Results Note

RM1.80 @ 23 August 2023

"6M23 results were within our expectations; assuming higher progress billings in 2H23"

Share price performance

	1M	3M	12M
Absolute (%)	6.5	6.5	16.1
Rel KLCI (%)	4.4	4.2	19.3

	BUY	HOLD	SELL
Consensus	11	3	-

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US$m)	2320.8/498.5
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	1.41-1.84
Est free float	13.4%
Stock Beta	0.78
Net cash/(debt) (RMm)	(277.9)
ROE (2023E)	17.8%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	NA
FBM EMAS (Top 200) ESG Rank	NA
ESG Risk Rating	NA

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: +11.1%

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

Sequential earnings growth

- **Sunway Construction's (SunCon) core net profit contracted 20% yoy to RM58.5m in 6M23 as some projects were completed in 2022 and new projects are still at early stages of construction**
- **SunCon secured RM1.59bn of new contracts in 6M23, replenishing its order book to RM5.8bn. Active tender book of RM27bn supports potential expansion**
- **SunCon remains a top sector mid-cap BUY with an unchanged 12-month target price (TP) of RM2.00, based on 10% discount to RNAV**

Within expectations; assuming stronger 2H23 performance

SunCon's core net profit of RM58.5m (-20% yoy) in 6M23 represented 39-43% of consensus and our forecasts of RM136.8-149.1m for the full year. Revenue declined 5% yoy to RM1.13bn in 6M23 as new projects are still at early stages. Furthermore, EBIT in 2H22 was a high base due to better profit margins on finalisation of accounts for some completed projects. PBT fell 12% yoy to RM79.8m in 6M23, mainly due to higher interest expenses. Construction PBT declined 14% yoy to RM75.3m in 6M23 due to lower progress billings. Pre-cast concrete PBT rose 56% yoy to RM4.5m on higher revenue, mainly due to maiden contribution from its new Industrial Concrete Products Hub (ICPH) in Singapore. Construction PBT margin eased marginally to 5.8% in 6M23 compared to 6.1% in 6M22. Revenue increased 16% qoq and 8% yoy to RM604.1m in 2Q23 as progress billings accelerated for ongoing projects. Core earnings jumped 27% qoq to RM32.7m but was down 13% yoy. The better sequential quarter performance in 2Q23 supports our view of better 2H23 operational performance.

High order book provides good earnings visibility

SunCon's high remaining order book of RM5.8bn at end-2Q23, equivalent to 2.7x its 2022 revenue, should sustain its construction activities and earnings in 2023-24E. It secured RM1.59bn worth of new contracts in 6M23 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 RM27bn. 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.

Remains a top sector BUY with unchanged 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 unchanged TP of RM2.00. 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	2,993.4	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)	20.6	17.2	17.0	16.6	15.5
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)	16.1	16.2	17.0	16.6	15.5
Net DPS (sen)	5.3	5.5	5.5	5.5	6.0
Dividend Yield (%)	2.9	3.1	3.1	3.1	3.3
EV/EBITDA	9.4	10.4	11.4	11.3	9.7
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	6M22	6M23	YoY % chg	Comment
Revenue	**557.9**	**522.1**	**604.1**	**15.7**	**8.3**	**1,182.5**	**1,126.2**	**(4.8)**	6M23: Lower construction revenue (-10% yoy) but higher pre-cast concrete (+69% yoy) revenue.
Op costs	(504.1)	(477.2)	(552.4)	15.8	9.6	(1,078.7)	(1,029.6)	(4.6)	Lower costs in line with lower revenue.
EBITDA	**53.8**	**44.9**	**51.7**	**15.0**	**(3.8)**	**103.9**	**96.6**	**(7.0)**	
EBITDA margin (%)	*9.6*	*8.6*	*8.6*	*(0.1ppt)*	*(1.1ppt)*	*8.8*	*8.6*	*3.2ppt*	Lower profit margin, mainly due to normalisation of profit margin for its ongoing construction projects.
Depn and amort	(6.1)	(5.3)	(5.3)	1.3	(12.8)	(12.3)	(10.6)	(14.2)	
EBIT	**47.6**	**39.7**	**46.4**	**16.8**	**(2.7)**	**91.5**	**86.0**	**(6.0)**	
EBIT margin (%)	*8.5*	*7.6*	*7.7*	*0.1ppt*	*(0.9ppt)*	*7.7*	*7.6*	*3.9ppt*	
Interest income	3.2	4.1	6.7	63.8	111.8	5.4	10.8	100.6	Higher returns on cash despite lower cash balance.
Interest expense	(3.2)	(8.3)	(11.5)	38.5	260.4	(4.3)	(19.7)	355.4	
Associates	0.6	0.0	0.3	NA	(49.9)	3.8	0.3	(91.7)	
Forex gain (losses)	0.3	0.2	0.6	161.2	94.0	0.3	0.9	230.5	
Exceptional items	(5.6)	1.8	(0.3)	NA	(94.7)	(6.5)	1.5	NA	Mainly net gain on disposal of fixed assets.
Pretax profit	**43.0**	**37.5**	**42.3**	**12.7**	**(1.7)**	**90.1**	**79.8**	**(11.5)**	Lower construction PBT (-14% yoy) but higher pre-cast concrete PBT (+56% yoy).
Tax	(9.3)	(8.9)	(9.0)	1.3	(3.8)	(20.9)	(17.9)	(14.4)	
Tax rate (%)	*22.1*	*23.7*	*21.4*	*(2.2ppt)*	*(0.6ppt)*	*24.2*	*22.5*	*(8.7ppt)*	
Minority interests	(1.3)	(0.8)	(0.3)	(67.2)	(79.9)	(2.5)	(1.1)	(55.9)	
Net profit	**32.3**	**27.8**	**33.0**	**18.6**	**2.2**	**66.8**	**60.8**	**(9.0)**	Within expectations.
EPS (sen)	2.5	2.2	2.6	18.5	2.0	5.2	4.7	(9.1)	
Core net profit	**37.6**	**25.8**	**32.7**	**26.5**	**(13.1)**	**73.0**	**58.5**	**(19.9)**	Within expectations. Exclude one-off items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	6M22	6M23	YoY % chg
Construction	523.0	469.1	535.6	14.2	2.4	1,110.7	1,004.7	(9.5)
Precast concrete	34.9	53.0	68.5	29.3	96.4	71.8	121.5	69.3
Total	**557.9**	**522.1**	**604.1**	**15.7**	**8.3**	**1,182.5**	**1,126.2**	**(4.8)**

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

Segment	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	6M22	6M23	YoY % chg
Construction	41.1	36.2	39.0	7.8	(5.0)	87.3	75.3	(13.7)
Precast concrete	1.9	1.3	3.2	149.0	71.3	2.9	4.5	56.3
Total	**43.0**	**37.5**	**42.3**	**12.7**	**(1.7)**	**90.1**	**79.8**	**(11.5)**

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

Segment	2Q22	1Q23	2Q23	QoQ ppt chg	YoY ppt chg	6M22	6M23	YoY ppt chg
Construction	7.9	7.7	7.3	(0.4)	(0.6)	7.9	7.5	(0.4)
Precast concrete	5.4	2.4	4.7	2.3	(0.7)	4.0	3.7	(0.3)
Total	**7.7**	**7.2**	**7.0**	**(0.2)**	**(0.7)**	**7.6**	**7.1**	**(0.5)**

Source: Affin Hwang, Company

Fig 5: RNAV and target price

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

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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