.5	6%	145.8	138.7	5%
Net Profit Segmentation								
Construction	44.6	31.7	41%	41.7	7%	133.5	126.8	5%
Precast Concrete	4.7	3.3	40%	4.0	18%	11.6	8.4	38%
Total Net Profit	49.3	35.0	41%	45.6	8%	145.1	135.2	7%
PBT margins								
Construction	6.7%	7.0%		11.5%		7.1%	8.8%	
Precast Concrete	9.0%	7.8%		8.9%		6.5%	5.9%	
Total	7.0%	7.1%		11.2%		7.1%	8.5%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	5.11	5.45	6.7%	13,989.5	Y	07/2024	4.1	4.9	29.5%	19.2%	14.0	11.3	11.7	9.8%	12.0	2.3%
IJM	OP	2.19	2.31	5.5%	7,678.5	Y	03/2024	10.4	10.7	12.7%	2.6%	24.0	25.7	0.7	3.9%	8.0	3.7%
KERJAYA	OP	1.72	1.90	10.5%	2,169.0	Y	12/2023	11.0	14.2	18.5%	29.0%	14.1	12.3	1.6	10.9%	8.0	4.7%
KIMLUN	MP	0.855	0.830	-2.9%	302.1	Y	12/2023	1.9	8.3	-81.8%	335.8%	8.6	7.3	0.4	0.9%	1.0	1.2%
SUNCON	OP	2.61	3.00	14.9%	3,365.2	Y	12/2024	11.9	15.8	-9.4%	32.8%	20.6	19.6	3.5	16.6%	6.0	2.3%
WCT	OP	0.550	0.700	27.3%	779.5	Y	12/2023	0.6	3.3	-89.9%	409.8%	21.8	14.9	0.3	1.9%	0.5	0.9%
Sector Aggregate					28,283.9					11.8%	20.8%	15.7	13.0	1.0	6.1%		2.5%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

***Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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