

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Acceleration in Projects Lift Earnings

KEY INVESTMENT HIGHLIGHTS

- **Core net profit recorded at RM34.8m for 3QFY23, an improvement of +54.7%yoy; 9MFY23 core net profit rose +6.5%yoy to RM94.1m**
- **Quarterly construction revenue rose +40.9%yoy to RM590.5m; PBT grew +18.9%yoy to RM41.6m**
- **Precast segment revenue jumped +65.0%yoy to RM83.0m; PBT surged 2.5x to RM6.5m**
- **Maintain BUY with an unchanged TP of RM2.09**

Just slightly below expectations. Sunway Construction Group Berhad (SunCon) recorded a core net profit of RM34.8m for 3QFY23, which came in higher by +54.7%yoy on the back of improvements in both construction progress and its precast business. The cumulative 9MFY23 core net profit was +6.5%yoy higher at RM94.1m, but it was just slightly below ours and consensus expectations at 66.8% and 67.0% respectively.

Construction segment. Accelerated progress in newer projects led to a stronger topline by +40.9%yoy to RM590.5m. PBT grew +18.9%yoy to RM41.6m but margins fell from 8.4% in 3QFY22 to 7.0%, mainly due to a reversal of provision for a legal case. There was a delay in the RM1.7b data centre project in Sedenak Tech Park, with RM1.5b of works still outstanding since the project award in Dec-22 as there had been delays in the issuance of the second and third notices to proceed (NTP), on the back of a change in end user. Management assured that there is no alarming concern as the progress from the group's other projects are able to cover the shortfall in revenue.

Precast segment. Revenue from the precast business surged +65.0%yoy to RM83.0m, driven by contributions from SunCon's Integrated Construction and Prefabrication Hub (ICPH) in Singapore and several newer projects. PBT for the segment grew 2.5x to RM6.5m, recording a margin of 7.8% as compared to 5.2% a year ago.

Strong order book replenishment. The group currently has a total outstanding order book of RM5.79b, with earnings visibility up to FY25. Recall that in Oct-23, SunCon had already surpassed its FY23 replenishment target of RM2b after securing two new projects – a RM190m data centre project in Johor and RM297.7m for a warehouse in Port Klang. It has to date, secured RM2.23b of new jobs. The active tender book level currently stands at RM26.4b as management continues to actively bid for data centres and semiconductor foundry projects. It is also monitoring the National Energy Transition Roadmap (NETR) for potential opportunities.

Earnings estimates. We are maintaining our FY23E estimates as we expect the progress of its existing construction jobs to pick up pace and the finalisation of several projects by the year end, coupled with a stronger contribution from its precast segment.

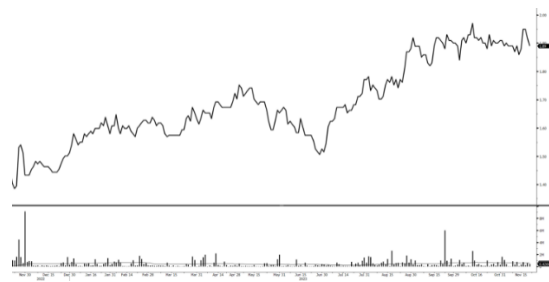
Maintain BUY

Unchanged Target Price: RM2.09

RETURN STATISTICS

Price @ 21 st Nov 2023 (RM)	1.89
Expected share price return (%)	+10.58
Expected dividend yield (%)	+2.87
Expected total return (%)	+13.45

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.5	-2.0
3 months	-0.5	4.1
12 months	30.3	29.0

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	2,364.70	2,637.10	2,768.96
Operating Profit	169.97	184.38	201.64
Profit Before Tax	193.79	211.48	232.31
Core net profit	140.80	160.86	171.93
Core EPS (sen)	0.109	0.125	0.133
DPS (sen)	6.0	6.0	6.0
Dividend Yield	2.9%	2.9%	2.9%

KEY STATISTICS

FBM KLCI	1,463.40
Issue shares (m)	1289.36
Estimated free float (%)	12.46
Market Capitalisation (RM'm)	2,436.89
52-wk price range	RM1.41-RM1.99
3-mth average daily volume (m)	0.61
3-mth average daily value (RM'm)	1.15
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Wav Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.97

Analyst

Royce Tan Seng Hooi
 royce.tan@midf.com.my
 03-2173 8461

Target price. We maintain our **TP** at **RM2.09**, based on SunCon's FY24 EPS of 12.5 sen per share, pegged to a PER of 16.7x based on its two-year mean.

Maintain BUY. We continue to favour SunCon as a safe pick for the construction sector, backed by its strong order book and its consistency in replenishing jobs. We can expect the group to benefit from the development initiatives lined out in the Budget 2024 and the Mid-Term Review of the 12th Malaysia Plan and other off-budget projects such as the MRT3. The group's precast business is also expected to provide a more significant contribution moving forward with its ICPH in Singapore, where 90% of its revenue are from the country's Housing and Development Board (HDB) flats. All factors considered; we maintain our **BUY** recommendation on **SunCon**. 

SUNWAY CONSTRUCTION: 3QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	3QFY23	2QFY23	2QFY22	QoQ	YoY	9MFY23	9MFY22	YoY
Income Statement								
Revenue	673.5	604.1	469.3	11.5%	44%	1,799.7	1,651.8	9.0%
Net Operating Expenses	(616.6)	(257.2)	(428.0)	-140%	-44%	(1,353.3)	(1,525.3)	11.3%
Operating Profit	54.1	46.7	36.9	16%	47%	142.5	84.1	69.5%
Finance Income	7.0	6.7	4.1	4%	73%	17.8	9.5	88.6%
Finance Costs	(13.0)	(11.5)	(3.2)	-14%	-304%	(32.8)	(7.6)	-333.7%
JV and Associates	0.0	0.3	(0.1)	-100%	100%	0.3	3.7	-91.4%
Profit Before Tax	48.1	42.3	37.6	14%	28%	127.9	127.8	0.1%
Tax Expense	(12.6)	(9.0)	(13.6)	-40%	8%	(30.5)	(34.5)	11.8%
Minority Interest	0.5	0.3	1.2	88%	-60%	1.6	3.7	-57.2%
Reported Net Profit	35.0	33.0	22.7	6%	54%	95.8	89.5	7.0%
Core Net Profit	34.8	33.1	22.5	5%	54.7%	94.1	88.3	6.5%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,729.16	2,155.23	2,364.70	2,637.10	2,768.96
Net operating expenses	(1,589.74)	(1,963.75)	(2,182.91)	(2,436.25)	(2,545.70)
Operating profit	139.42	148.41	169.97	184.38	201.64
Profit before tax	152.25	184.06	193.79	211.48	232.31
Net profit	112.59	135.18	140.80	160.86	171.93
Core net profit	110.40	134.44	140.80	160.86	171.93
Core EPS (sen)	8.7	10.5	10.9	12.5	13.3
DPS (sen)	5.0	5.5	6.0	6.0	6.0

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	124.8	107.6	118.4	124.3	130.6
Other investments and assets	724.6	491.1	498.0	511.9	518.9
Non-current assets	849.4	598.7	616.3	636.2	649.6
Cash	98.8	491.6	468.2	522.1	548.3
Trade debtors	850.1	988.7	1,123.5	1,231.3	1,304.2
Current assets	1,014.8	1,637.4	1,730.1	1,905.9	2,013.5
Trade creditors	891.4	916.8	1,121.6	1,193.8	1,277.4
Short-term debt	92.5	172.2	161.6	197.5	197.6
Current liabilities	992.0	1,103.3	1,296.9	1,407.9	1,491.6
Long-term debt	145.4	308.5	203.6	207.6	150.6
Non-current liabilities	155.4	311.9	211.6	212.8	155.4
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	470.8	515.9	579.3	662.8	757.4
Equity	699.1	737.1	837.9	921.4	1,016.0

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	152.2	184.1	193.8	211.5	232.3
Depreciation & amortisation	27.4	23.8	26.1	27.4	28.8
Changes in working capital	83.3	-382.1	100.8	-64.8	-23.9
Operating cash flow	238.7	-215.0	414.9	206.6	297.7
Capital expenditure	-31.5	-1.9	-25.0	-25.0	-25.0
Investing cash flow	-174.0	423.7	-308.0	-123.2	184.8
Debt raised/(repaid)	-70.1	233.4	107.6	193.7	-145.4
Dividends paid	-51.6	-90.3	-77.4	-77.4	-77.4
Financing cash flow	-122.4	142.7	30.2	116.3	-222.8
Net cash flow	-57.7	351.4	137.1	199.7	259.8
Beginning cash flow	117.8	60.6	407.7	544.8	744.4
Ending cash flow	60.6	407.7	544.8	744.4	1004.2

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	8.1%	6.9%	7.2%	7.0%	7.3%
PBT margin	8.8%	8.5%	8.2%	8.0%	8.4%
PAT margin	6.5%	6.3%	6.0%	6.1%	6.2%
Core PAT margin	6.4%	5.8%	6.0%	6.1%	6.2%

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology