

3Q23 more of the same, but outlook promising

Quick Note

Results snapshot: SunCon's adjusted 3Q23 net income of MYR35mn, was up 54% y-y and up 6% q-q. The growth in earnings was driven by both the construction and precast segments. 9M23 net income of MYR96mn (+7% y-y) formed 65%/68% of our /Bloomberg consensus' FY23 estimates, still tracking below due to slow progress of the JHB1X0 data center project due to the client's instructions. SunCon's net gearing ratio currently stands at 0.31x vs a net cash position of MYR55mn as at end-2022 and net gearing of 0.06x in end-1Q23 (0.33x in 2Q23), due to receivables from Indian highways and LSS4 projects which have deferred payment terms.

Construction segment review: Construction revenue for 3Q23 was MYR591mn, up 10% q-q. PBT was up 7% q-q, but PBT margin was down marginally to 7.0% vs 7.3% in 2Q23. The sequential uptick in revenue was driven by higher progress from new projects. New orderbook replenishment for 9M23 was at MYR2.2bn. The company's outstanding orderbook currently stands at MYR5.8bn, while the active tender-book stands at MYR26.4bn. The company reported negative operating cash flows (OCF) of MYR131mn vs positive OCF of MYR25mn in 2Q23. OCF is negative due to a high long-term receivables balance of MYR446mn on its balance sheet. This relates to its two India projects (which have deferred the payment terms for 60% of the project value) and also two LSS4 (Large Scale Solar 4) projects (payment 6 months after commercial operations date (COD)). Management is also looking to monetise and sell receivables of India projects to infrastructure funds; this can be positive in our view, once concluded. Management expects the MC (Meensurutti - Chidambarm) highway in India to achieve commercial operations in Dec-23. SunCon has met NHA (National Highways Authority of India) regarding the TJ (Thorapalli Jittandahalli) Highway project in India, to explore dividing the project into three parts so that it can begin concession periods for the completed segments (segment 1 to be ready by Feb'24). This can also expedite the monetisation of receivables, in our view. On mega-infra projects, such as MRT3 and Penang LRT in Malaysia, management is still awaiting the next course of action from MRT Corp.

Pre-cast segment review: Precast revenue/PBT for 3Q23 came in at MYR83mn/MYR6mn (+21%/ +102% q-q). The sequential uptick in revenue was driven by productivity improvement at the precast plant (ICPH) in Singapore, which was opened in Jan'23 (although higher depreciation affected earnings negatively) and contributions from new projects which have better margins. PBT in the quarter was also boosted by a reversal of provisions for projects completed in 3Q.

Outlook: SunCon's target of MYR2bn orderbook replenishment (Nomura estimate: MYR2bn) in FY23E has already been met with ~MYR2.2bn worth of projects already secured in 9M23. Sunway recently *secured* a data-center and warehouse project and will continue to pursue more data-center projects in the near term. Other potential pipeline projects for SunCon also include a shopping mall in Ipoh. SunCon also entered into a definitive EPC agreement for the Song Hau 2 thermal power plant in Vietnam in Mar'23. The company is still awaiting financial closure on this project. Note that the Corporate Green Power Programme (CGPP) project secured in 3Q was reduced from 30MW to 12MW due to interconnection capacity. On the data-center project in Johor, there is a delay in progress as the client is awaiting agreement with their end customer. On precast, as productivity continues to improve at its precast plant in Singapore, management believes earnings contribution from the precast division will continue to rise.

Reiterate Buy: We reiterate our Buy rating on SunCon, as: 1) we think a visible pipeline of

Rating Remains	Buy
Target price Remains	MYR 2.00
Closing price 21 November 2023	MYR 1.89

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projects from the parentco and other FDI related data center / semiconductor factory jobs in Malaysia jobs should help with orderbook replenishment and provide better earnings visibility; 2) catalysts such as ramp-up of projects should lead to better performance in the upcoming quarters, and potential monetisation of receivables should help its balance sheet; 3) we believe SunCon is the best pure-play exposure within our construction sector coverage universe in Malaysia, with strong earnings to cash flow conversion, a liquid balance sheet, and high ROEs (FY23F/24F: 19%/ 18.5%); and 4) we expect its precast orderbook and renewables segment to grow due to the opening of its new precast plant in Singapore. We value SunCon at an FY23F P/E of 18x (+1SD to its long-term average valuation, which we view as justified for an asset light cash generative business) to arrive at our TP of MYR2.00, implying ~6% upside. The stock is currently trading at 16.7x FY23F EPS of 11sen.

Fig. 1: SunCon – 9M23 results snapshot

MYR mn	9M23	NMR FY23F	as % of NMR	Cons FY23F	as % of cons
Revenue	1,800	2,967	61%	2,689	67%
Adj PBT	128	196	65%	186	69%
Adj NPATAMI	96	147	65%	140	68%
Reported NPATAMI	96	147	65%	141	68%

Source: Company data, Bloomberg Finance L.P. consensus, Nomura estimates

Fig. 2: SunCon – 3Q23 results review

MYR mn	3Q23	3Q22	% chg y-y	2Q23	% chg q-q	9M23	9M22	% chg y-y	FY23F	as % of FY23F
Revenues	674	469	44%	604	11%	1,800	1,652	9%	2,967	61%
Construction	591	419	41%	536	10%	1,595	1,530	4%	2,792	57%
Precast concrete	83	50	65%	69	21%	204	122	67%	175	117%
Operating profit	54	37	47%	47	16%	142	122	17%	223	64%
Construction	45	33	35%	40	11%	123	115	7%		
Precast concrete	9	4	152%	6	51%	20	8	160%		
Adjusted Pretax profit	48	38	28%	42	14%	128	128	0%	196	65%
Construction	42	35	19%	39	7%	117	122	(4%)	192	61%
Precast concrete	6	3	156%	3	102%	11	5	103%	4	251%
Core PAT	36	24	48%	33	7%	97	93	5%	148	66%
Core PAT - equityholders	35	23	54%	33	6%	96	90	7%	147	65%
Other one-off charges	0	0	NM	0	NM	0	0	NM	0	NM
Headline NPAT - equityholders	35	23	54%	33	6%	96	90	7%	147	65%
Adj Pretax margins	7.1%	8.0%	-1 ppt	7.0%	0 ppt	7.1%	7.7%	-1 ppt	6.6%	
Construction	7.0%	8.4%	-1 ppt	7.3%	0 ppt	7.3%	8.0%	-1 ppt	6.9%	
Precast concrete	7.8%	5.0%	3 ppt	4.7%	3 ppt	5.4%	4.4%	1 ppt	2.5%	

Source: Company data, Nomura estimates

Fig. 3: SunCon's outstanding orderbook

As of end-3Q23

MYR mn	Contract Sum		Outstanding order book	
Infrastructure/Piling				
LRT3: Package GS07-08	2,178	1,295	1,589	14
RTS Link Package 1B and 5		605		551
LRT3: GS06		191		35
Building				
Oxley Tower + VO		77		40
JHB1X0 - Data Centre		1,700		1,500
K2 Datacentre		190		190
Daiso		298		298
India				
Thorapalli Agraharam - Jittandahalli		508		255
Meensurutti - Chidambarm 32km		315		63
Renewable energy				
Solar - External		35		8
Solar - Internal		12		4
Lss4 Gopeng		200		88
Lss4 Sharp Ventures		185		88
South Quay Square Dcs		35		29
Cgpp - Green*		46		46
New Order 2023 - External		45		38
Internal				
SMC 4 + VO		612		62
Sunway Belfield		412		162
Sunway Velocity 2		352		7
South Quay Square - Superstructure		756		357
South Quay Square - Superstructure (VO)		607		607
Sw Carnival Mall - Refurbishment		253		239
Sunway Velocity 2B		253		91
Smc Damansara		240		126
Smc Ipoh + VO		217		141
SW International School (SIS)		140		6
Sunway Velocity 3C4		100		5
Big Box Office		51		5
SW Flora		278		250
Singapore				
Precast		613		310
External - New order 2023		180		177
Total		10,798		5,789
Orderbook burn rate (FY22, including internal)				3,011
Implied earnings visibility (years)				1.9

Source: Company data, Nomura research

Fig. 4: YTD 2023 orderbook replenishment

Project	Duration	Contract Sum (MYR mn)
Bidadari C17 - LPS	Dec-23	4
Precast - Watertanks	Various	9
Heliosel Solar PV System - Package L3	Dec-23	34
Heliosel Solar PV System - Package L2	Oct-23	11
Oxley Tower VO	Feb-24	9
RTS Link Package 1B and 5	Jun-25	605
South Quay Square mix development	Oct-25	607
Kallang Whampoa C23A	Dec-25	63
Carnival Mall Refurbishment	Aug-24	253
Daiso Global Distribution Centre Warehouse	2Q26	298
K2 Data Centre (Johor)	4Q24	190
Corporate Green Power Programme (CGPP)*	Dec-25	46
Bishan East	Sep-24	1
Punggol North C15	Jul-24	35
LPS Term Contract Batch 8	Jun-26	67
Total		2,231

Source: Company data, Nomura research

Appendix A-1

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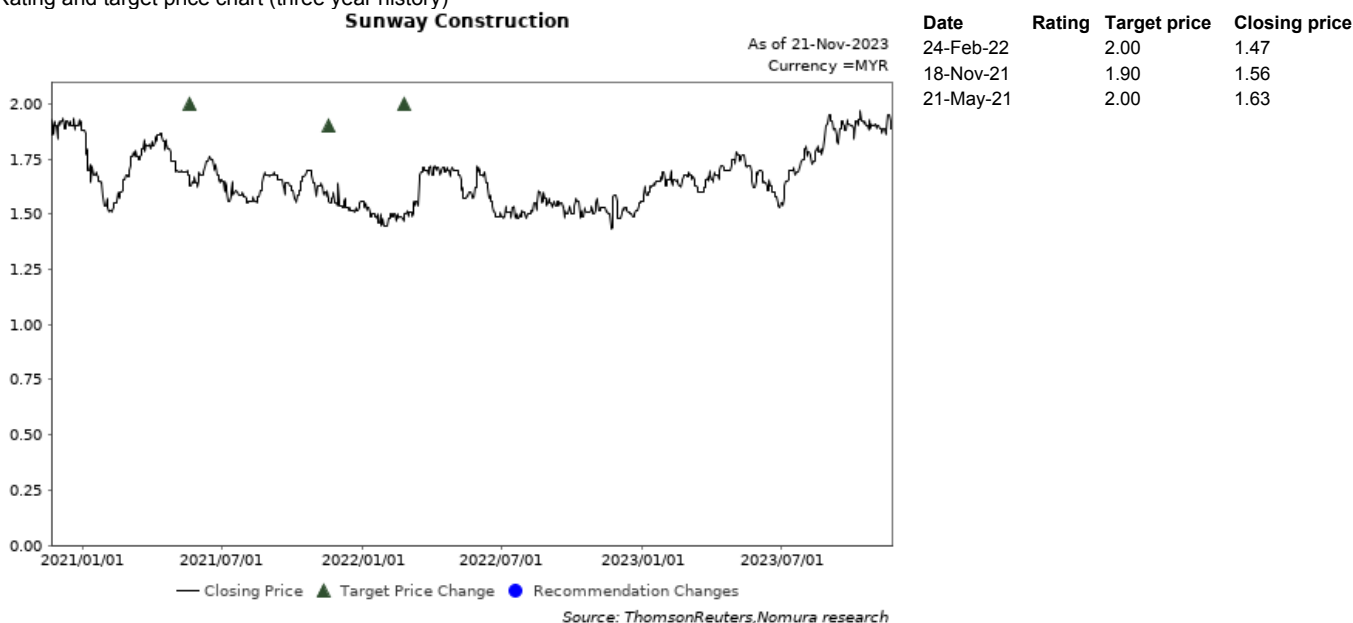
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 1.89	21-Nov-2023	Buy	N/A	

Sunway Construction (SCGB MK) MYR 1.89 (21-Nov-2023) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value SunCon at a target P/E of 18x on FY23F earnings estimate of MYR147mn for FY23F. We arrive at our TP of MYR2.00. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

Risks that may impede the achievement of the target price Downside risks include: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

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