Sunway Construction Group

Bags JB-Singapore RTS Link Jobs

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SUNCON has bagged work packages worth RM605m from the Johor Bahru – Singapore Rapid Transit Systems Link project (RTS Link) - lifting its YTD job wins to RM663m and its outstanding order book to RM11.9b. We maintain our earnings forecasts (which already reflect new jobs), TP of RM2.13 and OUTPERFORM call.

SUNCON has secured Package 1B and Package 5 of RTS Link worth RM605m. Package 1B entails the advance works for a station and viaducts while Package 5 involves the construction of terrestrial viaducts and its ancillary structures. These works have a construction period of 26 months and are scheduled for completion by 2QCY25.

We are positive on the wins which bring YTD replenishment to RM663m – accounting for 30% of our FY23F target of RM2.2b (company is targeting RM2b), and lifts its outstanding order book by 5% to RM11.9b. The EBIT margin of 5%-8% is in line with our assumption of 7.5%.

For the rest of the year, we anticipate replenishment opportunities for more data centre building jobs, MRT3 and contracts from related parties.

We maintain our earnings forecast and TP of RM2.13 based on PER of 16x on FY24 EPS. 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 participation 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). Maintain OUTPERFORM.

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 ↔

 $\begin{array}{ccc} \textbf{Price:} & \textbf{RM1.62} \\ \textbf{Target Price:} & \textbf{RM2.13} & \leftrightarrow \end{array}$



KLCI	1,410.98
YTD KLCI chg	-5.7%
YTD stock price chg	3.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,088.8
Shares Outstanding	1,289.4
52-week range (H)	1.74
52-week range (L)	1.41
3-mth avg daily vol:	432,627
Free Float	14%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.7%

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 Net Profit	137.1	163.7	171.6
Consensus (NP)	n.a.	152.7	159.6
Earnings Revision	n.a.	0%	0%
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)	2.7	2.4	2.2
PER (x)	15.2	12.8	12.2
Net Gearing (x)	-0.5	0.0	-0.1
Return on Equity (%)	18	19	18
Net Div. Yield (%)	3.4	3.1	3.1

Income Statement	Financial Data & Ratios				
FY Dec (RM m) 2020A 2021A 2022A 2023F 2024F	FY Dec 2020A 2021A 2022A 2023F				
Revenue 1553 1729 2155 2884 2995	Growth				
OP 91 139 187 217 235	Revenue -12% 11% 25% 34%				
JVA 10 13 2 2 0	EBIT -31% 52% 23% 16%				
EBIT 101 153 188 219 235	PBT -36% 50% 21% 16%				
Finance costs 1 0 -4 -6 -10	PAT -43% 50% 25% 18%				
PBT 102 152 184 213 225	Net Profit -44% 55% 20% 21%				
Taxation -28 -41 -45 -50 -54	Core Net Profit -46% 59% 23% 19%				
PAT 74 111 139 164 172	30,0 1,011 10,110				
MI 1 -2 4 0 0	Profitability				
Net Profit 73 113 135 164 172	EBIT margin 6% 9% 9% 8%				
Exceptionals 2 1 -2 0 0	PBT margin 7% 9% 9% 7%				
Core Net Profit 70 112 137 164 172	PAT margin 5% 6% 6% 6%				
0010 HOLT TO 112 107 104 172	Net Profit margin 5% 7% 6% 6%				
Balance Sheet	CNP margin 5% 6% 6% 6%				
	Effective Tax Rate -27% -27% -25% -23%				
FY Dec (RM m) 2020A 2021A 2022A 2023F 2024F Fixed Assets 107 125 125 125					
	ROA 3.7% 6.0% 6.3% 6.4%				
JVA 45 127 127 127 127	1				
NC Inventories (Land) 0 0 0 0 0	Leverage				
Inventories 34 46 50 50 50	Debt/Equity (x) 0.47 0.34 0.57 0.85				
Receivable+Con.Asset 905 661 850 1350 1350	Net Debt/(Cash) -343 -458 -372 29				
Other Assets 171 210 210 210 210	Net Debt/Equity (x) -0.54 -0.65 -0.49 0.03				
Cash 644 696 809 709 818					
Total Assets 1906 1864 2171 2570 2679	Valuations				
	Core EPS (sen) 5.5 8.7 10.6 12.7				
Payables 940 861 900 900 901	NDPS (sen) 4.0 5.3 5.5 5.0				
ST Borrowings 234 93 93 93 93	BV/share (RM) 0.49 0.54 0.59 0.67				
LT Borrowings 67 145 345 645 646	Core PER (x) 29.7 18.7 15.2 12.8				
Other Liabilities 27 49 49 49 49	Net Div. Yield (%) 2.5% 3.2% 3.4% 3.1%				
Total Liabilities 1267 1147 1386 1686 1688	PBV (x) 3.28 2.99 2.74 2.42				
Net Assets 639 717 785 884 991					
Share Cap & Reserves 227 228 228 228 228					
Retained Earnings 410 471 535 634 741					
Shareholder's Equity 637 699 763 863 970					
MI 2 18 21 21 21					
Total Equity 639 717 785 884 991					
Cashflow Statement					
FY Dec (RM m) 2020A 2021A 2022A 2023F 2024F					
Operating CF 88 239 -15 -331 183					
Investing CF -173 -174 0 0 0					
Financing CF -147 -122 128 230 -73					
Net Change in Cash -233 -58 114 -101 109					
Source: Kenanga Research					

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Name	Dating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant		Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x) ROE (%)		Net Div.	Net Div.Yld.
	Rating							1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(sen) 1-Yr. Fwd.	(%) 1-Yr. Fwd.
GAMUDA BHD	OP	4.14	5.15	24.40%	11,006.5	Υ	07/2023	35.0	43.6	7.4%	24.7%	11.4	9.1	1.2	10.4%	50.0	12.1%
IJM CORP BHD	MP	1.61	1.67	3.73%	5,655.8	Υ	03/2023	8.6	9.2	26.2%	6.9%	18.9	17.7	0.6	3.8%	6.0	3.7%
KERJAYA PROSPEK GROUP BHD	OP	1.16	1.50	29.31%	1,462.8	Υ	12/2023	12.2	14.0	31.0%	14.6%	9.5	8.3	1.3	14.6%	6.0	5.2%
KIMLUN CORP BHD	OP	0.735	1.12	52.38%	259.7	Υ	12/2023	12.9	15.6	18.9%	20.5%	6.0	4.9	0.4	6.6%	2.0	2.7%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.62	2.13	31.48%	2,088.8	Υ	12/2023	9.9	12.6	14.3%	28.1%	16.4	12.8	3.1	19.5%	5.0	3.1%
WCT HOLDINGS BHD	OP	0.425	0.600	41.18%	602.3	Υ	12/2023	2.5	3.7	-28.6%	48.6%	16.9	11.5	0.2	2.7%	0.5	1.2%
Simple Average					21,075.9					12.2%	20.9%	13.5	11.2	0.9	6.4%		4.7%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating								
	Earnings Sustainability & Quality	*	*	*	☆					
AL	Corporate Social Responsibility	*	*	*	*					
GENERAL	Management/Workforce Diversity	*	*	*	*					
E H	Accessibility & Transparency	*	*	*	*	☆				
Ĭ	Corruption-Free Pledge	*	*	*	*					
1	Carbon-Neutral Initiatives	*	*	*	*	☆				
	Migrant Worker Welfare	*	*	*	*					
ပ္	Waste Disposal/Pollution Control	*	*	*	*					
1	Work Site Safety	*	*	*	*					
SPECIFIC	Environmentally Friendly Construction Technology	*	*	*	*					
ဟ	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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