

Sunway Construction Group Berhad

TP: RM1.53 (-3.2%)

Eying for a Slice of MRT 3 Project

Last Traded: RM1.58

Sell (ESG: ★★★★★)

Chan Mun Chun

Tel: +603-2167 9731

mcchan@ta.com.my

www.taonline.com.my

Results Review

- SUNCON's IQFY22 core profit of RM35.5mn came in within expectations, accounting for 28.4% and 26.5% of ours and consensus' full-year estimate, respectively.
- YoY, IQFY22 core profit increased 71.9% to RM35.5mn as revenue was 37.2% higher at RM624.7mn. The stronger earnings performance was largely driven by construction segment. The PBT for the construction segment jumped by 95.5% to RM46.2mn from RM23.6mn a year ago, mainly due to higher revenue following the full resumption of construction activities, coupled with upward revision in margin for completed projects.
- QoQ, IQFY22 core profit dropped 52.8% to RM35.5mn while revenue staying flat at RM624.7mn. The weaker bottom line was mainly attributed to lower margin in construction segment.

Impact

- Maintain FY22 to FY24 earnings forecasts.

Outlook

- SUNCON's outstanding order book reduced from RM4.8bn a quarter ago to RM4.4bn, translating into 2.5x FY21 revenue. Currently, the group has an active tender book of about RM2.4bn. Meanwhile, the group is aiming to secure one of the civil packages in MRT3 project.

Valuation

- We take this opportunity to reduce the target PE multiple for SUNCON from 16x to 14x due to escalating construction materials and labour costs, which remain a near-term concern. Meanwhile, we roll forward our valuation base year to CY23. Consequently, we tweaked the target price slightly lower from RM1.54 to **RM1.53**, based on 14x CY23 EPS. Downgrade the stock from Hold to **Sell** due to limited upside in share price.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.9
Market Cap (RMmn)	2042.8
52-wk Hi/Lo (RM)	1.76/1.44
12-mth Avg Daily Vol ('000 shrs)	257.7
Estimated Free Float (%)	18.3
Beta	0.4

Major Shareholders (%)

Sunholdings	- 54.6
Sungei Way Corp Sdn Bhd	- 10.1
Employee Provident Fund	- 9.2
Amanah Saham Nasional Bhd	- 5.5

Forecast Revision

	FY22	FY23
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	124.6	141.4
Consensus	134.0	145.8
TA's / Consensus (%)	93.0	97.0
Previous Rating	Hold (Downgraded)	

Financial Indicators

	FY22	FY23
Net Debt / Equity (%)	19.4	12.0
CFPS (sen)	6.3	0.7
Price / CFPS (x)	24.9	214.0
ROA (%)	6.2	6.4
NTA/Share (RM)	56.7	60.6
Price/NTA (x)	2.8	2.6

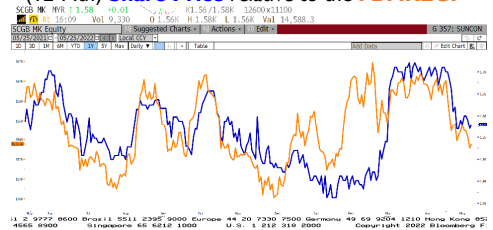
Scorecard

	% of FY	
vs. TA	28.4	Within
vs. Consensus	26.5	Within

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(5.4)	(3.4)
3 mth	5.3	(3.5)
6 mth	1.3	1.2
12 mth	(3.7)	(2.7)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2020	2021	2022F	2023F	2024F
Revenue	1,552.7	1,729.2	2,139.0	2,272.0	2,320.0
Gross profit	270.2	357.6	427.8	454.4	464.0
EBITDA	124.0	166.8	181.4	195.3	199.1
EBITDA margin (%)	8.0	9.6	8.5	8.6	8.6
EBIT	90.5	139.4	150.3	170.3	177.4
PBT	101.5	152.2	157.8	179.0	187.1
PAT	72.8	112.6	124.6	141.4	147.8
Core net profit	72.8	128.2	124.6	141.4	147.8
Core EPS (sen)	5.6	9.9	9.6	10.9	11.4
PER (x)	28.0	15.9	16.4	14.4	13.8
Gross dividend (sen)	4.0	5.3	7.0	7.0	7.0
Dividend yield (%)	2.5	3.3	4.4	4.4	4.4
ROE (%)	11.6	19.2	17.4	18.6	18.2

Table 2: IQFY22 Results Analysis (RMmn)

FYE Dec	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	3MFY21	3MFY22	YoY(%)
Revenue	455.2	626.6	624.7	(0.3)	37.2	455.2	624.7	37.2
- Construction	421.3	579.9	587.8	1.4	39.5	421.3	587.8	39.5
- Precast	33.9	46.7	36.9	(21.0)	8.9	33.9	36.9	8.9
Operating profit	26.1	84.9	42.9	(49.4)	64.5	26.1	42.9	64.5
Finance income	0.8	1.0	2.2	112.4	194.3	0.8	2.2	194.3
Finance costs	(1.6)	(1.1)	(1.2)	6.5	(27.3)	(1.6)	(1.2)	(27.3)
Profit before taxation	27.2	91.0	47.2	(48)	73.1	27.2	47.2	73.1
- Construction	23.6	88.7	46.2	(48.0)	95.5	23.6	46.2	95.5
- Precast	3.6	2.3	1.0	(55.8)	(72.3)	3.6	1.0	(72.3)
Income tax expense	(6.9)	(26.0)	(11.5)	(55.7)	66.3	(6.9)	(11.5)	66.3
Non-controlling interests	0.1	0.3	1.1	326.2	>100.0	0.1	1.1	>100.0
Net profit	20.2	64.7	34.5	(46.7)	70.5	20.2	34.5	70.5
- Construction	17.3	62.7	33.8	(46.1)	94.6	17.3	33.8	94.6
- Precast	2.9	2.0	0.8	(62.9)	(73.9)	2.9	0.8	(73.9)
Core net profit	20.6	75.1	35.5	(52.8)	71.9	20.6	35.5	71.9
Reported EPS (sen)	1.6	5.0	2.7	(46.7)	70.5	1.6	2.7	70.5
Core EPS (sen)	1.6	5.8	2.7	(52.8)	71.9	1.6	2.7	71.9
Dividend (sen)	0.0	4.0	0.0	(100.0)	na	0.0	0.0	na
Margin (%):				% pts	% pts			% pts
- Operating	5.7	13.5	6.9	(6.7)	1.1	5.7	6.9	1.1
Construction	5.3	14.2	7.1	(7.1)	1.8	5.3	7.1	1.8
Precast	11.1	5.8	3.8	(1.9)	(7.3)	11.1	3.8	(7.3)
- PBT	6.0	14.5	7.6	(7.0)	1.6	6.0	7.6	1.6
- PAT	4.5	10.4	5.7	(6.3)	1.1	4.5	5.7	1.1
- Effective tax rate	25.5	28.6	24.4	(4.1)	(1.0)	25.5	24.4	(1.0)

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

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.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Thursday, May 26, 2022, the analyst, Chan Mun Chun, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
 www.ta.com.my