

"9M22 results were within expectations"

### Share price performance



	1M	3M	12M
Absolute (%)	-5.3	-8.9	-8.9
Rel KLCI (%)	-4.8	-5.8	-3.3

	BUY	HOLD	SELL
Consensus	8	4	1

Source: Bloomberg

### Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US\$m)	1,843.8/403.2
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.41-1.74
Est free float	14.5%
Stock Beta	0.79
Net cash/(debt) (RMm)	326.6
ROE (2022E)	17.9%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good	No
Constituent	
FBM EMAS (Top 200)	No
ESG Rank	26.3 (n.a yoy)

### Key Shareholders

Sunway Holdings	54.6%
Sungei Way Corp	10.1%
EPF	9.2%
ASN	6.0%

Source: Affin Hwang, Bloomberg, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

### Loong Chee Wei, CFA

T (603) 2146 7548

E cheewei.loong@affinhwang.com

## Sunway Construction (SCGB MK)

### BUY (maintain)

Up/Downside: +35.6%

### Price Target: RM1.94

Previous Target (Rating): RM1.94 (BUY)

### Stable earnings

- Sunway Construction (SunCon) reported strong core earnings growth of 85% yoy to RM98m in 9M22, mainly driven by higher revenue and profit margin. The results were within expectations
- SunCon secured RM882m of new contracts in 9M22 with active tender book of RM17.7bn. We cut FY22-24E core EPS by 1-5% assuming lower EBIT margins and delays in major new contract wins to late-2022
- SunCon remains a top sector BUY with unchanged 12-month target price (TP) of RM1.94, based on 10% discount to RNAV

### Within expectations

SunCon's core net profit of RM98m (+85% yoy) in 9M22 comprised 74-75% of the full-year consensus forecast and our previous estimate of RM131-133m. Revenue jumped 50% yoy to RM1.65bn in 9M22 as progress billings accelerated for ongoing projects (operations were adversely impacted by the pandemic lockdowns in 9M21). PBT surged 109% yoy to RM128m in 9M22 due to higher profit margin for several projects near completion. Construction PBT jumped 104% yoy to RM122m in 9M22, while pre-cast concrete PBT jumped 359% yoy to RM5m due to higher revenue and lower costs. Construction PBT margin improved to 8.0% in 9M22 compared to 5.9% in 9M21.

### High order book provides good earnings visibility

SunCon's high remaining order book of RM4.05bn at end-3Q22, equivalent to 2.3x its 2021 revenue, will sustain its construction activities and drive earnings growth going forward, in our opinion. However, it only secured RM882m of new contracts in 9M22, which lags its target of RM2bn and our assumption of RM2.5bn in 2022E. We gather that SunCon is close to securing certain private building projects worth over RM1bn and hence we have not changed of new contract wins assumption. We also expect better 4Q22 core earnings compared to RM25m (-34% qoq) in 3Q22 due to the finalisation of accounts for several major projects such as the TNB headquarters. We cut core EPS by 1-5% in FY22-24E to reflect slower progress billings due to delays in 2022 new contract wins and lower EBIT margins of 6-7% (stiffer competition for new contracts) for new contracts wins in FY22-24E. SunCon has active tenders worth RM17.7bn and prospects to win new contracts are good.

### Remains a top sector BUY with unchanged TP of RM1.94

We expect core EPS to contract 10% yoy in 2022E due to the prosperity tax and high base in 2021, but rebound to a 16% yoy growth in 2023E. We reiterate our BUY call with unchanged 12-month TP of RM1.94, based on 10% discount to RNAV. Key downside risks: a slow roll-out of infrastructure projects and higher costs.

### Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	1,552.7	1,729.2	2,662.5	2,817.0	3,280.9
EBITDA (RMm)	143.1	198.9	190.9	214.8	218.5
Pretax profit (RMm)	101.1	152.2	165.6	196.3	198.7
Net profit (RMm)	72.8	112.6	122.1	151.0	152.9
EPS (sen)	5.6	8.7	9.5	11.7	11.8
PER (x)	25.4	16.4	15.1	12.2	12.1
Core net profit (RMm)	92.0	144.6	130.3	151.0	152.9
Core EPS (sen)	7.1	11.2	10.1	11.7	11.8
Core EPS growth (%)	(31.0)	57.3	(9.9)	15.9	1.2
Core PER (x)	20.1	12.8	14.2	12.2	12.1
Net DPS (sen)	4.0	5.3	5.3	6.0	6.0
Dividend Yield (%)	2.8	3.7	3.7	4.2	4.2
EV/EBITDA	10.5	7.0	7.8	6.5	6.7

Chg in EPS (%)	-0.7	-4.5	-3.9
Affin/Consensus (x)	0.9	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg	9M22 Comment
<b>Revenue</b>	<b>272.1</b>	<b>557.9</b>	<b>469.3</b>	<b>(15.9)</b>	<b>72.5</b>	<b>1,102.5</b>	<b>1,651.8</b>	<b>49.8</b>	Higher construction (+49% yoy) and pre-cast concrete (+60% yoy) revenue.
Op costs	(237.8)	(504.1)	(424.5)	(15.8)	78.6	(1,022.2)	(1,503.2)	47.1	Higher building material and labour costs.
<b>EBITDA</b>	<b>34.3</b>	<b>53.8</b>	<b>44.7</b>	<b>(16.8)</b>	<b>30.3</b>	<b>80.3</b>	<b>148.6</b>	<b>84.9</b>	
<i>EBITDA margin (%)</i>	<i>12.6</i>	<i>9.6</i>	<i>9.5</i>	<i>(0.1ppt)</i>	<i>(3.1ppt)</i>	<i>7.3</i>	<i>9.0</i>	<i>1.7ppt</i>	Higher profit margin in 9M22 after re-calibration for some projects that are near completion.
Depn and amort	(6.9)	(6.1)	(5.8)	(4.5)	(15.2)	(20.8)	(18.2)	(12.6)	
<b>EBIT</b>	<b>27.4</b>	<b>47.6</b>	<b>38.9</b>	<b>(18.4)</b>	<b>41.7</b>	<b>59.6</b>	<b>130.4</b>	<b>118.9</b>	
<i>EBIT margin (%)</i>	<i>10.1</i>	<i>8.5</i>	<i>8.3</i>	<i>(3.0ppt)</i>	<i>(17.8ppt)</i>	<i>5.4</i>	<i>7.9</i>	<i>46.1ppt</i>	
Interest income	1.0	3.2	4.1	28.1	315.7	3.1	9.5	204.6	Higher returns on cash despite lower cash balance.
Interest expense	(0.9)	(3.2)	(3.2)	1.4	249.5	(3.5)	(7.6)	115.7	
Associates	2.4	0.6	(0.1)	(120.5)	NA	7.1	3.7	(48.3)	
Forex gain (losses)	(0.2)	0.3	0.9	190.6	NA	(0.3)	1.2	NA	
Exceptional items	(5.2)	(5.6)	(2.9)	(48.2)	(43.6)	(4.7)	(9.4)	98.0	Mainly impairment losses for receivables.
<b>Pretax profit</b>	<b>24.5</b>	<b>43.0</b>	<b>37.6</b>	<b>(12.5)</b>	<b>53.6</b>	<b>61.2</b>	<b>127.8</b>	<b>108.6</b>	Higher construction (+104% yoy) and pre-cast concrete (+359% yoy) earnings.
Tax	(5.0)	(9.3)	(13.6)	46.0	175.1	(15.5)	(34.5)	123.0	
<i>Tax rate (%)</i>	<i>22.4</i>	<i>22.1</i>	<i>36.2</i>	<i>14.1ppt</i>	<i>13.7ppt</i>	<i>28.6</i>	<i>27.8</i>	<i>(0.8ppt)</i>	
Minority interests	(0.2)	(1.3)	(1.2)	(6.5)	457.8	2.1	(3.7)	NA	
<b>Net profit</b>	<b>19.3</b>	<b>32.3</b>	<b>22.7</b>	<b>(29.7)</b>	<b>17.7</b>	<b>47.9</b>	<b>89.5</b>	<b>87.1</b>	Within expectations.
<b>Core net profit</b>	<b>24.7</b>	<b>37.6</b>	<b>24.7</b>	<b>(34.3)</b>	<b>0.1</b>	<b>52.9</b>	<b>97.7</b>	<b>84.9</b>	Within expectations. Exclude one-off items.
EPS (sen)	1.5	2.5	1.8	(29.9)	17.3	3.7	7.0	87.3	

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg
Construction	255.8	523.0	418.9	(19.9)	63.8	1,026.3	1,529.7	49.0
Precast concrete	16.3	34.9	50.3	44.2	209.5	76.2	122.1	60.3
<b>Total</b>	<b>272.1</b>	<b>557.9</b>	<b>469.3</b>	<b>(15.9)</b>	<b>72.5</b>	<b>1,102.5</b>	<b>1,651.8</b>	<b>49.8</b>

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

Segment	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg
Construction	26.9	41.1	35.1	(14.7)	30.3	60.1	122.3	103.7
Precast concrete	(2.4)	1.9	2.5	34.7	NA	1.2	5.4	358.5
<b>Total</b>	<b>24.5</b>	<b>43.0</b>	<b>37.6</b>	<b>(12.5)</b>	<b>53.6</b>	<b>61.2</b>	<b>127.8</b>	<b>108.6</b>

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

Segment	3Q21	2Q22	3Q22	QoQ ppt chg	YoY ppt chg	9M21	9M22	YoY ppt chg
Construction	10.5	7.9	8.4	0.5	(2.1)	5.9	8.0	2.1
Precast concrete	(14.9)	5.4	5.0	(0.4)	NA	1.6	4.4	2.9
<b>Total</b>	<b>9.0</b>	<b>7.7</b>	<b>8.0</b>	<b>0.3</b>	<b>(1.0)</b>	<b>5.6</b>	<b>7.7</b>	<b>2.2</b>

Source: Affin Hwang, Company



**Fig 5: RNAV and target price**

Segments	Stake (%)	Value (RMm)
Construction @ PER 16x sustainable earnings of RM130m	100	2,080
Pre-cast concrete @ PER 16x sustainable earnings of RM20m	100	320
Investment in Singapore IPPH JV @ book value	50	44
Net cash/(debt)		334
<b>RNAV</b>		<b>2,779</b>
No. of shares (m)		1,291
<b>RNAV/share (RM)</b>		<b>2.15</b>
<b>Target price @ 10% discount to RNAV/share</b>		<b>1.94</b>

Source: Affin Hwang, Company



## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Copyright © 2021 Sustainalytics. All rights reserved.

This report contains information developed by Sustainalytics. Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third-Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is printed and published by:  
Affin Hwang Investment Bank Berhad (14389-U)  
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,  
69, Jalan Raja Chulan,  
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700  
F : + 603 2146 7630  
[research@affinhwang.com](mailto:research@affinhwang.com)

[www.affinhwang.com](http://www.affinhwang.com)

