

Sunway Construction Group Berhad

TP: RM2.76 (+5.7%)
Record High Core Earnings
Last Traded: RM2.61
HOLD (ESG: ★★★★★)

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Results Review

- Stripping off the one-off impairment loss on financial assets, SUNCON's FY23 core earnings of RM169.8mn (+15.4% YoY) beat both ours and the street's expectations, accounting for 126.6% and 121.3% of full-year estimates, respectively. The positive variation was due to higher-than-expected revenue recognition from new projects.
- A second interim dividend of 3.0 sen (vs 2.5 sen in 4Q22) was declared. This brings the total dividend for FY23 to 6.0 sen (vs 5.5 sen in FY22), translating to a payout ratio of 53%.
- YoY, SUNCON's full-year revenue and PBT improved by 23.9% and 2.5%, to RM2,671.2mn and RM188.6mn, respectively. This growth was largely driven by increased contributions across all business segments. Notably, the construction segment's revenue surged 20.6% YoY, thanks to accelerated revenue recognition from new projects. However, the segmental PBT slightly declined by 2% YoY, as the preceding year's margin was boosted by the finalisation of accounts for a few projects. Additionally, the precast segment's revenue and PBT saw significant increases of 59.8% and 74.8% YoY, respectively, attributed to higher production at the integrated construction & prefabrication hub (ICPH) facility in Singapore and increased contributions from new projects.
- QoQ, 4QFY23 revenue rose 29.4% to RM871.5mn and core earnings nearly doubled to RM73.7mn. The improvement was mainly attributed to: (i) higher contribution from sustainable energy projects and new projects in the construction segment, and (ii) increased production at the ICPH facility in Singapore.

Impact

- We raise our FY24 and FY25 earnings estimates by 13.9% and 11.2% to RM181.8mn and RM198.4mn, respectively, after factoring in higher job replenishment assumptions of RM2.8bn p.a. (previously RM2.5bn p.a.). We forecast FY26 net profit to grow by 10% YoY to RM218.2mn, supported by a job replenishment assumption of RM3.0bn.

Outlook

- In FY23, the group successfully secured RM2.5bn of new contracts, surpassing management's order book replenishment target of RM2.0bn but within our assumptions of RM2.5bn. As of end-December 2023, the group's outstanding order book stood at RM5.3bn, which translates to 2.0x FY23 revenue. Additionally, the group has an active tender book with a total value of around RM26.2bn.
- Looking ahead, the group aims to secure new projects within a range of RM2.5bn to RM3.0bn in FY24. It will continue to explore more opportunities in niche segments such as data centres, semiconductor factories, renewable energy and warehouses.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	3365.2
52-wk Hi/Lo (RM)	2.73/1.53
12-mth Avg Daily Vol ('000 shrs)	734.4
Estimated Free Float (%)	13.5
Beta	0.8
Major Shareholders (%)	
	Sunholdings - 54.6
	Sungei Way Corp Sdn Bhd - 10.1
	Employee Provident Fund - 9.0
	Amanah Saham Nasional Bhd - 6.4

Forecast Revision

	FY24	FY25
Forecast Revision (%)	13.9	11.2
Net profit (RMmn)	181.8	198.4
Consensus	170.2	182.1
TA's / Consensus (%)	106.8	109.0
Previous Rating	Sell (Upgraded)	
Consensus Target Price	2.35	

Financial Indicators

	FY24	FY25
Net Debt / Equity (%)	12.9	Net Cash
CFPS (sen)	11.5	9.0
Price / CFPS (x)	22.7	29.0
ROA (%)	6.6	6.7
NTA/Share (RM)	65.4	72.7
Price/NTA (x)	4.0	3.6

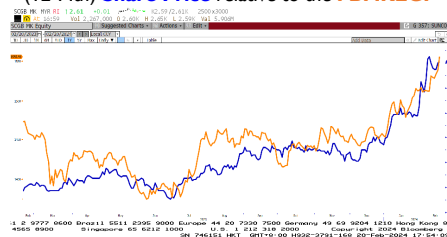
Scorecard

	% of FY	
vs. TA	126.6	Above
vs. Consensus	121.3	Above

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	19.2	4.7
3 mth	35.9	6.8
6 mth	46.6	7.6
12 mth	61.1	5.6

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation

- We believe SUNCON is poised to gain substantially from upcoming mega infrastructure projects and has the potential to seize opportunities in the expanding data centre market and sustainable energy segment. We assign SUNCON a higher PER of 18x, anticipating solid earnings visibility supported by strong job replenishment in the near term. Taking the opportunity to roll forward our base year valuation to CY25, we arrive at a new target price of RM2.76 (up from RM1.73 previously). Upgrade SUNCON to **Hold**.

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2022	2023	2024F	2025F	2026F
Revenue	2,155.2	2,671.2	2,920.0	3,010.0	3,100.0
Gross profit	365.8	453.3	584.0	605.0	623.1
EBITDA	210.3	245.3	243.5	267.3	291.1
EBITDA margin (%)	9.8	9.2	8.3	8.9	9.4
EBIT	186.5	224.3	220.4	241.5	266.5
PBT	184.1	188.6	230.1	251.2	276.2
PAT	135.2	145.1	181.8	198.4	218.2
Core net profit	147.1	169.8	181.8	198.4	218.2
Core EPS (sen)	11.4	13.2	14.1	15.3	16.9
PER (x)	22.9	19.8	18.6	17.0	15.5
Gross dividend (sen)	5.3	6.0	8.0	8.0	8.0
Dividend yield (%)	2.0	2.3	3.1	3.1	3.1
ROE (%)	20.5	21.8	22.6	22.5	20.8

Table 2: 4QFY23 Results Analysis (RMmn)

FYE Dec	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY(%)
Revenue	503.4	673.5	871.5	29.4	73.1	2155.2	2671.2	23.9
- Construction	444.0	590.6	785.8	33.1	77.0	1973.6	2381.0	20.6
- Precast	59.4	83.0	85.7	3.3	44.2	181.6	290.2	59.8
Operating profit	64.3	54.1	81.8	51.1	27.1	186.5	224.3	20.2
Finance income	4.4	7.0	8.6	22.5	94.9	13.9	26.4	90.6
Finance costs	(10.5)	(13.0)	(15.2)	(16.4)	(44.8)	(18.0)	(47.9)	165.8
Profit before taxation	56.3	48.1	60.8	26.3	7.9	184.1	188.6	2.5
- Construction	51.0	41.6	53.0	27.4	4.0	173.3	169.9	(2.0)
- Precast	5.3	6.5	7.7	19.2	46.0	10.7	18.7	74.8
Income tax expense	(10.8)	(12.6)	(12.3)	2.0	(14.3)	(45.3)	(42.8)	(5.6)
Non-controlling interests	(0.1)	0.5	(0.8)	(268.2)	(517.5)	3.6	0.7	(79.3)
Net profit	45.6	35.0	49.3	40.7	7.9	135.2	145.1	7.3
- Construction	41.7	31.7	44.6	40.7	7.0	126.8	133.5	5.3
- Precast	4.0	3.3	4.7	40.4	17.6	8.4	11.6	38.2
Core net profit	46.3	37.9	73.7	94.5	59.4	147.1	169.8	15.4
Reported EPS (sen)	3.5	2.7	3.8	40.7	7.9	10.5	11.3	7.3
Core EPS (sen)	3.6	2.9	5.7	94.5	59.3	11.4	13.2	15.4
Dividend (sen)	2.5	0.0	3.0	N.M.	20.0	5.5	6.0	9.1
Margin (%):				% pts	% pts			% pts
- Operating	12.8	8.0	9.4	1.3	(3.4)	8.7	8.4	(0.3)
- Construction	12.2	7.6	7.2	(4.9)	(40.9)	34.8	30.3	(4.5)
- Precast	17.3	11.4	29.5	158.9	70.6	35.6	57.7	22.1
- PBT	11.2	7.1	7.0	(0.2)	(4.2)	8.5	7.1	(1.5)
- PAT	9.0	5.3	5.6	2.8	(0.7)	6.8	6.4	(0.5)
- Effective tax rate	19.2	26.2	20.3	(5.9)	1.1	24.6	22.7	(1.9)

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★★★★★	★★★★
Remark	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build A Home, which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management, and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management, and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Wednesday, February 21, 2024, the analyst, Raymond Ng Ing Yeow, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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