

“9M23 results were within expectations; look for better 4Q23 earnings”

Share price performance



	1M	3M	12M
Absolute (%)	-0.5	5.0	30.3
Rel KLCI (%)	-2.0	4.1	29.0

	BUY	HOLD	SELL
Consensus	9	4	1

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US\$m)	2436.9/523.9
Avg daily vol - 6mth (m)	0.5
52-wk range (RM)	1.41-1.99
Est free float	12.5%
Stock Beta	0.78
Net cash/(debt) (RMm)	(313.7)
ROE (2023E)	18.0%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good	NA
Constituent	
FBM EMAS (Top 200)	NA
ESG Rank	
ESG Risk Rating	27.9 (+1.5 yoy)

Key Shareholders

Sunway Holdings	54.6%
Sungei Way Corp	10.1%
EPF	9.8%
ASN	6.4%

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

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Sunway Construction (SCGB MK)

BUY (maintain)

Up/Downside: +19.6%

Price Target: RM2.26

Previous Target (Rating): RM2.00 (BUY)

Expanding order book

- Sunway Construction's (SunCon) core net profit eased 2% yoy to RM96m in 9M23 due to higher interest expense as net gearing increased to 37%
- SunCon secured RM2.23bn of new contracts in 9M23, expanding its order book to RM5.8bn. We raise core EPS by 2-5% in 2023-25E to reflect higher new contract wins (RM2.5bn in 2023E) and profit margins
- SunCon remains a top sector mid-cap BUY with a higher 12-month RNAV-based target price (TP) of RM2.26

Within expectations; look for better 4Q23 performance

SunCon's core net profit of RM96m (-2% yoy) in 9M23 represented 68-70% of consensus and our previous forecasts of RM136.8-140.4m for the full year. Revenue grew 9% yoy to RM1.8bn in 9M23 as new projects kicked in. Similarly, EBIT increased 9% yoy to RM142.7m with sustained operational profitability. However, PBT was flat at RM127.9m in 9M23, mainly due to higher interest expenses. Construction PBT declined 14% yoy to RM75.3m in 6M23 due to lower progress billings. Its net gearing increased to 37% at end-3Q23 from a net cash of RM54.6m at end-2022 due to debt funding for 2 Indian highway concessions and deferred payment for 2 Large-Scale Solar Phase 4 (LSS4) projects.

Pre-cast concrete earnings saw a strong rebound

Pre-cast concrete PBT doubled to RM11m on higher revenue (+67% yoy), mainly due to maiden contribution from its new Industrial Concrete Products Hub (ICPH) in Singapore. Construction PBT margin eased marginally to 5.7% in 9M23 compared to 6.1% in 9M22, leading to a 4% yoy decline in PBT to RM117m. Revenue increased 11% qoq and 44% yoy to RM673.5m in 3Q23 as progress billings accelerated for ongoing projects. Core earnings grew 16% qoq and 54% yoy to RM38m in 3Q23. The better sequential quarterly performance YTD trend is expected to close with the best quarter in 4Q23.

Still a BUY with higher TP of RM2.26

SunCon's high remaining order book of RM5.8bn at end-3Q23, equivalent to 2.7x its 2022 revenue, should sustain its construction activities and earnings in 2024-25E. It secured RM2.23bn worth of new contracts in 9M23 and exceeded its RM2bn target in 2023, with good prospects to expand its order book with an active tender book of RM26.4bn. It submitted bids for the Klang Valley MRT Line 3 (MRT3) Package CMC301 and CMC302, a Vietnam coal-fired power plant, Bayan Lepas LRT (pre-qualification bid), 4 data centres and commercial building projects. We raise our TP to RM2.26 from RM2.00 as we lift our RNAV/share estimate and assume no TP discount to RNAV (10% discount previously). This is justified by the lower execution risks as the 2 Indian highway and 2 LSS4 projects that SunCon is financing are near completion. Key downside risks: a slow roll-out of infrastructure projects and higher building material costs.

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	1,729.2	2,155.2	2,472.2	2,872.6	3,106.7
EBITDA (RMm)	198.9	218.9	226.3	238.4	263.7
Pretax profit (RMm)	152.2	184.1	187.5	191.7	212.9
Net profit (RMm)	112.6	135.2	138.9	142.2	158.3
EPS (sen)	8.7	10.5	10.8	11.0	12.3
PER (x)	21.7	18.0	17.6	17.2	15.4
Core net profit (RMm)	144.6	143.8	138.9	142.2	158.3
Core EPS (sen)	11.2	11.1	10.8	11.0	12.3
Core EPS growth (%)	57.3	(0.6)	(3.4)	2.3	11.3
Core PER (x)	16.9	17.0	17.6	17.2	15.4
Net DPS (sen)	5.3	5.5	5.5	5.5	6.0
Dividend Yield (%)	2.8	2.9	2.9	2.9	3.2
EV/EBITDA	9.9	10.9	11.9	11.7	10.5
Chg in EPS (%)			+1.6	+1.7	+5.5
Affin/Consensus (x)			1.0	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg	Comment
Revenue	469.3	604.1	673.5	11.5	43.5	1,651.8	1,799.7	9.0	9M23: Higher construction (+4% yoy) and pre-cast concrete (+67% yoy) revenue with commencement of its ICPH operation.
Op costs	(424.5)	(552.4)	(611.3)	10.7	44.0	(1,503.2)	(1,624.3)	8.1	
EBITDA	44.7	51.7	62.2	20.4	39.2	148.6	175.4	18.1	
<i>EBITDA margin (%)</i>	<i>9.5</i>	<i>8.6</i>	<i>9.2</i>	<i>0.7 ppt</i>	<i>(0.3 ppt)</i>	<i>9.0</i>	<i>9.7</i>	<i>0.8 ppt</i>	Higher profit margin, mainly due to improved precast concrete manufacturing efficiency, partly offset by lower construction profit margin.
Depn and amort	(5.8)	(5.3)	(5.2)	(2.2)	(10.8)	(18.2)	(32.7)	80.2	
EBIT	38.9	46.4	57.0	23.0	46.7	130.4	142.7	9.4	
<i>EBIT margin (%)</i>	<i>8.3</i>	<i>7.7</i>	<i>8.5</i>	<i>0.8 ppt</i>	<i>0.2 ppt</i>	<i>7.9</i>	<i>7.9</i>	<i>0.0 ppt</i>	
Interest income	4.1	6.7	7.0	4.5	72.7	9.5	17.8	88.6	Higher returns on cash despite lower cash balance.
Interest expense	(3.2)	(11.5)	(13.0)	13.8	304.4	(7.6)	(32.7)	333.6	Higher net debt for concessions and deferred payment construction projects.
Associates	(0.1)	0.3	0.0	(100)	NA	3.7	0.3	(91.4)	
Forex gain (losses)	0.9	0.6	(0.9)	NA	NA	1.2	(0.0)	NA	
Exceptional items	(2.9)	(0.3)	(2.0)	583.8	(30.4)	(9.4)	(0.2)	(98.4)	
Pretax profit	37.6	42.3	48.1	13.8	27.9	127.8	127.9	0.1	Lower construction PBT (-4% yoy), offset by higher pre-cast concrete PBT (+103% yoy).
Tax	(13.6)	(9.0)	(12.6)	40.1	(7.7)	(34.5)	(30.5)	(11.8)	
<i>Tax rate (%)</i>	<i>36.2</i>	<i>21.4</i>	<i>26.2</i>	<i>4.7 ppt</i>	<i>(10.0 ppt)</i>	<i>27.8</i>	<i>23.9</i>	<i>(3.9 ppt)</i>	
Minority interests	(1.2)	(0.3)	(0.5)	88.4	(59.6)	(3.7)	(1.6)	(57.1)	
Net profit	22.7	33.0	35.0	6.1	54.1	89.5	95.8	7.0	Within expectations.
EPS (sen)	1.8	2.6	2.7	6.3	54.5	7.0	7.4	6.9	
Core net profit	24.7	32.7	37.9	16.1	53.6	97.7	96.0	(1.7)	Within expectations. Exclude one-off items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg
Construction	418.9	535.6	590.6	10.3	41.0	1,529.7	1,595.2	4.3
Precast concrete	50.3	68.5	83.0	21.0	64.8	122.1	204.5	67.4
Total	469.3	604.1	673.5	11.5	43.5	1,651.8	1,799.7	9.0

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

Segment	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg
Construction	35.1	39.0	41.6	6.6	18.7	122.3	116.9	(4.5)
Precast concrete	2.5	3.2	6.5	101.5	156.3	5.4	11.0	103.0
Total	37.6	42.3	48.1	13.8	27.9	127.8	127.9	0.1

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

Segment	3Q22	2Q23	3Q23	QoQ ppt chg	YoY ppt chg	9M22	9M23	YoY ppt chg
Construction	8.4	7.3	7.0	(0.2)	(1.3)	8.0	7.3	(0.7)
Precast concrete	5.0	4.7	7.8	3.1	2.8	4.4	5.4	0.9
Total	8.0	7.0	7.1	0.1	(0.9)	7.7	7.1	(0.6)

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	2,560	0
Pre-cast concrete @ PER 16x sustainable earnings of RM25m	100	400	320	25
Investment in Singapore IPPH JV @ book value	50	44	44	0
Book value of Indian highways	60	61	0	100
Net cash/(debt)		(152)	(53)	186
RNAV		2,913	2,871	1
No. of shares (m)		1,291	1,291	0
RNAV/share (RM)		2.26	2.22	1
Target price @ RNAV		2.26	2.00	13

Source: Affin Hwang, Company

Fig 5: 12-month forward PER



Source: Affin Hwang, Bloomberg



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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