Sunway Construction (SCGB MK)

BUY (maintain)
Up/Downside: +16%

Price Target: RM2.00
Previous Target (Rating): RM1.85 (BUY)

At early stages for new projects

- **Sunway Construction's (SunCon) core net profit contracted 44% qoq and 27% yoy to RM25.8m in 1Q23 as some projects were completed in 2022 and new projects are still at early stages of construction**
- **SunCon secured RM1.28bn of new contracts in 1Q23, expanding its order book to RM6bn. Active tender book of RM22.7bn supports potential further expansion**
- **SunCon remains a top sector BUY with higher 12-month target price (TP) of RM2.00, based on 10% discount to raised RNAV after rolling forward the base year to 2024E**

Within expectations; assuming stronger 2H23 performance

SunCon's core net profit of RM25.8m (-27% yoy) in 1Q23 comprises 17-19% of consensus and our forecasts of RM136.8-153.2m for the full year. Revenue declined 16% yoy to RM522.1m in 1Q23 as new projects are still at early stages. 1Q22 revenue was also a high base due to a ramp-up in activities for some projects completed in 2Q22. PBT fell 20% yoy to RM37.5m in 1Q23 due to higher interest expense. Construction PBT declined 22% yoy to RM36.2m in 1Q23, while pre-cast concrete PBT rose 28% yoy to RM1.3m on higher revenue. Construction PBT margin eased marginally to 7.7% in 1Q23 compared to 7.9% in 1Q22.

High order book provides good earnings visibility

SunCon's high remaining order book of RM6bn at end-1Q23, equivalent to 2.8x its 2022 revenue, should sustain its construction activities and earnings in 2023-24E. It secured RM1.28bn worth of new contracts in 1Q23 and is on track to achieve its RM2bn target in 2023, with good prospects to expand its order book with an active tender book of RM22.7bn. It submitted bids for the Klang Valley MRT Line 3 (MRT3) Package CMC301 and CMC302, Bayan Lepas LRT (pre-qualification bid), data centre, logistics hub and commercial building projects.

Turned to net gearing position in 1Q23

SunCon has turned from net cash of RM54.6m at end-2022 to a net debt of RM53.2m at end-1Q23. Debt financing is required for its ongoing Indian highway concessions, deferred-payment commercial building and Large-Scale Solar Phase 4 projects.

Remains a top sector BUY with higher TP of RM2.00

There is potential upside to our earnings forecasts if SunCon secures more than RM2bn of new contracts in 2023 (assumed in our earnings forecasts). Maintain our BUY call with higher TP of RM2.00 (raised from RM1.85 previously) after rolling forward the base year to 2024E. Key downside risks: a slow roll-out of infrastructure projects, higher costs.

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	1,729.2	2,155.2	2,993.4	3,652.1	2,871.9
EBITDA (RMm)	198.9	218.9	228.9	246.7	262.9
Pretax profit (RMm)	152.2	184.1	184.7	188.6	202.1
Net profit (RMm)	112.6	135.2	136.8	139.8	150.1
EPS (sen)	8.7	10.5	10.6	10.8	11.6
PER (x)	19.7	16.4	16.2	15.9	14.8
Core net profit (RMm)	144.6	143.8	136.8	139.8	150.1
Core EPS (sen)	11.2	11.1	10.6	10.8	11.6
Core EPS growth (%)	57.3	(0.6)	(4.9)	2.2	7.3
Core PER (x)	15.3	15.4	16.2	15.9	14.8
Net DPS (sen)	5.3	5.5	5.5	5.5	6.0
Dividend Yield (%)	3.1	3.2	3.2	3.2	3.5
EV/EBITDA	8.8	9.9	11.0	10.8	9.3
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

"1Q23 results were within expectations; assuming higher progress billings in 2H23"

Share price performance

	1M	3M	12M
Absolute (%)	1.2	3.6	7.5
Rel KLCI (%)	1.4	6.9	17.4

	BUY	HOLD	SELL
Consensus	11	2	-

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US$m)	2,217.7/487.7
Avg daily vol - 6mth (m)	0.5
52-wk range (RM)	1.41-1.79
Est free float	14.1%
Stock Beta	0.81
Net cash/(debt) (RMm)	(53.2)
ROE (2023E)	17.8%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	NA
ESG Rank	
ESG Risk Rating	26.3 (NA yoy)

Key Shareholders

Sunway Holdings	54.6%
Sungei Way Corp	10.1%
EPF	9.7%
ASN	6.0%

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

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Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q22	4Q22	1Q23	QoQ % chg	YoY % chg	Comment
Revenue	**624.7**	**503.4**	**522.1**	***3.7***	***(16.4)***	Lower construction revenue (-20% yoy) but higher pre-cast concrete (+44% yoy) revenue.
Op costs	(575.2)	(433.0)	(477.2)	*10.2*	*(17.0)*	Lower costs in line with lower revenue.
EBITDA	**49.5**	**70.4**	**44.9**	***(36.2)***	***(9.1)***	
EBITDA margin (%)	*7.9*	*14.0*	*8.6*	*(5.4ppt)*	*0.7ppt*	Lower profit margin in 1Q23 compared to 4Q22 is mainly due to normalisation of profit margin for its ongoing construction projects.
Depn and amort	(5.6)	(5.6)	(5.3)	*(5.8)*	*(5.8)*	
EBIT	**43.9**	**64.8**	**39.7**	***(38.8)***	***(9.6)***	
EBIT margin (%)	*7.0*	*12.9*	*7.6*	*(5.3ppt)*	*0.6ppt*	
Interest income	2.2	4.4	4.1	*(7.0)*	*84.7*	Higher returns on cash despite lower cash balance.
Interest expense	(1.2)	(10.5)	(8.3)	*(21.1)*	*617.6*	
Associates	3.2	(2.0)	0.0	*(100.0)*	*(100.0)*	
Forex gain (losses)	(0.1)	0.9	0.2	*(74.8)*	*(495.0)*	
Exceptional items	(0.9)	(1.4)	1.8	*NA*	*NA*	Mainly net gain on disposal of fixed assets.
Pretax profit	**47.2**	**56.3**	**37.5**	***(33.4)***	***(20.5)***	Lower construction PBT (-22% yoy) but higher pre-cast concrete PBT (+28% yoy).
Tax	(11.5)	(10.8)	(8.9)	*(17.8)*	*(23.0)*	
Tax rate (%)	*26.2*	*18.5*	*23.7*	*5.1ppt*	*(2.5ppt)*	
Minority interests	(1.1)	0.1	(0.8)	*NA*	*(27.5)*	
Net profit	**34.5**	**45.6**	**27.8**	***(39.0)***	***(19.4)***	Within expectations.
Core net profit	**35.5**	**46.1**	**25.8**	***(44.0)***	***(27.2)***	Within expectations. Excludes one-off items.
EPS (sen)	2.7	3.5	2.2	*(39.0)*	*(19.4)*	

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	1Q22	4Q22	1Q23	QoQ % chg	YoY % chg
Construction	587.8	444.0	469.1	*5.7*	*(20.2)*
Precast concrete	36.9	59.4	53.0	*(10.8)*	*43.6*
Total	**624.7**	**503.4**	**522.1**	***3.7***	***(16.4)***

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

Segment	1Q22	4Q22	1Q23	QoQ % chg	YoY % chg
Construction	46.2	51.0	36.2	*(29.0)*	*(21.5)*
Precast concrete	1.0	5.3	1.3	*(75.6)*	*28.4*
Total	**47.2**	**56.3**	**37.5**	***(33.4)***	***(20.5)***

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

Segment	1Q22	4Q22	1Q23	QoQ ppt chg	YoY ppt chg
Construction	7.9	11.5	7.7	*(3.8)*	*(0.1)*
Precast concrete	2.7	8.9	2.4	*(6.5)*	*(0.3)*
Total	**7.6**	**11.2**	**7.2**	***(4.0)***	***(0.4)***

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PER 16x sustainable earnings of RM160m	100	2,560	2,240	14
Pre-cast concrete @ PER 16x sustainable earnings of RM20m	100	320	320	0
Investment in Singapore IPPH JV @ book value	50	44	44	0
Net cash/(debt)		(53)	55	NA
RNAV		**2,871**	**2,659**	**8**
No. of shares (m)		1,291	1,291	0
RNAV/share (RM)		**2.22**	**2.06**	**8**
Target price @ 10% discount to RNAV/share		**2.00**	**1.85**	**8**

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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

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