

21 May 2024

Sunway Construction Group

Fundamentals Priced In

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SUNCON's 1QFY24 result met expectations. Its 1QFY24 core net profit grew only 4% YoY, weighed down by funding cost for its projects in India. Its prospects remain strong underpinned by a record order backlog and the roll-out of mega public infrastructure projects locally. We maintain our forecasts and TP of RM3.16 but downgrade our call to MARKET PERFORM from OUTPERFORM as the stock is fairly valued after the strong run-up in its share price.

SUNCON's 1QFY24 core profit of RM27.0m came in at only 16% and 15% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the results within expectations as we expect strong quarters ahead as progress billings accelerate. No dividend was declared as expected as it usually pays half-yearly dividend historically.

YoY, its 1QFY24 revenue rose 16% driven by higher billings in newer projects. However, its core profit grew by a slower 4% largely on the doubling of its finance cost, largely to fund its projects in India.

QoQ, its 1QFY24 revenue declined 31% from a high base in the previous quarter (due to lumpy billings from certain building and renewable energy projects.) Its 1QFY24 core profit contracted by a sharper 51% due to higher finance cost.

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 several 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 Penang LRT Mutiara Line work packages, and contracts from parent and sister companies.

Forecasts. Maintained. We assume annual job wins of RM3.5b.

Valuations. We maintain our TP of RM3.16 based on 18x FY25F PER, which is in-line with our valuation for big cap construction companies, i.e. **GAMUDA (OP; TP: RM6.20)** and **IJM (OP; TP: RM2.54)**. Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by us (see Page 5).

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 RM6.3b 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. However, the stock is fairly valued after the strong run-up in its share price. Downgrade to **MARKET PERFORM** from **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.

MARKET PERFORM ↓

Price: **RM3.35**
Target Price: **RM3.16** ↔

Share Price Performance



KLCI 1,627.50
YTD KLCI chg 11.9%
YTD stock price chg 72.7%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SCGB MK Equity
Market Cap (RM m) 4,319.4
Shares Outstanding 1,289.4
52-week range (H) 3.35
52-week range (L) 1.53
3-mth avg. daily vol. 4,104,732
Free Float 20%
Beta 0.9

Major Shareholders

Sunway Holdings Sdn Bhd 54.6%
Sungei Way Corp Sdn Bhd 10.1%
Employees Provident Fund Board 6.2%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	2671.2	2878.4	3615.9
EBIT	210.1	226.5	293.9
PBT	188.6	216.5	283.9
Net Profit (NP)	145.1	164.7	216.0
Core net profit	151.2	164.7	216.0
Consensus (NP)	-	181.6	214.4
Earnings Revision (%)	-	-	-
Core EPS (sen)	11.7	12.8	16.7
Core EPS Growth (%)	5.0	8.9	31.1
NDPS (sen)	6.0	6.0	6.0
NTA per Share (RM)	0.63	0.70	0.81
Price to NTA (x)	5.3	4.8	4.1
PER (x)	28.6	26.3	20.0
Net Gearing (x)	0.41	0.27	0.01
ROE (%)	18.4	18.2	20.7
Net Div. Yield (%)	1.8	1.8	1.8

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Income Statement								
FYE Dec (RM m)	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	604.8	871.5	-31%	522.1	16%	604.8	522.1	16%
Operating Expenses	-564.6	-807.1	-30%	-484.3	17%	-564.6	-484.3	17%
Other Operating Income	12.9	17.4	-26%	3.9	233%	12.9	3.9	233%
Operating Profit	53.1	81.8	-35%	41.7	27%	53.1	41.7	27%
Finance Income	4.7	8.6	-45%	4.1	15%	4.7	4.1	15%
Finance costs	-16.2	-15.2	7%	-8.3	96%	-16.2	-8.3	96%
Associates	0.0	0.2	-100%	0.0	N/A	0.0	0.0	N/A
JV	0.0	-14.7	N/A	0.0	N/A	0.0	0.0	N/A
PBT	41.6	60.8	-31%	37.5	11%	41.6	37.5	11%
Tax	-8.9	-12.3	-28%	-8.9	1%	-8.9	-8.9	1%
PAT	32.7	48.4	-32%	28.6	14%	32.7	28.6	14%
MI	0.3	-0.8	N/A	0.8	-62%	0.3	0.8	-62%
Net Profit	32.4	49.3	-34%	27.8	16%	32.4	27.8	16%
Exceptional items	5.4	-5.8	N/A	1.9	180%	5.4	1.9	180%
Core net profit	27.0	55.1	-51%	25.9	4%	27.0	25.9	4%
DPS	0.0	3.0	-100%	0.0	N/A	0.0	0.0	N/A
EBIT margin	8.8%	9.4%		8.0%		8.8%	8.0%	
Pretax margin	6.9%	7.0%		7.2%		6.9%	7.2%	
NP margin	5.4%	5.6%		5.5%		5.4%	5.5%	
CNP margin	4.5%	6.3%		5.0%		4.5%	5.0%	
Effective tax	21.5%	20.3%		23.7%		21.5%	23.7%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM m)	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue								
Construction	543.6	785.8	-31%	469.1	16%	543.6	469.1	16%
Precast Concrete	61.2	85.7	-29%	53.0	16%	61.2	53.0	16%
Total Revenue	604.8	871.5	-31%	522.1	16%	604.8	522.1	16%
Pre-tax Segmentation								
Construction	37.9	53.0	-29%	36.2	5%	37.9	36.2	5%
Precast Concrete	3.8	7.7	-51%	1.3	191%	3.8	1.3	191%
Total PBT	41.6	60.8	-31%	37.5	11%	41.6	37.5	11%
PAT Segmentation								
Construction	30.4	43.7	-30%	28.3	8%	30.4	28.3	8%
Precast Concrete	2.3	4.7	-51%	0.4	542%	2.3	0.4	542%
Total PAT	32.7	48.4	-32%	28.6	14%	32.7	28.6	14%
Net Profit Segmentation								
Construction	30.1	44.6	-32%	27.5	10%	30.1	27.5	10%
Precast Concrete	2.3	4.7	-51%	0.4	542%	2.3	0.4	542%
Total Net Profit	32.4	49.3	-34%	27.8	16%	32.4	27.8	16%
PBT margins								
Construction	7.0%	6.7%		7.7%		7.0%	7.7%	
Precast Concrete	6.1%	9.0%		2.4%		6.1%	2.4%	
Total	6.9%	7.0%		7.2%		6.9%	7.2%	

Source: Company, Kenanga Research

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SUNCON's Outstanding Order Book	
Project	Outstanding Value (RM m)
Building	
Oxley Tower (MEP) + VO	31
JHB1X0 - Data Centre	1,453
K2 – Data Centre	104
Daiso	282
K2 DC (CIMC)	93
ECI & Work Order – MNC	58
PSR – MNC	748
Infrastructure/Piling	
LRT3 Package GS07-08	8
RTS Link Package 1B & Package 5	417
LRT3 Package GS06	11
India	
Thorapalli-Jittandahalli (TJ)	190
Sustainable Energy	
Solar – External	7
LSS4 Gopeng	16
LSS4 Kapar	18
Sunway Square DCS	10
CGPP - Green	46
Singapore	
Precast	441
New Order 2024 – External	189
Internal – Sunway Group	
Sunway Belfield	77
Sunway Square – Superstructure + VO	744
Sunway Carnival Mall – Refurbishment	154
Sunway Velocity 2B	54
SMC Damansara	71
SMC Ipoh + VO	59
Sunway Flora	217
SMC Fit-Out	70
SMC SJ Fit-Out	14
Sunway Ipoh Mall	719
Total	6,303

Source: Company

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	5.80	6.20	6.9%	16,065.6	Y	07/2024	40.2	48.0	29.7%	19.2%	15.9	12.8	1.4	10.0%	12.0	2.1%
IJM	OP	2.52	2.54	0.8%	8,835.5	Y	03/2024	11.6	12.4	62.5%	7.0%	27.7	29.5	0.9	4.7%	8.0	3.2%
KERJAYA	OP	1.83	1.90	3.8%	2,307.7	Y	12/2024	14.2	15.8	33.3%	11.3%	15.0	13.1	1.6	13.0%	10.0	5.5%
KIMLUN	MP	1.47	0.980	-33.3%	519.4	Y	12/2024	8.9	9.8	343.7%	9.5%	14.8	12.6	0.7	4.2%	1.0	0.7%
SUNCON	MP	3.35	3.16	-5.7%	4,319.4	Y	12/2024	12.7	16.7	-3.2%	31.1%	26.4	25.2	4.4	17.6%	6.0	1.8%
WCT	OP	0.535	0.660	23.4%	758.2	Y	12/2024	2.5	3.0	-85.9%	18.4%	21.2	14.5	0.3	1.2%	0.5	0.9%
Sector Aggregate					32,805.9					65.6%	16.7%	16.9	14.5	1.2	7.0%		2.4%

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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