

COMPANY RESULTS

Sunway Construction (SCGB MK)

4Q23: Ends 2023 With A Bang

Suncon's 4Q23 earnings outperformed, exceeding our and consensus estimates by 28% and 22% respectively. We anticipate higher earnings in the upcoming quarters stemming from stronger progress billing amid eased labour issues. The group's near-term earnings outlook remains resilient, supported by its outstanding orderbook of RM5.3b as of end-23 and potentially higher replenishment in 2024. Maintain BUY. Target price: RM2.93.

4Q23 RESULTS

Year to 31 Dec (RMm)	4Q23	qoq % chg	yoy % chg	2023	yoy % chg	Comments
Revenue	871.5	29.4	73.1	2,671.2	23.9	Higher progress billing
- Construction	785.8	33.1	77.0	2,381.0	20.6	
- Precast Concrete	85.7	3.3	44.2	290.2	59.8	
Operating profit	81.8	51.1	27.1	224.3	20.2	Higher EBIT margins
- Construction	56.5	26.5	4.6	179.2	6.3	
- Precast Concrete	25.3	167.4	145.9	45.1	151.8	
Pre-tax Profit	60.8	26.3	7.9	188.6	2.5	Lower effective tax rate
PATAMI	49.3	40.7	7.9	145.1	7.3	
Core PATAMI	74.1	95.5	60.8	170.1	18.7	
Margins	%	+/-ppt	+/-ppt	%	+/-ppt	
EBIT:	9.4	1.3	(3.4)	8.4	(0.3)	
- Construction	7.2	(0.4)	(5.0)	7.5	(1.0)	
- Precast Concrete	29.5	18.1	12.2	15.5	5.7	
PBT	7.0	(0.2)	(4.2)	7.1	(1.5)	
Core PATMI	8.5	2.9	(0.6)	6.4	(0.3)	

Source: Sunway Construction, UOB Kay Hian

RESULTS

- **2023 earnings outperformed.** Sunway Construction (Suncon) reported a significantly higher core net profit of RM74.1m (+95.5% qoq, +60.8% yoy) backed by an increase in revenue to RM871.5m (+29.4% qoq, +73.1% yoy). This brought full-year 2023 core net profit to RM170.1m (+18.7% yoy), exceeding our and consensus estimates by 28% and 22% respectively. We note that the outperformance mainly stemmed from higher earnings contributions from both the construction and precast segments. Suncon also declared a second interim dividend of 3 sen, bringing full-year dividend to a total of 6 sen (+9.1% yoy).

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,155	2,671	3,233	3,529	3,727
EBITDA	210	245	296	329	359
Operating profit	187	224	277	308	336
Net profit (rep./act.)	135	145	199	226	251
Net profit (adj.)	144	170	199	226	251
EPS (sen)	11.2	13.2	15.4	17.5	19.4
PE (x)	23.4	19.8	16.9	14.9	13.4
P/B (x)	4.1	3.8	3.5	3.2	2.9
EV/EBITDA (x)	18.3	17.5	14.3	12.7	11.5
Dividend yield (%)	2.1	2.3	3.6	4.1	4.5
Net margin (%)	6.3	5.4	6.1	6.4	6.7
Net debt/(cash) to equity (%)	-1.3	51.1	77.1	64.8	50.9
Interest cover (x)	10.3	4.7	5.4	6.4	7.4
Consensus net profit	-	-	170	182	-
UOBKH/Consensus (x)	-	-	1.17	1.24	-

Source: Sunway Construction, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.61
Target Price	RM2.93
Upside	+12.3%
(Previous TP)	RM2.72)

COMPANY DESCRIPTION

A leading construction company in Malaysia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,289.4
Market cap (RMm):	3,365.2
Market cap (US\$m):	704.2
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

52-week high/low RM2.65/RM1.53

1mth	3mth	6mth	1yr	YTD
19.2	35.9	46.6	61.1	34.5

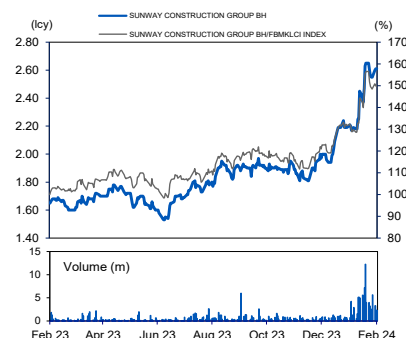
Major Shareholders

	%
Sunway Holdings Sdn Bhd	54.56
Sungei Way Corp Sdn Bhd	10.1
Employees Provident Fund Board	9.0

FY24 NAV/Share (RM) 0.67

FY24 Net Debt/Share (RM) 0.12

PRICE CHART



Source: Bloomberg

ANALYST(S)

Lucas Tan Jun Sian
+603 2147 1913
junsian@uobkayhian.com

• **Construction segment: Progress billings picked up pace.** The construction division's operating profit (EBIT) rose to RM56.5m (+26.5% qoq, +4.6% yoy) on a higher revenue of RM785.8m (+33.1% qoq, +77.0% yoy) in 4Q23. The sharp rise in revenue was mainly attributed to accelerated progress billings from newer projects. Note that EBIT margin was lower yoy due a high base in 4Q22 on the finalisation of accounts for a few projects and the reversal of a legal case provision. We reckon that key projects such as Rapid Transit System (RTS), data centres in Johor, and several internal projects have gradually picked up pace which would anchor construction earnings in the coming quarters.

• **Precast segment: Remains resilient.** The precast segment also recorded higher EBIT of RM25.3m (+167.4% qoq, +145.9% yoy) on a slightly higher revenue of RM85.7m (+3.3% qoq, +44.2% yoy), largely underpinned by contribution from new projects as well as stronger contributions from Integrated Construction & Prefabrication Hub (ICPH) projects. Singapore's Housing and Development Board (HDB) targets to launch 19,600 flats in 2024 and a total of 100,000 flats between 2021 and 2025 to cater to the higher housing demand. This should sequentially help Suncon lift ICPH's utilisation rate while resulting in a sustainable price outlook for its precast concrete products. Recall that HDB flats typically contribute >90% of precast sales.

STOCK IMPACT

• **Poised to deliver higher replenishment.** Suncon's near-term earnings momentum is expected to remain vibrant supported by its outstanding orderbook of RM5.3b as of end-23 (2.2x cover ratio of its 2023 construction revenue). Meanwhile, its earnings outlook is also improving rapidly as management raised its replenishment target for 2024 again to RM3.0b (from RM2.5b previously) amid a stronger prospective pipeline of public and private projects. Its active tenderbook remains firm at RM26.0b, which mainly comprises the Mass Rapid Transit 3 (MRT3), Song Hau coal-fired power plant, as well as other smaller jobs for precast concrete, data centres, and industrial plants.

In addition, the resilient internal contract flows from parent company Sunway Berhad could provide further growth opportunities amid the rising vibrancy of the property market, particularly in Johor. We earlier highlighted that potential internal projects from Sunway Berhad might include fresh property projects with a gross development value of RM2b-3b p.a. and a number of hospital expansions collectively worth around RM2b.

• **Margin improvement in 2024 is still possible.** We believe margin improvement is in 2024 may be on the horizon amid subsided building materials prices in recent months. The margin improvement coupled with higher revenue would thus anchor higher earnings in 2024. The average steel bar prices increased by 1.9% qoq to RM2,713/tonne in 4Q23 while average bag cement prices also went up by 0.4% qoq to RM21.9/bag in 4Q23. Meanwhile, average prices for bulk cement remained flattish at RM380/tonne in 4Q23.

EARNINGS REVISION/RISK

• We raise 2024/25 earnings by 11%/20% respectively after incorporating latest orderbook values and higher replenishment assumptions of RM3.0b and introduced 2026 earnings.

VALUATION/RECOMMENDATION

• **Reiterate BUY with a higher target price of RM2.93 (from RM2.72 previously),** upon ascribing a higher 2024F PE of 19x (from 17x previously) to reflect the brighter earnings outlook. Our target PE is based on 0.5SD above its five-year mean of 17x. The group's fundamentals remain robust, supported by its proven capability to clinch a balanced mix of external and internal projects which will ultimately lead to decent earnings visibility for the next two to three years.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

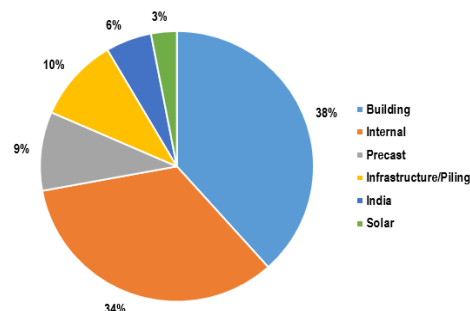
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Mitigate the release of emissions, biodiversity impacts, waste disposal, pollution. • Social <ul style="list-style-type: none"> - Work with local authorities and communities to ensure projects' success. • Governance <ul style="list-style-type: none"> - Independent directors (four out of seven) comprise the majority of the board.
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OUTSTANDING ORDERBOOK AS OF END-4Q23

Projects	(RMm)
STeP Data Centre	1,460
RTS Link Package 1B & 5	494
K2 Data Centre	259
Daiso Warehouse	291
India Highways	289
Solar Projects	162
Others	71
Total External (A)	3,026
South Quay Superstructure	872
SW Flora	232
Sunway Carnival Mall Refurbishment	173
Sunway Belfield	112
Others	408
Total Internal (B)	1,797
Precast Concrete (C)	502
Grand Total (A+B+C)	5,325

Source: Suncon

ORDERBOOK BREAKDOWN



Source: Suncon

SEGMENTAL FORECASTS

(RMm)	2024F	2025F	2026F
Revenue	3,233	3,529	3,727
- Construction	2,887	3,061	3,239
- Precast Concrete	346	468	488
Operating profit	277	308	336
- Construction	239	257	282
- Precast Concrete	38	52	54
Orderbook replenishment assumptions			
- Construction	3,000	3,000	3,000
- Precast Concrete	400	400	400

Source: Suncon, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	2,671	3,233	3,529	3,727
EBITDA	245	296	329	359
Deprec. & amort.	21	19	21	23
EBIT	224	277	308	336
Associate contributions	(14)	2	2	2
Net interest income/(expense)	(21)	(21)	(16)	(12)
Pre-tax profit	189	258	294	326
Tax	(43)	(57)	(65)	(72)
Minorities	(1)	(3)	(3)	(4)
Net profit	145	199	226	251
Net profit (adj.)	170	199	226	251

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	(286)	(141)	233	285
Pre-tax profit	189	258	294	326
Tax	(33)	(57)	(65)	(72)
Deprec. & amort.	21	19	21	23
Working capital changes	(498)	(359)	(15)	11
Other operating cashflows	35	(2)	(2)	(2)
Investing	(88)	(32)	(35)	(37)
Capex (growth)	(18)	(32)	(35)	(37)
Proceeds from sale of assets	2	0	0	0
Others	(73)	0	0	0
Financing	349	(171)	(188)	(203)
Dividend payments	(71)	(121)	(138)	(153)
Proceeds from borrowings	421	(50)	(50)	(50)
Others/interest paid	(1)	0	0	0
Net cash inflow (outflow)	(25)	(344)	10	46
Beginning cash & cash equivalent	408	384	40	50
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	384	40	50	96

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	99	112	127	142
Other LT assets	745	747	749	751
Cash/ST investment	384	40	50	96
Other current assets	1,855	2,147	2,267	2,324
Total assets	3,083	3,046	3,193	3,312
ST debt	438	350	330	310
Other current liabilities	1,264	1,196	1,301	1,368
LT debt	488	526	496	466
Other LT liabilities	1	1	1	1
Shareholders' equity	820	898	986	1,084
Minority interest	72	75	78	82
Total liabilities & equity	3,083	3,046	3,193	3,312

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	9.2	9.2	9.3	9.6
Pre-tax margin	7.1	8.0	8.3	8.8
Net margin	5.4	6.1	6.4	6.7
Net profit (adj.)	6.4	6.1	6.4	6.7
Leverage				
Debt to total capital	78.2	77.2	76.2	75.0
Debt to equity	103.8	90.1	77.6	66.5
Net debt/(cash) to equity	51.1	77.1	64.8	50.9
Interest cover (x)	4.7	5.4	6.4	7.4

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