

HLIB Research

PP 9484/12/2012 (031413)

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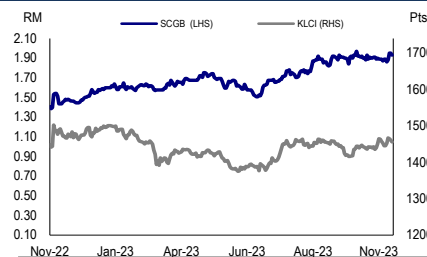
BUY (Maintain)

Target Price: RM2.16
Previously: RM2.16
Current Price: RM1.89

Capital upside	14.3%
Dividend yield	2.9%
Expected total return	17.2%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	1.6	8.4	28.7
Relative	0.5	7.7	28.1

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	2,444
3-mth average volume ('000)	634
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Berhad	54.6%
EPF	9.8%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	143.9	140.2	186.1
EPS - core (sen)	11.1	10.8	14.4
P/E (x)	17.0	17.4	13.1

Sunway Construction Group

Momentum builds up

SunCon reported 9MFY23 earnings of RM98.8m (+1.0% YoY) meeting our and consensus expectations. We expect a sequentially stronger quarter to wrap up FY23. Outstanding orderbook stands at RM5.8bn (2.7x cover). We continue to expect contract wins for the remainder of 2023. Its power plant project could be activated closer to mid-CY24. Precast segment should continue to benefit from healthy demand in SG. No change to forecasts. Maintain BUY with unchanged TP of RM2.16.

Met expectations. SunCon reported 3QFY23 results with revenue of RM673.5m (+11.5% QoQ, +43.5% YoY) and core PATAMI of RM37.8m (+13.9% QoQ, +47.0% YoY). This brings 9MFY23 core PATAMI to RM98.8m, increasing by 1.0% YoY. Results came in in-line with our/consensus expectations at 71%/70%. We expect a sequentially stronger quarter to wrap up FY23 to be driven by billings from completing projects.

Els. We adjust SunCon's 3QFY23 earnings by RM2.8m of financial asset impairment.

Dividends. No DPS was declared in 3QFY23. Dividends are declared in 2Q and 4Q.

QoQ. Core PATAMI increased by 13.9%, while revenue similarly charted an 11.5% growth. Improved performance was top-line driven by both its construction and precast segment at 10.3% and 21.2% respectively. At the PBT level, construction and precast increased by 6.4% and 103.1%. Driving the construction segment was stronger contribution from its sustainable energy projects (LSS4: 100MW) and higher progress rate of its new projects. Its Indian highway projects are also running at steady pace. The improvements from precast was driven by higher productivity of its ICPH plant while profitability was also boosted by reversal of provision for completed projects.

YoY. Core PATAMI grew by 47.0% as revenue surged by 43.5% (Construction: +40.9%; Precast: +65.0%). Construction segment in 3QFY22 was sluggish due to weak recognition phase for new projects during the quarter. As for precast, improvements was ICPH driven.

YTD. Core PATAMI came in flat at +1.0%, as higher finance costs (+333.7%) diluted away impact of stronger revenue performance (+9.0%). SunCon turned net debt in 1QFY23 due to higher progress at its Indian projects which follows the HAM model (deferred payments). Nevertheless, we expect balance sheet restoration next year with both projects nearing completion.

Orderbook. Latest outstanding orderbook stands at RM5.79bn (2.7x cover). Contract wins tally for FY23 YTD stands at RM2.2bn, exceeding management's base case expectation. For the remainder of 2023, we foresee further internal contract wins, precast jobs in SG and potentially factories/data centres. Going into 2024, we think SunCon's RM6bn power plant job could be activated closer to mid-CY24. Finalisation of revived civil scopes of the LRT3 should be ready early next year (we estimate around RM1-2bn). Given tight deadlines on project delivery, SunCon's good execution track record in GS06, 07 & 08 packages could lead to opportunities here. We see SunCon as a contender for MRT3 and Penang LRT (subcontractor) whenever these projects materialise. Additionally, we expect SunCon to build on their successful foray into data centres (two jobs in hand), considering strong flows. Meanwhile internally, there could be more jobs from parent-co's Iskandar development next year.

Precast. Its precast division is on track to register a RM250m-300m revenue year on the back of additional capacity from its ICPH plant. On past guidance, SunCon maintains a tenderbook of SGD500m focusing on residential products (HDB projects). Revenue contribution could improve with easing storage bottlenecks. HDB launches came in ~17k in 10M23 with another 6k to be launched in 2023, tracking in-line with expectations.

Forecast. No change.

Maintain BUY, TP: RM2.16. Maintain BUY with unchanged TP of RM2.16. TP is derived by pegging FY24 EPS to 15x P/E multiple. SunCon presents a safer exposure to domestic infrastructure project rollouts, backed by strong support from its parent-co and potential project in VN. Risks: margin squeeze from subsidy rationalisation, project delays and execution.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	469.3	604.1	673.5	11.5	43.5	1,651.8	1,799.7	9.0
EBIT	41.2	46.9	56.9	21.4	38.0	131.8	145.5	10.3
Finance income	2.7	6.7	7.0	4.5	158.0	8.1	17.8	119.8
Finance cost	(3.2)	(11.5)	(13.0)	13.8	304.4	(7.6)	(32.8)	333.7
PBT	40.6	42.5	50.9	19.9	25.3	136.1	130.9	(3.8)
PAT	27.0	33.5	38.3	14.4	42.0	101.5	100.4	(1.1)
Core PATMI	25.7	33.2	37.8	13.9	47.0	97.8	98.8	1.0
Reported PATMI	22.7	33.0	35.0	6.1	54.1	89.5	95.8	7.0
Core EPS (sen)	2.0	2.6	2.9	13.9	47.0	7.6	7.6	1.0
EBIT margin (%)	8.8	7.8	8.4			8.0	8.1	
PBT margin (%)	8.7	7.0	7.6			8.2	7.3	
PATMI margin (%)	5.5	5.5	5.6			5.9	5.5	

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Cash	98.8	491.6	563.6	1,009.7	1,146.6
Receivables	660.8	1,077.6	1,672.7	1,504.4	1,275.8
Inventories	46.2	53.4	26.0	30.3	32.4
PPE	124.7	107.5	99.9	90.9	80.5
Others	933.7	505.9	507.6	509.3	511.0
Assets	1,864.2	2,236.0	2,869.8	3,144.6	3,046.3
Debits	237.9	480.7	948.6	883.9	590.5
Payables	873.2	895.4	987.6	1,210.8	1,294.3
Others	36.3	39.2	39.2	39.2	39.2
Liabilities	1,147.4	1,415.3	1,975.4	2,133.8	1,924.0
Shareholder's equity	699.1	737.1	810.8	927.2	1,038.7
Minority interest	17.6	83.7	83.7	83.7	83.7
Equity	716.8	820.8	894.4	1,010.8	1,122.3

Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	185.0	192.8	183.8	244.2	249.9
Depreciation & amortisation	27.4	23.8	27.6	29.0	30.4
Changes in working capital	157.9	(401.8)	(475.4)	387.2	310.0
Share of JV profits	(13.3)	(1.7)	(1.7)	(1.7)	(1.7)
Taxation	(41.5)	(45.3)	(40.1)	(53.4)	(54.6)
Others	(76.8)	17.3	-	-	-
Operating cash flow	238.7	(215.0)	(305.8)	605.3	534.0
Net capex	(40.6)	(2.9)	(20.0)	(20.0)	(20.0)
Others	(133.4)	426.7	-	-	-
Investing cash flow	(174.0)	423.8	(20.0)	(20.0)	(20.0)
Changes in borrowings	(63.0)	242.8	467.9	(64.8)	(293.3)
Issuance of shares	-	-	-	-	-
Dividends paid	(77.0)	(71.1)	(70.1)	(74.5)	(83.8)
Others	17.7	(29.0)	-	-	-
Financing cash flow	(122.4)	142.7	397.8	(139.2)	(377.1)
Net cash flow	(57.7)	351.4	72.0	446.1	136.9
Forex	-	-	-	-	-
Others	(43.5)	41.3	-	-	-
Beginning cash	200.1	98.8	491.6	563.6	1,009.7
Ending cash	98.8	491.6	563.6	1,009.7	1,146.6

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	1,729.2	2,155.2	2,348.2	2,745.5	2,910.5
EBITDA	199.6	219.0	227.4	298.7	296.3
EBIT	172.2	195.2	199.8	269.7	265.9
Net finance income/ (cost)	(0.4)	(4.2)	(17.7)	(27.2)	(17.7)
Associates & JV	13.3	1.7	1.7	1.7	1.7
Profit before tax	185.0	192.8	183.8	244.2	249.9
Tax	(41.5)	(45.3)	(40.1)	(53.4)	(54.6)
Net profit	143.5	147.4	143.7	190.9	195.3
Minority interest	1.8	(3.6)	(3.6)	(4.7)	(4.8)
Core PATAMI	145.3	143.9	140.2	186.1	190.4
Exceptional items	(32.8)	(8.7)	-	-	-
Reported earnings	112.6	135.2	140.2	186.1	190.4

Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	11.2	11.1	10.8	14.4	14.7
P/E (x)	16.8	17.0	17.4	13.1	12.8
EV/EBITDA (x)	12.6	11.5	11.1	8.4	8.5
DPS (sen)	6.0	5.5	5.4	5.8	6.5
Dividend yield	3.2%	2.9%	2.9%	3.0%	3.4%
BVPS (RM)	0.5	0.6	0.6	0.7	0.8
P/B (x)	3.5	3.3	3.0	2.6	2.4
EBITDA margin	11.5%	10.2%	9.7%	10.9%	10.2%
EBIT margin	10.0%	9.1%	8.5%	9.8%	9.1%
PBT margin	10.7%	8.9%	7.8%	8.9%	8.6%
Net margin	8.3%	6.8%	6.1%	7.0%	6.7%
ROE	21.8%	20.0%	18.1%	21.4%	19.4%
ROA	7.1%	6.1%	4.6%	4.9%	4.6%
Net gearing	19.9%	CASH	47.5%	CASH	CASH

Assumptions

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Construction	1,149	2,414	2,300	3,000	2,000
Precast	296	168	200	400	300
Total new job wins	1,445	2,582	2,500	3,400	2,300

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Published & printed by:

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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