

# Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

**Maintain BUY**

## Starting 2022 on a strong note

**Revised Target Price: RM1.87**  
(previously RM1.80)

### KEY INVESTMENT HIGHLIGHTS

- **1QFY22 core earnings increased by +81%yoy to RM34.3m, lifted by completed projects**
- **This came in within ours and consensus expectations, accounting for 26.7% and 25.6% of full year projections**
- **Construction revenue up +39.5%yoy to RM587.8m due to higher activity levels**
- **Outstanding order book of RM4.4b provides earnings visibility for three years**
- **Maintain BUY with a revised target price of RM1.87**

**Within Expectations.** Sunway Construction Group Berhad (SunCon)'s 1QFY22 core earnings jumped +80.6%yoy to RM34.3m. This came in within our expectations and that of the consensus, accounting for 26.7% and 25.6% respectively of full-year estimates. The Group recorded a PBT margin of 7.6% as compared to 6% in 1QFY21 mainly due to better performance by the construction segment, stemming from final account for completed projects. However, in terms of quarter-on-quarter, 1QFY22's core earnings declined -46.2%qoq from 4QFY21.

**Normalisation pushes revenue up.** The group managed to record a higher construction revenue of RM587.8m, +39.5%yoy in 1QFY22 on the back of normalisation of operations as compared to the corresponding quarter last year which was affected by MCO 2.0. This contributed a total of 94% to the Group's revenue for the quarter. Compared to 4QFY21, the construction revenue inched up +1.4%qoq, attributable to higher level of activities in SunCon's India projects, after the monsoon season last quarter. The quarterly comparison would show that the construction segment's PBT margin took a plunge, which almost halved from 15.3% in 4QFY21 to 7.9% in 1QFY22, due to recalibration of margins in 4QFY21. We believe this was also due to the higher steel and cement prices.

**Precast segment equally affected.** Revenue from the precast segment dipped -21%qoq, due to the higher delivery goods to Singapore in 4QFY21, accumulated from previous quarters due to MCO 3.0 restrictions. PBT margin for the segment was down to 2.7% this quarter from 4.9% in the preceding quarter due to the impact of higher steel bar prices.

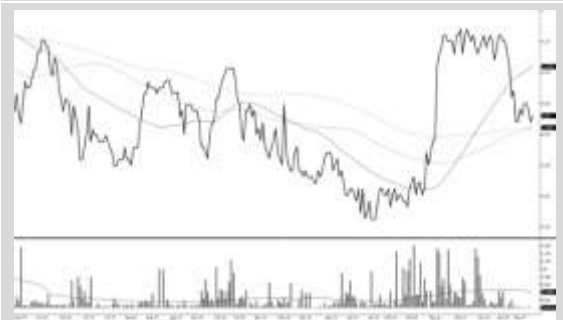
**MRT3 to boost order book.** SunCon's current outstanding order book stands at RM4.4b which provides earnings visibility over the next three years. We note that the Group is behind on its replenishment target of RM2b this year, after securing RM266m of contracts as of 1QFY22, which is 13.3% of its full year target. We believe that the rollout of the MRT3 contracts will give SunCon's order book a boost this year. According to media reports, SunCon is targeting Civil Package 2 of MRT3, estimated to be worth up to RM10b. If successful, it will go down in history as the Group's largest contract win. Tenders for the civil packages are expected to be called next month or July and are expected to be awarded by 4QCY22.

**Earnings estimates.** We are maintaining our top line estimates of RM2.11b for FY22 and RM2.31b for FY23 but we are making some housekeeping changes to our bottom line expectations due to higher building material costs that would affect margins, though this impact

#### RETURN STATISTICS

Price @ 25 <sup>th</sup> May 2022 (RM)	<b>1.58</b>
Expected share price return (%)	<b>+18.3</b>
Expected dividend yield (%)	<b>+2.7</b>
Expected total return (%)	<b>+21.0</b>

#### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-5.4	-2.0
3 months	-8.1	9.2
12 months	-3.7	-1.0

#### KEY STATISTICS

FBM KLCI	1,535.56
Syariah compliant	Yes
F4BGM Index	No
ESH Grading Band (Star rating)	N/A
Issue shares (m)	1289.36
Estimated free float (%)	18.26
Market Capitalisation (RM'm)	2,037.19
52-wk price range	RM1.44 - RM1.76
Beta vs FBM KLCI (x)	0.60
Monthly velocity (%)	0.00
Monthly volatility (%)	16.09
3-mth average daily volume (m)	0.41
3-mth average daily value (RM'm)	0.67
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.24

should be able to be mitigated with the completion of other projects, which would see higher margin adjustments. SunCon revises its project margins every six months. We are revising our core earnings estimates for FY22 to RM124.2m (previously RM128.4m) and for FY23 to RM137.54m (previously RM140.91).

**Reiterate BUY with new Target Price.** We are adjusting our **TP to RM1.87** from RM1.80 as we roll forward our valuation base year to FY23. The new target price was arrived after pegging the FY23F EPS of 10.7sen to a PE ratio of 17.5x, which is about -0.4 standard deviation below its five-year historical mean to account for possible downside risks due to high material costs. All factors considered, we maintain our **BUY** call premised on the Group's defensive outlook, its strong outstanding order book, normalising operations as Malaysia enters the phase of transitioning into an endemic and the potential of the Group being a major beneficiary of the MRT 3 mega project. 

### 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: 1QFY22 RESULTS SUMMARY

Income Statement	Quarterly Results				
	Q122	Q421	Q121	QoQ	YoY
Revenue	624.7	626.6	455.2	-0.3%	37%
Net Operating Expenses	(581.7)	(541.7)	(429.1)	-7%	-36%
Operating Profit	42.9	84.9	26.1	-49%	64%
Finance Income	2.2	1.0	0.8	>+100%	>+100%
Finance Costs	(1.2)	(1.1)	(1.6)	-6%	27%
JV and Associates	3.2	6.2	2.0	-49%	60%
Profit Before Tax	47.2	91.0	27.2	-48%	73%
Tax Expense	(11.5)	(26.0)	(6.9)	56%	-66%
Minority Interest	1.1	0.3	0.1	>+100%	>+100%
Reported Net Profit	34.5	64.7	20.2	-47%	71%
Core Net Profit	34.3	63.8	19.0	-46%	81%

Source: Company, MIDFR

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#### 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

☆☆☆☆	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