

HLIB Research

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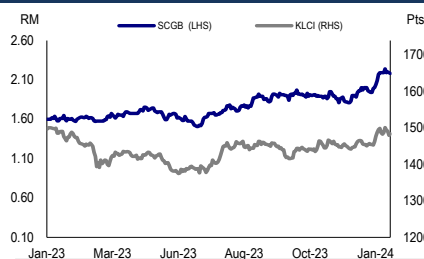
BUY (Maintain)

Target Price: RM3.75
Previously: RM3.20
Current Price: RM3.35

Capital upside	11.9%
Dividend yield	1.6%
Expected total return	13.5%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	19.2	26.1	91.3
Relative	13.6	20.8	68.3

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	3,374
3-mth average volume ('000)	4331
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Berhad	54.6%
EPF	6.2%

Earnings summary

FYE (Dec)	FY23	FY24f	FY25f
PATMI - core (RM m)	151.6	170.2	230.7
EPS - core (sen)	11.7	13.2	17.8
P/E (x)	28.6	25.4	18.8

Sunway Construction Group

Typical start

SunCon reported 1QFY24 earnings of RM28.7m meeting our expectations. Billings for its key DC project is on-track to accelerate in 2H. Given vibrant advance tech facilities sector, rail projects and potential formalisation of its Vietnam project, upside to assumptions remain. Current client base could yield more jobs from: (i) expansion plans and (ii) regional opportunities. Precast segment should continue to benefit from healthy demand in SG. Maintain BUY with higher TP of RM3.75. SunCon is a proxy to coming infrastructure project rollouts, vibrant advanced technology facilities sector and a growing parent-co business.

Within expectations. SunCon reported 1QFY24 results with revenue of RM604.8m (-30.6% QoQ, +15.8% YoY) and core PATAMI of RM28.7m (-44.6% QoQ, +3.1% YoY). We deem the results within our/consensus expectations at 16.6%/15.8% of full year forecasts. The company is typically a slow starter and we believe this trend is more pronounced in FY24 considering billings from its key DC project (JHB1X0) will only pick-up starting in June-24 when NTP2 is given. Guidance on this is unchanged with developments on track.

Els. We adjust SunCon's 4QFY23 earnings by: (i) RM23.3m of receivables impairment and (ii) RM20.8m of settlement gain from legacy projects in India. 1QFY24 earnings have been adjusted by: (i) RM1.6m of impairment and (ii) RM5.3m settlement gain.

Dividends. No DPS was declared. Dividends are normally declared in 2Q and 4Q.

QoQ. Core PATAMI fell by -44.6% in tandem with a -30.6% decline in revenue. Sequential weakness were seen as revenue for both construction (-30.8%) and precast (-28.6%) declined leading to similar quantum of contraction at the PBT level. 4QFY23 was driven by accelerated progress in building & LSS projects while some precast projects nearing completion also contributed.

YoY. Core PATAMI increased by 3.1% with revenue growing by 15.8% – both segments saw similar revenue growth. Construction was driven by higher billings from newer projects while precast growth came from additional ICPH capacity.

Orderbook. Latest unbilled orderbook stands at RM6.3bn (2.4x cover on FY23 revenue). SunCon has snatched up RM1.7bn worth of new contract wins in FY24 YTD. As highlighted earlier, we reckon the possibility of SunCon finishing FY24 on a stronger note than our earlier assumed RM3.4bn wins looks increasingly higher.

Pipeline still good. While SunCon's tenderbook has diminished sequentially to RM9.4bn at present, this is almost entirely due to expiry of two MRT3 tenders. We believe that the company still has ~4 tenders in the advance technology facilities (ATF) space and would be in advantageous position to benefit from expansion of existing key clients. Both its ECI (A & B) engagements are progressing well and have yielded work orders totalling RM53.4m (rolling basis) – we reckon the amount could be rather substantial as project progresses. On another positive note, SunCon has also been invited to potentially participate in ATF projects in India and Indonesia, opening up possibilities of regional penetration into a rapidly growing sector. For such overseas projects, SunCon will collaborate with local partners holding stakes of 50% or more. Elsewhere, the company intends to participate in upcoming infrastructure projects like Penang LRT and Johor ART while runway for internal projects is healthy. Beyond the short term, SunCon's strong leverage onto the "Johor theme" not only through its parent-co projects but also external projects should translate to more opportunities moving forward as development momentum in the state picks-up.

Forecast. Change FY24f/25f earnings forecasts by -1.3%/+5.9% after lifting replenishment assumptions while adjusting for project progress. Introduce FY26 core PATAMI forecasts of RM248.8m.

Maintain BUY, TP: RM3.75. Maintain BUY with higher TP of RM3.75 (from RM3.20). TP is derived by pegging FY25 EPS to 21.0x (from 19.0x) P/E multiple based roughly on +0.5SD on 5 year trading range. We believe this above average target multiple is warranted due to its Johor and DC exposure. SunCon is a proxy to coming infrastructure project rollouts, vibrant advanced technology facilities sector and a growing parent-co business.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	522.1	871.5	604.8	(30.6)	15.8
EBIT	41.7	84.3	49.4	(41.4)	18.5
Finance income	4.1	8.6	4.7	(44.9)	15.4
Finance cost	(8.3)	(15.2)	(16.2)	6.7	95.7
PBT	37.5	63.3	37.9	(40.0)	1.2
PAT	28.6	50.9	29.0	(43.0)	1.3
Core PATMI	27.8	51.8	28.7	(44.6)	3.1
Reported PATMI	27.8	49.3	32.4	(34.2)	16.4
Core EPS (sen)	2.2	4.0	2.2	(44.6)	3.1
EBIT margin (%)	8.0	9.7	8.2		
PBT margin (%)	7.2	7.3	6.3		
PATMI margin (%)	5.3	5.9	4.7		

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Cash	491.6	470.4	775.7	1,250.3	1,258.8
Receivables	1,077.6	1,893.2	1,488.4	1,512.2	1,526.0
Inventories	53.4	46.4	30.5	38.7	38.9
PPE	107.5	98.0	91.6	83.9	74.7
Others	505.9	574.8	574.8	574.8	574.8
Assets	2,236.0	3,082.8	2,961.1	3,459.9	3,473.2
Debts	480.7	926.0	669.0	706.4	567.5
Payables	895.4	1,193.3	1,222.0	1,548.3	1,554.8
Others	39.2	71.6	71.6	71.6	71.6
Liabilities	1,415.3	2,190.8	1,962.6	2,326.3	2,193.9
Shareholder's equity	737.1	820.2	926.7	1,061.8	1,207.5
Minority interest	83.7	71.8	71.8	71.8	71.8
Equity	820.8	892.0	998.5	1,133.6	1,279.3

Cash Flow Statement

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Profit before taxation	192.8	195.1	223.9	303.4	327.2
Depreciation & amortisation	23.8	21.0	26.4	27.8	29.2
Changes in working capital	(401.8)	(510.7)	449.3	294.4	(7.5)
Share of JV profits	(1.7)	14.1	-	-	-
Taxation	(45.3)	(42.8)	(49.2)	(66.7)	(72.0)
Others	17.3	23.8	-	-	-
Operating cash flow	(215.0)	(299.4)	650.3	558.8	276.9
Net capex	(2.9)	(1.1)	(20.0)	(20.0)	(20.0)
Others	426.7	(61.8)	-	-	-
Investing cash flow	423.8	(62.9)	(20.0)	(20.0)	(20.0)
Changes in borrowings	242.8	445.2	(256.9)	37.4	(138.9)
Issuance of shares	-	-	-	-	-
Dividends paid	(71.1)	(77.3)	(68.1)	(101.5)	(109.5)
Others	(29.0)	(30.5)	-	-	-
Financing cash flow	142.7	337.4	(325.0)	(64.1)	(248.4)
Net cash flow	351.4	(24.8)	305.3	474.7	8.5
Forex	-	-	-	-	-
Others	41.3	3.6	-	-	-
Beginning cash	98.8	491.6	470.4	775.7	1,250.3
Ending cash	491.6	470.4	775.7	1,250.3	1,258.8

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Revenue	2,155.2	2,671.2	2,716.4	3,449.6	3,481.1
EBITDA	219.0	251.8	283.6	346.0	362.8
EBIT	195.2	230.8	257.2	318.2	333.7
Net finance income/ (cost)	(4.2)	(21.5)	(33.4)	(14.8)	(6.5)
Associates & JV	1.7	(14.1)	-	-	-
Profit before tax	192.8	195.1	223.9	303.4	327.2
Tax	(45.3)	(42.8)	(49.2)	(66.7)	(72.0)
Net profit	147.4	152.3	174.6	236.6	255.2
Minority interest	(3.6)	(0.7)	(4.4)	(5.9)	(6.4)
Core PATAMI	143.9	151.6	170.2	230.7	248.8
Exceptional items	(8.7)	(6.5)	-	-	-
Reported earnings	135.2	145.1	170.2	230.7	248.8

Valuation & Ratios

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Core EPS (sen)	11.1	11.7	13.2	17.8	19.2
P/E (x)	30.1	28.6	25.4	18.8	17.4
EV/EBITDA (x)	22.2	19.3	17.1	14.0	13.4
DPS (sen)	5.5	6.0	5.3	7.9	8.5
Dividend yield	1.6%	1.8%	1.6%	2.3%	2.5%
BVPS (RM)	0.6	0.6	0.7	0.8	0.9
P/B (x)	5.9	5.3	4.7	4.1	3.6
EBITDA margin	10.2%	9.4%	10.4%	10.0%	10.4%
EBIT margin	9.1%	8.6%	9.5%	9.2%	9.6%
PBT margin	8.9%	7.3%	8.2%	8.8%	9.4%
Net margin	6.8%	5.7%	6.4%	6.9%	7.3%
ROE	20.0%	19.5%	19.5%	23.2%	21.9%
ROA	6.1%	4.8%	4.7%	5.5%	5.3%
Net gearing	CASH	55.5%	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Construction	2,414	2,235	3,300	2,000	2,000
Precast	168	270	300	300	300
Total new job wins	2,582	2,300	3,600	2,300	2,300

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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