

22 February 2023

Sunway Construction Group

Another Busy Year Ahead

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SUNCON's FY22 earnings beat expectations on stronger-than-expected margins registered in 4QFY22. Its construction job win prospects are bright underpinned by the MRT3 project and more data centre building jobs. Its precast division will be buoyed by margin recovery on lower steel prices. We maintain our FY23F earnings forecast, TP of RM2.13 and OUTPERFORM call.

Above expectations. FY22 core net profit of RM137m beat our forecast and consensus estimate by 7% and 9%, respectively. The variance against our forecast came largely from stronger-than-expected margin in 4QFY22 on lumpy profit recognition on account finalisation for completed projects. Meanwhile, its full-year dividend of 5.5 sen (2.5 sen declared in 4Q) also came above our 5.0 sen forecast.

FY22 revenue rose 25% YoY while core net profit gained 23% from a low base during the pandemic-stricken period a year ago.

Outlook. In FY22, SUNCON secured RM8.6b worth of jobs (of which RM6b is an interim agreement for a Vietnamese coal fired power plant pending financial close before a definitive agreement can be signed) bringing outstanding order book to a high of RM11.3b. For FY23, replenishment prospects are bright underpinned by: (i) MRT3, (ii) Johor Bahru – Singapore Rapid Transit System (RTS), and (iii) more data centre building jobs. We have penned in a FY23F replenishment rate of RM2.2b, slightly higher than the company's target of RM2.0b.

Its precast division's margins are expected to remain healthy at >5% moving forward as newer contracts secured have better margins while steel prices (a major cost component) have declined. Meanwhile, its Singapore Integrated Construction and Prefab Hub (ICPH) has commenced operations in Jan 2023. Nonetheless, we only expect optimum utilisation rate in FY24 as the group would need to sort out teething issues before it can fully ramp up the plant to contribute meaningfully.

In terms of labour requirement, SUNCON has brought in 394 workers out of its quota for 400 secured back in Jun 2022 raising its current labour count to c.600. It has applied to bring in another 600 workers, out of which 300 have been approved by the government in Jan 2023.

Forecasts. Despite the outperformance in FY22, we keep FY23F earnings unchanged, on less saving to be recognised this year with lower number of projects reaching completion. Meanwhile, we introduce FY24F earnings of RM172m supported by a replenishment of RM2.2b.

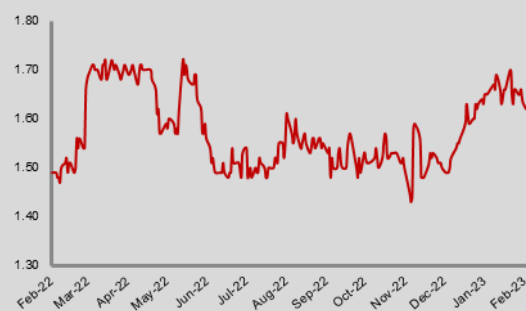
Maintain OUTPERFORM with an unchanged TP of RM2.13 based on 16x PER. We like SUNCON for: (i) its strong replenishment pipeline from parent SUNWAY, (ii) its dominant position in the local construction space with extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works, and (iii) its strong balance sheet that allows it to participate in deferred payment model projects. We accord a 5% premium to its TP given a 4-star ESG rating as appraised by us (see Page 4).

Risks to our call include: (i) sustained weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

OUTPERFORM ↔

Price : RM1.65
Target Price : RM2.13 ↔

Share Price Performance



KLCI 1,474.01
YTD KLCI chg -1.4%
YTD stock price chg 5.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,127.4
Shares Outstanding	1,289.4
52-week range (H)	1.74
52-week range (L)	1.41
3-mth avg daily vol:	715,175
Free Float	14%
Beta	0.9

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.5%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	2155.2	2884.0	2995.0
EBIT	188.2	218.9	235.4
PBT	184.1	213.4	225.4
Net Profit	135.2	163.7	171.6
Core PATAMI	137.1	163.7	171.6
Consensus (NP)	126.3	152.8	157.3
Earnings Revision	n.a.	0%	NEW
Core EPS (sen)	10.6	12.7	13.3
Core EPS growth (%)	23	19	5
NDPS (sen)	5.5	5.0	5.0
NTA per Share (RM)	0.59	0.67	0.75
Price to NTA (x)	2.8	2.5	2.2
PER (x)	15.5	13.0	12.4
Net Gearing (x)	-0.5	0.0	-0.1
Return on Equity (%)	18	19	18
Net Div. Yield (%)	3.3	3.0	3.0

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Results Highlight

FYE Dec (RM m)	4Q22	3Q22	QoQ	4Q21	YoY	FY22	FY21	YoY
Revenue	503.4	469.3	7%	626.6	-20%	2,155.2	1,729.2	25%
Operating Expenses	-449.5	-440.8	2%	-556.0	-19%	-1,991.1	-1,612.2	23%
Other Operating Income	10.4	8.5	23%	14.3	-27%	22.4	22.5	-1%
Operating Profit	64.3	36.9	74%	84.9	-24%	186.5	139.4	34%
Finance Income	4.4	4.1	9%	1.0	322%	13.9	4.2	234%
Finance costs	-10.5	-3.2	225%	-1.1	868%	-18.0	-4.6	293%
Associates	0.0	-0.1	n.a.	1.5	-98%	3.7	8.6	-57%
JV	-2.0	0.0	#DIV/0!	4.6	-143%	-2.0	4.6	-143%
PBT	56.3	37.6	50%	91.0	-38%	184.1	152.2	21%
Tax	-10.8	-13.6	-21%	-26.0	-58%	-45.3	-41.5	9%
PAT	45.5	24.0	90%	65.0	-30%	138.7	110.8	25%
MI	-0.1	1.2	-111%	0.3	-152%	3.6	-1.8	n.a.
PATAMI	45.6	22.7	101%	64.7	-29%	135.2	112.6	20%
Exceptionals	-0.4	-2.1	-81%	0.7	-157%	-1.9	0.7	n.m.
CNP	46.0	24.8	86%	64.0	-28%	137.1	111.9	23%
DPS	2.5	0.0	n.a.	4.0	-38%	5.5	5.3	5%
EBIT margin	12.8%	7.9%		14%		8.7%	8%	
Pretax margin	11%	8%		15%		9%	9%	
NP margin	9%	5%		10%		6%	6%	
CNP margin	9%	5%		10%		6%	6%	
Net gearing (x)	-0.1	-0.1		-0.6		-0.1	-0.6	
Effective tax	19%	36%		29%		25%	27%	

Source: Company, Kenanga Research

Segmental Breakdown

	4Q22	3Q22	QoQ	4Q21	YoY	FY22	FY21	YoY
External Revenue								
Construction	444.0	418.9	6%	579.9	-23%	1,973.6	1,606.2	23%
Precast Concrete	59.4	50.3	18%	46.7	27%	181.6	122.9	48%
Total Revenue	503.4	469.3	7%	626.6	-20%	2,155.2	1,729.2	25%
Pre-tax Segmentation								
Construction	51.0	35.1	45%	88.7	-43%	173.3	148.8	17%
Precast Concrete	5.3	2.5	109%	2.3	133%	10.7	3.5	210%
Total PBT	56.3	37.6	50%	91.0	-38%	184.1	152.2	21%
PAT Segmentation								
Construction	41.5	21.7	91%	60.9	-32%	130.3	107.7	21%
Precast Concrete	4.0	2.2	79%	2.0	96%	8.4	3.0	178%
Total PAT	45.5	24.0	90%	62.9	-28%	138.7	110.8	25%
PATAMI Segmentation								
Construction	41.7	20.5	103%	62.7	-34%	126.8	109.6	16%
Precast Concrete	4.0	2.2	79%	2.0	96%	8.4	3.0	178%
Total PATAMI	45.6	22.7	101%	64.7	-29%	135.2	112.6	20%
PBT margins								
Construction	11%	8%		15%		9%	9%	
Precast Concrete	9%	5%		5%		6%	3%	
Total	11%	8%		15%		9%	9%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
GAMUDA BHD	OP	3.95	5.15	30.38%	10,353.1	Y	07/2023	35.0	43.6	7.4%	24.7%	10.9	8.7	1.2	10.4%	50.0	12.7%
IJM CORP BHD	MP	1.57	1.68	7.01%	5,515.3	Y	03/2023	8.6	9.2	26.2%	6.9%	18.4	17.2	0.6	3.8%	6.0	3.8%
KERJAYA PROSPEK GROUP BHD	OP	1.19	1.50	26.05%	1,500.6	Y	12/2022	9.3	12.2	19.1%	30.9%	10.9	9.8	1.4	11.2%	4.5	3.8%
KIMLUN CORP BHD	OP	0.775	1.12	44.52%	273.9	Y	12/2022	7.9	12.9	2600.0%	63.0%	10.2	6.3	0.4	4.0%	1.5	1.9%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.65	2.13	29.09%	2,127.4	Y	12/2023	9.9	12.6	14.3%	28.1%	16.7	13.0	3.2	19.5%	5.0	3.0%
WCT HOLDINGS BHD	MP	0.445	0.460	3.37%	630.7	Y	12/2022	3.5	2.5	75.0%	-28.6%	12.9	17.7	0.2	3.1%	0.0	0.0%
Simple Average					20,401.0					21.1%	20.8%	13.4	11.1	0.8	6.2%		4.2%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
	OVERALL	★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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