

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Maintain BUY

SunCon keeps the momentum going

Unchanged Target Price: RM1.87

KEY INVESTMENT HIGHLIGHTS

- **2QFY22 core earnings almost quadrupled to RM31.5m as operations are now at full capacity**
- **Cumulative 1HFY22 earnings within ours and consensus expectations**
- **Construction revenue up +49.7%yoy to RM523m while precast segment revenue grew +34.2%yoy to RM34.9m**
- **Outstanding order book of RM4.23b provides earnings visibility for three years**
- **Maintain BUY with a target price of RM1.87**

Within Expectations. Sunway Construction Group Berhad (SunCon)'s 2QFY22 core earnings almost quadrupled year-on-year to RM31.5m, backed by stronger revenue by +48.7%yoy to RM557.9m and improved margins across all operating segments with the normalisation of works to full capacity. For the cumulative 1HFY22, core earnings rose 2.4 times to RM65.8m, which is within our expectations and that of the consensus, accounting for 53% of our full-year estimates and 49.7% of the street's. SunCon declared a dividend of 3 sen per share.

Full resumption. The group's construction segment revenue soared +49.7%yoy to RM523m for the quarter as activities resumed in full capacity, as compared to only 60% that in 2QFY21 due to Covid-19 restrictions. Its PBT came in at RM41.1, which saw margins improved from 2.7% to 7.9%. On a quarter-on-quarter basis, revenue and PBT for the segment both declined -11%qoq, but margins remained firm at 7.9%.

Pick up in precast. Revenue from the precast segment grew +34.2%yoy to RM34.9m, delivering a PBT of RM1.9m, a significant improvement from 2QFY21 when it only broke even as its two precast plants were not allowed to operate then. On a quarter-on-quarter basis, though revenue declined -5.4%qoq, the PBT recorded a +86.1%qoq growth, in line with stronger margins from 2.7% to 5.4% with the tapering of steel bar prices.

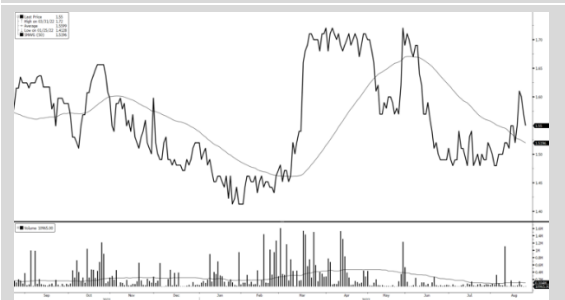
Strong order book. SunCon's outstanding order book stands at RM4.23b which provides earnings visibility over the next 3 years. We note that the Group is still behind on its replenishment target of RM2b this year, after securing RM563m of contracts as of 1HFY22, which is 28.2% of its full year target. We believe that the rollout of the MRT3 contracts will give SunCon's order book a boost this year, apart from other jobs. The group has previously voiced its interest to tender for packages CMC302 and CMC301, which could come up to RM13.94b and RM2.79b respectively. As a company is only allowed to take on only 1 package, even the smaller portion in the form of CMC301 would aid greatly in replenishing SunCon's order book. Tenders for CMC301 closes on Aug 30 while CMC302 has been extended to Sept 30. Results are expected to be announced by 4QFY22.

Raw material and labour woes. In line with our views, the high cost of raw materials and labour shortage remains manageable and this can be observed from Sun Con's improved margins. The group said its average steel bar prices have started to come off from a high of RM3,500 per tonne in March to about RM2,700 per tonne in July. As for foreign workers, Sun

RETURN STATISTICS

| | |
|--|---------------|
| Price @ 23 rd Aug 2022 (RM) | 1.55 |
| Expected share price return (%) | +20.65 |
| Expected dividend yield (%) | +3.21 |
| Expected total return (%) | +23.86 |

SHARE PRICE CHART




| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month | 4.7 | 3.5 |
| 3 months | 2.6 | 1.4 |
| 12 months | -5.5 | -2.9 |

KEY STATISTICS

| | |
|----------------------------------|-----------------|
| FBM KLCI | 1,482.57 |
| Syariah compliant | Yes |
| F4BGM Index | No |
| ESH Grading Band (Star rating) | N/A |
| Issue shares (m) | 1289.36 |
| Estimated free float (%) | 14.60 |
| Market Capitalisation (RM'm) | 1,998.51 |
| 52-wk price range | RM1.44 - RM1.74 |
| Beta vs FBM KLCI (x) | 0.73 |
| Monthly velocity (%) | 0.00 |
| Monthly volatility (%) | 28.85 |
| 3-mth average daily volume (m) | 0.11 |
| 3-mth average daily value (RM'm) | 0.17 |
| Top Shareholders (%) | |
| Sunway Holdings Sdn Bhd | 54.56 |
| Sungei Way Corp Sdn Bhd | 10.08 |
| Employees Provident Fund Board | 9.18 |

Con has obtained a quota for 400 Indonesian workers from the Human Resources Ministry in June, and the first group of 100 is expected to arrive early next month.

Earnings estimates. We are maintaining our estimates for FY22 to FY24.

Reiterate BUY. SunCon remains one of our top picks for the construction sector, premised on its strong balance sheet which places it in an advantageous position to take on future infrastructure jobs that may require upfront financing. With a net cash position of RM326.6m, SunCon has much headroom to take on further debts, if needed. We expect them to be among the front runners for the main MRT3 packages. Its strong outstanding order book and improving margins are also plus points, while its Integrated Construction & Prefabrication Hub (ICPH) in Singapore, which is scheduled to begin operations in 2HFY22, is expected to contribute positively to the group's earnings in future. All factors considered, we reiterate our BUY recommendation on SunCon with an unchanged TP of RM1.87, derived by pegging its FY23F EPS of 10.7sen to a PE ratio of 17.5x. 

INVESTMENT STATISTICS

| FYE 31st December | 2020A | 2021A | 2022E | 2023F | 2024F |
|------------------------|------------|------------|------------|------------|------------|
| Revenue | 1,552.65 | 1,729.16 | 2,105.30 | 2,310.00 | 2,637.10 |
| Net Operating Expenses | (1,462.13) | (1,589.74) | (1,949.36) | (2,140.95) | (2,448.43) |
| Operating Profit | 90.52 | 139.42 | 155.94 | 169.05 | 188.67 |
| Finance Income | 13.76 | 4.15 | 17.16 | 19.43 | 18.35 |
| Finance Costs | (6.94) | (4.58) | (9.80) | (11.08) | (10.93) |
| JV and Associates | 4.17 | 13.26 | 6.93 | 9.32 | 11.66 |
| Profit Before Tax | 101.50 | 152.25 | 170.12 | 186.66 | 207.69 |
| Tax Expense | (27.78) | (41.50) | (38.95) | (43.71) | (52.29) |
| Reported Net Profit | 0.94 | (1.84) | 0.14 | 0.10 | (0.23) |
| Core Net Profit | 72.79 | 112.59 | 124.21 | 137.54 | 160.86 |
| Reported EPS | 69.60 | 110.40 | 124.21 | 137.54 | 160.86 |
| Core EPS | 0.056 | 0.087 | 0.096 | 0.107 | 0.125 |

Source: Company, MIDFR

SUNWAY CONSTRUCTION: 2QFY22 RESULTS SUMMARY

| Income Statement | Quarterly Results | | | | | Cumulative | | |
|------------------------|-------------------|---------|---------|--------|-------|------------|---------|------|
| | Q222 | Q122 | Q221 | QoQ | YoY | 1H22 | 1H21 | YoY |
| Revenue | 557.9 | 624.7 | 375.3 | -10.7% | 49% | 1,182.5 | 830.5 | 42% |
| Net Operating Expenses | (515.5) | (581.7) | (368.9) | 11% | -40% | (1,097.3) | (798.0) | -38% |
| Operating Profit | 4.3 | 42.9 | 6.4 | -90% | -33% | 47.2 | 32.5 | 45% |
| Finance Income | 3.2 | 2.2 | 1.4 | 43% | 131% | 5.4 | 2.1 | 153% |
| Finance Costs | (3.2) | (1.2) | (1.0) | -176% | -220% | (4.3) | (2.6) | -68% |
| JV and Associates | 0.6 | 3.2 | 2.8 | -80% | -77% | 3.8 | 4.7 | -20% |
| Profit Before Tax | 43.0 | 47.2 | 9.5 | -9% | 352% | 90.1 | 36.8 | 145% |
| Tax Expense | (9.3) | (11.5) | (3.6) | 19% | -160% | (20.9) | (10.5) | -98% |
| Minority Interest | 1.3 | 1.1 | (2.4) | 19% | 155% | 2.5 | (2.3) | 205% |
| Reported Net Profit | 32.3 | 34.5 | 8.3 | -6% | 288% | 66.8 | 28.6 | 134% |
| Core Net Profit | 31.5 | 34.3 | 8.1 | -8% | 287% | 65.8 | 27.1 | 143% |

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|--------------|--|
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

SECTOR RECOMMENDATIONS

| | |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

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|------|--|
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology