

**Malaysia**

November 21, 2023 - 5:43 PM

**ADD** (no change)

Consensus ratings\*: Buy 9 Hold 4 Sell 1

Current price:	RM1.92
Target price:	RM2.14
Previous target:	RM2.14
Up/downside:	11.3%
CGS-CIMB / Consensus:	4.1%
Reuters:	SCOG.KL
Bloomberg:	SCGB MK
Market cap:	US\$530.3m
	RM2,476m
Average daily turnover:	US\$0.23m
	RM1.10m
Current shares o/s	1,293m
Free float:	28.9%

\*Source: Bloomberg

**Key financial forecasts**

	Dec-23F	Dec-24F	Dec-25F
Net Profit (RMm)	141.0	167.5	195.2
Core EPS (RM)	0.11	0.13	0.15
Core EPS Growth	(1.6%)	18.8%	16.5%
FD Core P/E (x)	17.24	14.52	12.45
Recurring ROE	18.3%	19.7%	20.8%
P/BV (x)	3.01	2.73	2.46
DPS (RM)	0.055	0.065	0.075
Dividend Yield	2.93%	3.44%	4.01%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.1	7.9	28
Relative (%)	0	7.2	27.5

Major shareholders	% held
Sunway Berhad	54.4
EPF	9.4
Amanah Saham	7.3

**Analyst(s)**

**CHONG Tjen-San, CFA**

T (60) 3 2635 9298

E tjen-san.chong@cgs-cimb.com

# Sunway Construction Group Bhd

## Strong 3Q; awaiting Vietnam project award

- 3Q23 results showed significant improvement yoy and qoq, and met expectations. Key highlight was the sharp uptick in 3Q23 precast margin.
- All eyes still on the award of Song Hau 2 Vietnam power plant project.
- Reiterate Add and TP of RM2.14 based on SOP.

### 3Q23 results in line; strong recovery during the quarter

- Sunway Construction (Suncon) today (21 Nov) announced 3Q23 core net profit of RM38m (+54% yoy, +18% qoq), bringing 9M23 core net profit to RM96m (-2% yoy). This was at 68% of our and Bloomberg consensus full-year estimates. As we expect 4Q to be another strong quarter, we deem the results as in line. Note that FY22 core net profit was lifted by the final certification of accounts for some construction projects and our current FY23F core net profit assumes a 2% yoy decline.
- The key highlight was the 21% qoq growth in 3Q23 precast revenue to RM83m with improvement in pretax margin to 8% (2Q23: 5%). The higher revenue was driven by contributions from integrated concrete and prefabrication (ICPH) projects and several newer projects as well as the reversal of provisions for completed projects in 3Q23.
- Construction revenue increased 41% yoy in 3Q23 due to higher contribution from its sustainable energy projects. Pretax margin declined slightly to 7% vs. 8% in 3Q22 as 3Q22 saw a reversal in provision for a legal case.

### YTD wins of RM2.2bn beat RM2bn guidance; awaits Vietnam project

- Suncon's YTD wins amount to RM2.2bn, well exceeding its RM2bn new order win target for FY23. Its more recent wins in Oct 2023 were from Daiso Global Distribution Center warehouse at Pulau Indah worth RM595m (Suncon's share: RM297m), data centre project in Johor worth RM190m, and a preliminary works contract for Song Hau 2 Vietnam power plant worth US\$9.5m (c.RM45m).
- Its outstanding order book as at end-Sep 2023 was RM5.8bn.
- More importantly, we believe the US\$9.5m limited access works contract for the Song Hau 2 Vietnam power plant is a precursor for an additional RM6bn worth of works for this project. This is assuming the Sunway-PECC2 Consortium clinches the full US\$2.4bn Vietnam power plant project, where its 55% stake in the consortium would be worth RM6bn. We understand from Suncon that the project's award had been delayed due to some country-specific bureaucracy but the situation has since improved.
- We believe the recent wins are also proof that Suncon has been successful in making inroads into the industrial warehouse, data centre and semiconductor factory space, and is now less reliant on traditional building projects. In FY22, Suncon clinched a RM1.7bn industrial project to build a data centre in Sedenak Tech Park, Johor, its largest project clinched that year. Suncon said progress has been slow for this project but the burn rate has been about RM100m in revenue for the past two quarters and should pick up in FY24F.

### Reiterate Add and TP of RM2.14

- We reiterate our Add call and SOP-based TP of RM2.14, equivalent to 16.5x FY24F P/E, 0.5 s.d. below its mean since 2015. This is reflective of Suncon's strong execution track record, ready pipeline from Sunway Berhad (SWB MK, Add, CP: RM1.98), balance sheet strength, and market-leading ROEs of 18-20% and decent dividend yields of 3-4% for FY23F-FY24F, in our view.
- Key risks are increased raw material costs and labour shortages, which appear more contained now. Re-rating catalysts are faster rollout of MRT 3 and revival of the Kuala Lumpur-Singapore high-speed rail (HSR) project – both would lift sentiment on construction stocks like Suncon.

Figure 1: Results comparison

	3QFY23	3QFY22	% change yoy	2QFY23	% change qoq
	RMm	RMm		RMm	
Revenue	673.5	469.3	44%	604.1	11%
Other operating income	3.4	4.1	-18%	5.0	-33%
Other operating expense	-622.8	-436.5	43%	-562.5	11%
EBIT	54.1	36.9	47%	46.7	16%
Finance income	7.0	4.1	73%	6.7	4%
Finance cost	-13.0	-3.2	304%	-11.5	14%
Share of JV profits	0.0	-0.1	-100%	0.3	-100%
Profit before taxation	48.1	37.6	28%	42.3	14%
Taxation	-12.6	-13.6	-8%	-9.0	40%
Net income	35.5	24.0	48%	33.3	7%
Minority interest	-0.5	-1.2	-60%	-0.3	88%
Attributed to shareholders	35.0	22.7	54%	33.0	6%
Less: Exceptional Items	-3.0	-2.0		0.7	
Core net profit	38.0	24.7	54%	32.3	18%
	3QFY23	3QFY22	% change yoy	2QFY23	% change qoq
	RMm	RMm		RMm	
Construction	590.6	418.9	41%	535.6	10%
Precast Concrete	83.0	50.3	65%	68.5	21%
Revenue	673.5	469.3	44%	604.1	11%
Construction	41.6	35.1	19%	39.0	7%
Precast Concrete	6.5	2.5	156%	3.2	102%
Profit before taxation	48.1	37.6	28%	42.3	14%
Construction pretax margins	7%	8%	-16%	7%	-3%
Precast concrete pretax margins	8%	5%	56%	5%	67%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Peer comparison (as at 21 Nov 2023)

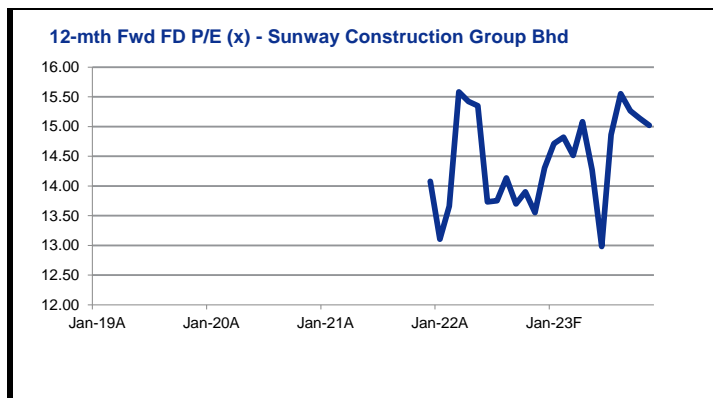
Company	Bbg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	CY23F	CY24F	CY25F	2-year EPS CAGR (%)	P/BV (x) CY23F	P/BV (x) CY24F	Recurring ROE (%) CY23F	Dividend Yield (%) CY23F
Gamuda	GAM MK	Add	4.64	5.65	2,688	13.6	12.3	10.9	5.1%	1.12	1.06	8.5%	7.3%
IJM Corp Bhd	IJM MK	Add	1.88	2.15	1,412	18.7	15.3	13.4	17.5%	0.66	0.64	3.7%	2.0%
WCT Holdings	WCTHG MK	Add	0.52	0.71	158	9.8	8.1	7.2	4.7%	0.18	0.18	1.9%	1.4%
Sunway Construction Group Bhd	SCGB MK	Add	1.92	2.14	530	17.6	14.8	12.7	7.4%	3.07	2.78	18.4%	2.9%
Muhibbah Engineering	MUHI MK	Add	0.70	0.90	109	21.7	10.3	8.1	na	0.38	0.37	1.8%	1.4%
HSS Engineers	HSS MK	Add	1.03	1.21	109	19.2	14.1	12.0	30.7%	1.95	1.78	10.9%	1.6%
YTL Corporation	YTL MK	Add	1.57	1.91	3,688	15.0	12.9	13.4	70.4%	1.18	1.12	8.3%	3.2%
Malayan Cement Bhd	LMC MK	Add	3.89	5.55	1,092	26.7	19.8	16.3	51.9%	0.85	0.83	3.3%	1.2%
Sunway Bhd	SWB MK	Add	2.01	2.57	2,136	15.7	14.1	14.2	7.7%	0.76	0.73	5.1%	1.8%
<b>Malaysia average</b>						<b>16.3</b>	<b>12.2</b>	<b>10.5</b>	<b>8.7%</b>	<b>1.1</b>	<b>1.0</b>	<b>6.8%</b>	<b>3.0%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

## BY THE NUMBERS

Profit & Loss				
(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>2,177</b>	<b>2,553</b>	<b>2,943</b>	<b>3,333</b>
<b>Gross Profit</b>	<b>475</b>	<b>474</b>	<b>518</b>	<b>562</b>
<b>Operating EBITDA</b>	<b>221</b>	<b>218</b>	<b>259</b>	<b>301</b>
Depreciation And Amortisation	-24	-23	-28	-33
<b>Operating EBIT</b>	<b>197</b>	<b>195</b>	<b>231</b>	<b>268</b>
Financial Income/(Expense)	-4	-6	-6	-6
Pretax Income/(Loss) from Assoc.	2	2	2	2
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>195</b>	<b>191</b>	<b>226</b>	<b>264</b>
Exceptional Items	-11	0	0	0
<b>Pre-tax Profit</b>	<b>184</b>	<b>191</b>	<b>226</b>	<b>264</b>
Taxation	-45	-50	-59	-69
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>139</b>	<b>141</b>	<b>167</b>	<b>195</b>
Minority Interests	-4	0	0	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>135</b>	<b>141</b>	<b>167</b>	<b>195</b>
Recurring Net Profit	143	141	167	195
<b>Fully Diluted Recurring Net Profit</b>	<b>143</b>	<b>141</b>	<b>167</b>	<b>195</b>

Cash Flow				
(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>221.0</b>	<b>217.7</b>	<b>259.2</b>	<b>300.8</b>
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(120.5)	(67.4)	(32.4)	(33.0)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(16.3)	(17.5)	(19.5)	(21.5)
Other Operating Cashflow	(249.6)	0.0	0.0	0.0
Net Interest (Paid)/Received	(4.2)	(6.3)	(6.3)	(5.9)
Tax Paid	(45.3)	(49.5)	(58.8)	(68.6)
<b>Cashflow From Operations</b>	<b>(215.0)</b>	<b>77.0</b>	<b>142.2</b>	<b>171.8</b>
Capex	(27.1)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	450.8	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>423.7</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(50.0)</b>
Debt Raised/(repaid)	242.8	50.0	50.0	50.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid	(90.3)	(70.5)	(83.7)	(97.6)
Preferred Dividends				
Other Financing Cashflow	31.5	19.2	21.2	23.2
<b>Cash Flow From Financing</b>	<b>184.0</b>	<b>(1.3)</b>	<b>(12.5)</b>	<b>(24.3)</b>
Total Cash Generated	392.8	25.7	79.7	97.5
<b>Free Cashflow To Equity</b>	<b>451.6</b>	<b>77.0</b>	<b>142.2</b>	<b>171.8</b>
<b>Free Cashflow To Firm</b>	<b>226.8</b>	<b>46.2</b>	<b>113.4</b>	<b>145.0</b>



Balance Sheet				
(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	492	517	597	694
Total Debtors	989	1,322	1,525	1,728
Inventories	53	27	31	35
Total Other Current Assets	104	104	104	104
<b>Total Current Assets</b>	<b>1,637</b>	<b>1,969</b>	<b>2,256</b>	<b>2,561</b>
Fixed Assets	108	135	157	174
Total Investments	223	223	223	223
Intangible Assets	264	264	264	264
Total Other Non-Current Assets	3	3	3	3
<b>Total Non-current Assets</b>	<b>599</b>	<b>626</b>	<b>648</b>	<b>665</b>
Short-term Debt	172	172	172	172
Current Portion of Long-Term Debt				
Total Creditors	917	1,156	1,331	1,505
Other Current Liabilities	14	14	14	14
<b>Total Current Liabilities</b>	<b>1,103</b>	<b>1,342</b>	<b>1,517</b>	<b>1,691</b>
Total Long-term Debt	309	359	409	459
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>309</b>	<b>359</b>	<b>409</b>	<b>459</b>
Total Provisions	3	3	3	3
<b>Total Liabilities</b>	<b>1,415</b>	<b>1,704</b>	<b>1,929</b>	<b>2,153</b>
Shareholders' Equity	737	808	891	989
Minority Interests	84	84	84	84
<b>Total Equity</b>	<b>821</b>	<b>891</b>	<b>975</b>	<b>1,073</b>

Key Ratios				
	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	24.6%	17.8%	15.4%	13.3%
Operating EBITDA Growth	22.6%	(1.5%)	19.1%	16.0%
Operating EBITDA Margin	10.3%	8.6%	8.9%	9.1%
Net Cash Per Share (RM)	0.01	-0.01	0.01	0.05
BVPS (RM)	0.57	0.62	0.69	0.76
Gross Interest Cover	10.94	10.15	10.88	11.53
Effective Tax Rate	24.6%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	61.9%	50.0%	50.0%	50.0%
Accounts Receivables Days	155.7	166.1	177.8	178.8
Inventory Days	10.68	7.06	4.38	4.36
Accounts Payables Days	193.9	182.0	187.7	186.7
ROIC (%)	139%	33%	34%	36%
ROCE (%)	18.6%	15.2%	16.5%	17.5%
Return On Average Assets	7.49%	6.10%	6.32%	6.56%

Key Drivers				
	Dec-22A	Dec-23F	Dec-24F	Dec-25F
New order wins	150.0	974.0	2,180.0	2,180.0
Construction revenue	1,973.6	2,357.3	2,742.9	3,139.4
Precast revenue	181.6	181.5	186.0	180.0
Construction EBIT margins	8.5	7.5	7.7	7.9
Precast EBIT margins	9.9	10.5	10.8	11.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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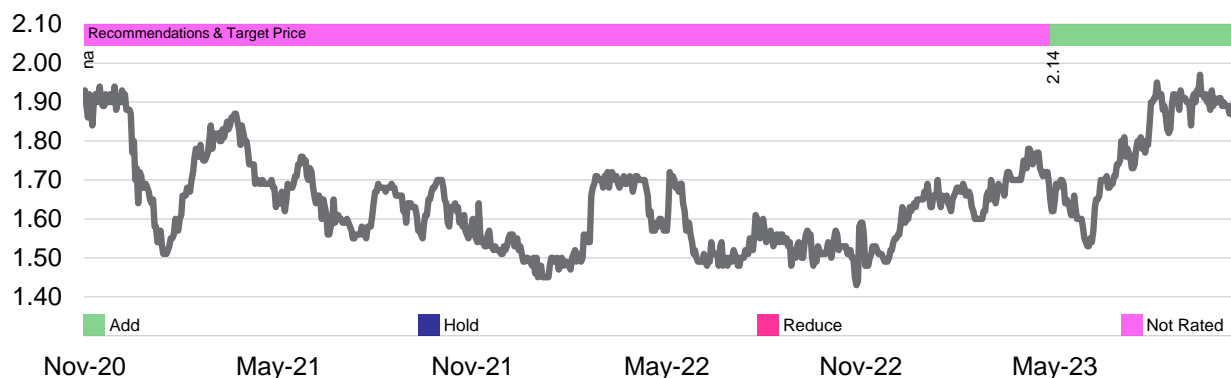
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634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

### Spitzer Chart for stock being researched ( 2 year data )

#### Sunway Construction Group Bhd (SCGB MK)

— Price Close



### Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
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