

## 2Q23: Slow ramp up q-q in construction

### Quick Note

**Results snapshot:** SunCon reported adjusted 2Q23 net income of MYR33mn, up 2% y-y and up 19% q-q. The q-q uptick in earnings was driven by both construction and precast segments. 1H23 net income of MYR61mn (-9% y-y) formed 41% of both our/Bloomberg consensus FY23F estimates. The result was below our estimate due to the slow ramp up in data centre project on design changes. SunCon's net gearing ratio currently stands at 0.33x vs a net cash position of MYR55mn as at end-2022 and net gearing of 0.06x in end-1Q23, due to the receivables from Indian highways which have deferred the payment terms. SunCon has announced an interim dividend of 3sen/sh, which implies 1.7% yield.

**Construction segment review:** Construction revenue for 2Q23 was MYR536mn, up 14% q q. PBT was up 8% q-q, but PBT margin was down marginally to 7.3% vs 7.7% in 1Q23. The sequential uptick in revenue was driven by higher contributions from renewable energy projects and a pick up in new projects. New orderbook replenishment for 1H23 was at MYR1.59bn. The company's outstanding orderbook currently stands at MYR5.8bn, while the active tender-book stands at MYR27bn. The company reported positive operating cash flows (OCF) of MYR25mn in 2Q23 vs MYR61mn negative OCF in 1Q23. Note that SunCon currently has a long term receivables balance of MYR397mn on its balance sheet. This relates to its two India projects, which have deferred the payment terms for 60% of the project value, and therefore SunCon will likely be required to draw down debt to finance it, in our view. The receivables balance is likely to go up as these projects near completion by end of the year, as per management. Management is also looking to monetise and sell these receivables to infrastructure funds; this can be positive in our view, once concluded. SunCon will meet NHAI (National Highways Authority of India) in Oct'23 to finalise the scope of the TJ (Thorapalli Jittandahalli) Highway project in India, post which the works can resume on that project, as per management.

**Pre-cast segment review:** Precast revenue/PBT for 2Q23 came in at MYR69mn/MYR3mn (+29%/ +149% 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.

**Outlook:** SunCon is targeting MYR2bn orderbook replenishment (Nomura estimate: MYR2bn) in FY23E, and it has already secured MYR1.59bn worth of projects in 1H23. Sunway recently secured a ~30MW project as part of Corporate Green Power Programme (CGPP). On MRT3, should SunCon not win the main contractor role, it is open to be a subcontractor in the civil work packages, as per management. The potential pipeline for SunCon also includes further packages for JB-Singapore RTS (two more packages are to be awarded), data-center projects, semiconductor factory and warehouse projects; a shopping mall in Ipoh (to be awarded by end of the year), Sunway Medical Centre extension (~MYR50-80mn) and precast. Management believes that the projects which are part of the National Energy Transition Roadmap (NETR), recently announced by the Malaysia government, can potentially boost demand for solar power installations and should boost the renewable energy sector. On margins, management is guiding for a normalised PBT margin of 5-8% in 2023 from the construction segment as a number of projects are in the initial stages. 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, which is expected in Sep'23, as per management. Also, with the opening of its precast plant in Singapore, management believes earnings contribution from the precast division will continue to increase. Capex for SunCon will likely remain low as ICPH development is almost complete, as per management.

Rating Remains	Buy
Target price Remains	MYR 2.00
Closing price 23 August 2023	MYR 1.80

### Research Analysts

#### Malaysia Engineering & Construction

**Tushar Mohata, CFA - NSM**  
tushar.mohata@nomura.com  
+60(3)20276895

**Alpa Aggarwal, CFA - NSFSP**  
alpa.aggarwal@nomura.com  
+91 22 305 32250

**Reiterate Buy:** We reiterate our Buy rating on SunCon, as: 1) we think a visible pipeline of projects from the parentco and Malaysia/India 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 renewable segment to grow due to the opening of its new precast plant in Singapore. We value SunCon at an unchanged 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 ~11% upside. The stock is currently trading at 15.9x FY23F EPS of 11sen.

Fig. 1: SunCon – 1H23 results snapshot

MYR mn	1H23	NMR FY23F	as % of NMR	Cons FY23F	as % of cons
Revenue	1,126	2,967	38%	2,727	41%
Adj PBT	80	196	41%	192	42%
Adj NPATAMI	61	147	41%	149	41%
Reported NPATAMI	61	147	41%	150	41%

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

Fig. 2: SunCon – 2Q23 results review

MYR mn	2Q23	2Q22	% chg y-y	1Q23	% chg q-q	1H23	1H22	% chg y-y	FY23F	as % of FY23F
<b>Revenues</b>	<b>604</b>	<b>558</b>	<b>8%</b>	<b>522</b>	<b>16%</b>	<b>1,126</b>	<b>1,183</b>	<b>(5%)</b>	<b>2,967</b>	<b>38%</b>
Construction	536	523	2%	469	14%	1,005	1,111	(10%)	2,792	36%
Precast concrete	69	35	96%	53	29%	122	72	69%	175	69%
<b>Operating profit</b>	<b>47</b>	<b>42</b>	<b>10%</b>	<b>42</b>	<b>12%</b>	<b>88</b>	<b>85</b>	<b>4%</b>	<b>223</b>	<b>40%</b>
Construction	40	40	1%	38	7%	78	81	(4%)		
Precast concrete	6	2	156%	4	54%	10	4	167%		
<b>Adjusted Pretax profit</b>	<b>42</b>	<b>43</b>	<b>(2%)</b>	<b>38</b>	<b>13%</b>	<b>80</b>	<b>90</b>	<b>(12%)</b>	<b>196</b>	<b>41%</b>
Construction	39	41	(5%)	36	8%	75	87	(14%)	192	39%
Precast concrete	3	2	71%	1	149%	5	3	56%	4	103%
Core PAT	33	34	(1%)	29	16%	62	69	(11%)	148	42%
<b>Core PAT - equityholders</b>	<b>33</b>	<b>32</b>	<b>2%</b>	<b>28</b>	<b>19%</b>	<b>61</b>	<b>67</b>	<b>(9%)</b>	<b>147</b>	<b>41%</b>
<b>Other one-off charges</b>	<b>0</b>	<b>0</b>	<b>NM</b>	<b>0</b>	<b>NM</b>	<b>0</b>	<b>0</b>	<b>NM</b>	<b>0</b>	<b>NM</b>
<b>Headline NPAT - equityholders</b>	<b>33</b>	<b>32</b>	<b>2%</b>	<b>28</b>	<b>19%</b>	<b>61</b>	<b>67</b>	<b>(9%)</b>	<b>147</b>	<b>41%</b>
<b>Adj Pretax margins</b>	<b>7.0%</b>	<b>7.7%</b>	<b>-1 ppt</b>	<b>7.2%</b>	<b>0 ppt</b>	<b>7.1%</b>	<b>7.6%</b>	<b>-1 ppt</b>	<b>6.6%</b>	
Construction	7.3%	7.9%	-1 ppt	7.7%	0 ppt	7.5%	7.9%	0 ppt	6.9%	
Precast concrete	4.7%	5.4%	-1 ppt	2.4%	2 ppt	3.7%	4.0%	0 ppt	2.5%	

Source: Company data, Nomura estimates

**Fig. 3: SunCon's outstanding orderbook**

As of end-4Q22

MYR mn	Contract Sum		Outstanding order book	
<b>Infrastructure/Piling</b>				
LRT3: Package GS07-08	2,178	1,295	1,589	15
RTS Link Package 1B and 5		605		587
LRT3: GS06		191		52
<b>Building</b>				
Oxley Tower + VO		77		47
JHB1X0 - Data Centre		1,700		1,593
Renewable energy		500		341
<b>India</b>				
Thorapalli Agraharam - Jittandahalli		508		305
Meensurutti - Chidambarm 32km		315		98
<b>Internal</b>				
Sunway Medical Centre Phase 4 + VO		612		77
Velo 2		352		8
3C4		100		9
SMC IPOH + VO		217		165
SIS + VO		140		12
South Quay Square		756		417
South Quay Square - VO		607		607
Belfield residential condo		403		202
Sunway Carnival mall		253		253
Sunway Velocity TWO		253		112
Big Box Office		51		5
SMC Damansara		240		153
SW Flora		278		266
Renewable energy		12		4
<b>Singapore</b>				
Precast		676		376
External - New order 2023		76		75
<b>Total</b>		<b>10,214</b>		<b>5,776</b>
<b>Orderbook burn rate (FY22, including internal)</b>				<b>3,011</b>
<b>Implied earnings visibility (years)</b>				<b>1.9</b>

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
<b>Total</b>		<b>1,594</b>

Source: Company data, Nomura research

# Appendix A-1

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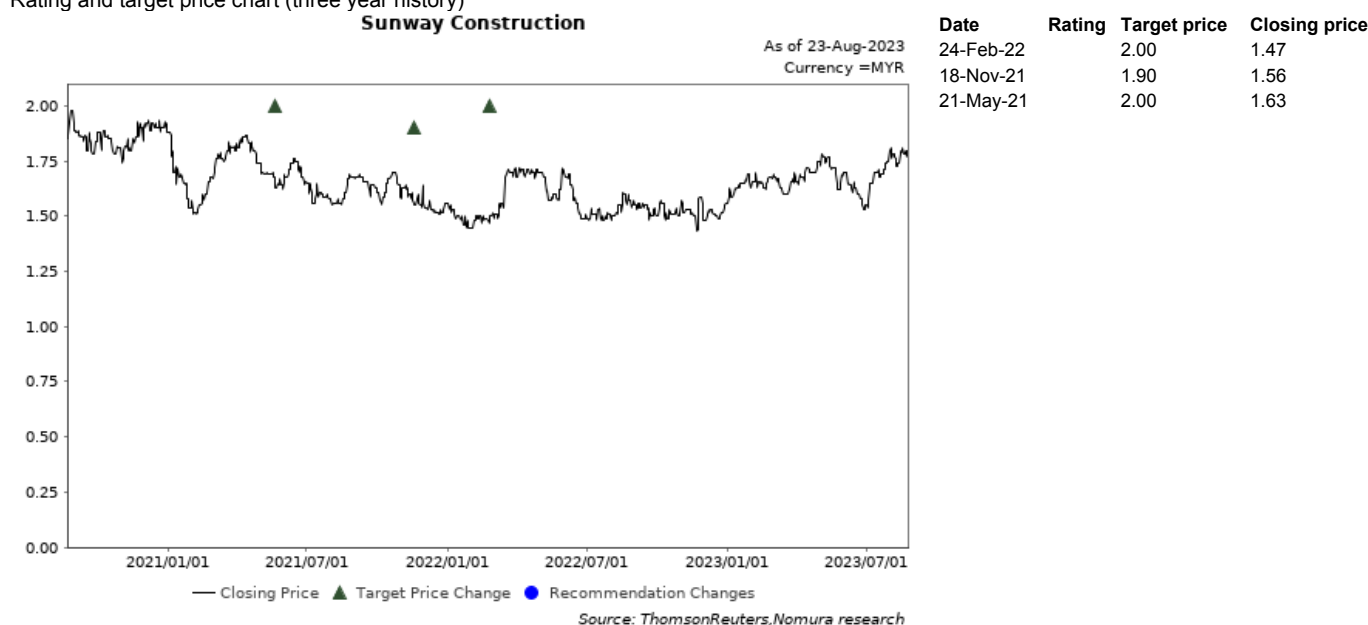
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 1.80	23-Aug-2023	Buy	N/A	

### Sunway Construction (SCGB MK)

MYR 1.80 (23-Aug-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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