

Sunway Construction (SCGB MK)

Inline

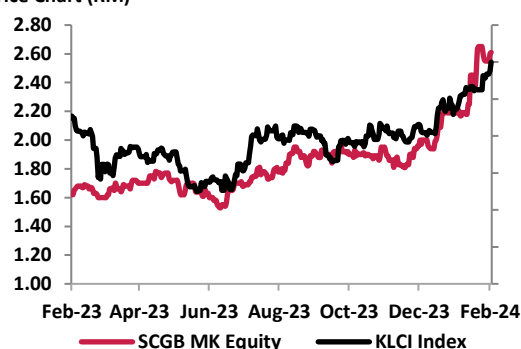
BUY ▲

Share Price RM2.61
Target Price RM2.88 +10.2%

A Beacon of Growth

- Upgrade to BUY (TP: RM2.88).** Sunway Construction (SunCon)'s FY23 Core Net Profit of RM145.8mn (+5.1% YoY) made up 101.3% of our estimate, hence deemed in line with our expectation. Meanwhile, revenue recorded a 23.9% YoY growth, reaching RM2,671.2mn for the same period, attributed to the progress in construction activities in India and increased contributions from sustainable energy projects, which also boosted by engagement in new projects and an uptick in its Integrated Construction & Prefabrication Hub (ICPH) production. No changes to our earnings estimate but as the price has reached our valuation, we upgrade to **BUY** on SunCon, with higher **TP of RM2.88** (from RM1.99), based on FY24F EPS of 12.8sen and PER of 23x. This implies a +0.5 Std.Dev. above its 5-year historical mean PER of 19.5x.
- Key highlights.** In 4QFY23, there was significant growth revenue by an impressive +73.1% YoY increase to RM871.5mn, while net profit showed a modest improvement of 6.4%, reaching RM60.7mn compared to RM56.3mn YoY, thanks to accelerated progress in newer projects. As FY23 concludes, SunCon's outstanding order book maintains at RM5bn level, and the new order book target is set to increase within RM2.5bn-RM3.0bn, surpassing its usual goal of RM2.0bn. We anticipate that these new orders will stem from their active participation in various tenders related to warehousing and semiconductor manufacturing, as well as internal projects from the parent's company. This expectation is further supported by their substantial tender book of RM26.2bn. SunCon declared a second interim single-tier dividend of 3.0sen, resulting in a cumulative dividend of 6.0sen for the FY23, which translated to 42.5% dividend yield.
- Earnings Revision.** We maintain our earnings for FY24F-FY25F.
- Outlook.** SunCon has experienced a growing contribution from projects based in Johor, particularly driven by data center and the Johor RTS Link. This prompts us to consider their potential involvement in upcoming projects namely the Johor LRT and HSR. Furthermore, the precast segment is expected to gain from Singapore's Housing Development Board, which plans to launch 19,600 Build-To-Order (BTO) flats in 2024. In anticipation of earnings boost, SunCon is positioned for growth through the accelerated expansion of its orderbook and a robust pipeline of tenders. The company also benefits a strong support from its parent company, ensuring consistency of orderbook replenishment.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	19.2	35.9	66.3
vs FBM KLCI	13.9	27.4	52.7

Stock Data

ESG Rating	Good
Mkt Cap (RM)	3,365.2
Adjusted Beta	0.8
Free float (%)	26.4
Issued shares (m)	1,289.4
52w H/L (RM)	2.73 / 1.53
3m avg daily volume (m)	1,517,827

Major Shareholders (%)

Sunway Holdings	54.6
Sungei Way Corp	10.1
Employees Provident Fund	9.0

Research Team

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Table 1: Quarterly figures

Sunway Construction FYE 31 Dec (RMmn)	Quarterly			Change (%)		Cumulative		YTD	BIMB	
	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	%	FY23F	12M/E
Revenue	503.4	673.5	871.5	29.4%	73.1%	2,155	2,671.2	23.9%	2,282.7	117.0%
EBITDA	70.2	59.3	87.0	46.7%	23.9%	210.3	245.3	16.7%	186.8	131.3%
EBIT	64.3	54.1	81.8	51.1%	27.1%	186.5	224.3	20.2%	161.8	138.6%
Pretax profit	56.3	48.1	60.8	26.3%	7.9%	184.1	188.6	2.5%	176.5	106.9%
Taxation	(10.8)	(12.6)	(12.3)	-2.0%	14.3%	(45.3)	(42.8)	-5.6%	(32.5)	131.7%
Core Net Profit	45.5	35.5	48.4	36.3%	6.4%	138.7	145.8	5.1%	144.0	101.3%
EPS (sen)	3.50	2.75	3.76	36.3%	7.3%	10.76	11.31	5.1%	11.2	101.2%
				Chg (ppts)				Chg (ppts)		
EBITDA margin (%)	13.9%	8.8%	10.0%	1.2	(4.0)	9.8%	9.2%	(0.6)		
PBT margin (%)	11.2%	7.1%	7.0%	(0.2)	(4.2)	8.5%	7.1%	(1.5)		
Net profit margin (%)	9.0%	5.2%	5.7%	0.5	(3.4)	6.3%	5.4%	(0.8)		
Effective tax rate (%)	19.2%	26.2%	20.3%	(5.9)	1.1	19.2%	20.3%	1.1		

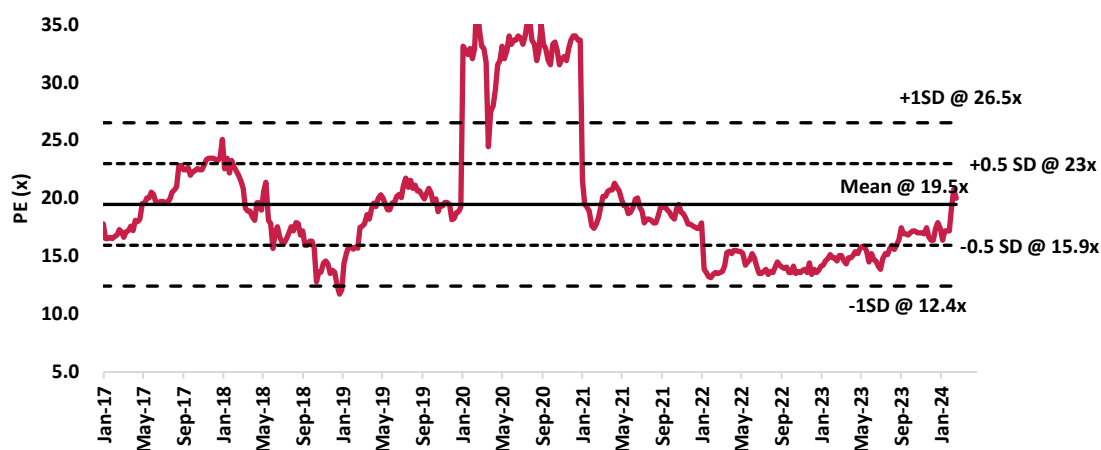
Source: BIMB Securities, Company

Table 2: Quarterly segments breakdown

FYE Dec (RMmn)	4Q22	3Q23	4Q23	QoQ Chg	YoY Chg
Construction	443.9	590.5	785.8	33.1%	77.0%
Precast concrete	59.5	83.0	85.7	3.3%	44.0%
Total revenue	503.4	673.5	871.5	29.4%	73.1%
Construction	51.1	41.6	53.0	27.3%	3.8%
Precast concrete	5.2	6.5	7.7	18.7%	68.4%
Total pre-tax profit	56.3	48.1	60.7	26.2%	-1.7%
Construction	11.5	7.0	6.7	-4.3%	-41.4%
Precast concrete	8.7	7.8	9.0	14.9%	2.8%
Pre-tax profit margin (%)	20.2	14.9	15.7	5.8%	-22.3%

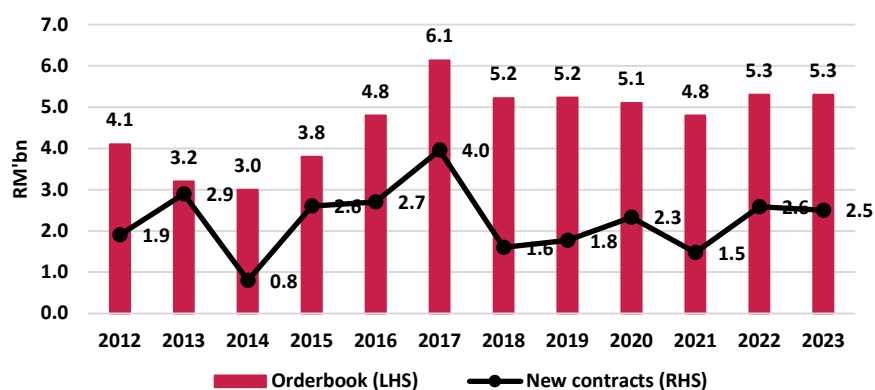
Source: BIMB Securities, Company

Chart 1: SunCon's 5-years Historical PER (x)



Source: Bloomberg, BIMB Securities

Chart 2: SunCon's historical outstanding orderbook and new contract



Source: BIMB Securities, Company

Table 3: Earnings forecast

FYE Jan (RMmn)	2021	2022	2023F	2024F	2025F
Turnover	1,729.2	2,155.2	2,282.7	2,398.0	2,776.0
EBITDA	198.9	210.3	186.8	199.6	202.1
Pretax profit	152.2	184.1	176.5	189.4	199.6
Core Net Profit	110.8	138.7	144.0	160.5	171.6
Consensus			140.4	161.6	172.9
EPS (sen)	8.6	10.8	11.2	12.8	13.3
PER (x)	21.0	16.7	16.1	14.1	13.5
DPS (sen)	5.3	5.5	5.5	6.0	6.0
Div. Yield (%)	2.9	3.1	3.1	3.3	3.3
BVPS (RM)	0.6	0.6	0.6	0.7	0.8
P/B (x)	3.3	3.0	2.8	2.5	2.3
Key Ratios (%)					
ROE	16.6	18.9	17.9	18.6	17.6
EBITDA margin	11.5	9.8	8.2	8.3	7.3
Pretax margin	8.8	8.5	7.7	7.9	7.2
Net margin	6.4	6.4	6.3	6.9	6.2

Source: Bloomberg, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months. SELL Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

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The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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