

Sunway Construction Group Berhad

TP: RM3.79 (+13.2%)

Growth Trajectory Intact

Last Traded: RM3.35

BUY (ESG: ★★★★★)

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Results Review

- SUNCON reported IQFY24 core earnings of RM32.3mn, which came in at 17.0% and 17.8% of ours and consensus' full-year estimates, respectively. However, we consider the results to be within expectations, as we anticipate stronger earnings in the next few quarters due to higher progress billing from newer projects.
- IQFY24 revenue surged by 15.8% YoY, driven by growth across all divisions: (i) construction division (+15.9% YoY), and (ii) precast division (+15.5% YoY). The improvement was propelled by higher billing from newer construction projects and increasing contributions from the integrated construction and prefabrication hub in Singapore. In line with the top-line expansion, SUNCON registered a PBT growth of 11.0% YoY.
- However, sequential PBT declined by 31.5% QoQ to RM41.6mn, attributed to lower contributions from both the construction and precast divisions. The immediately preceding quarter's results were boosted by accelerated progress in building and sustainable energy projects, efforts to achieve scheduled milestones for certain construction projects, and higher contributions from projects near-completion for the precast division.
- SUNCON has secured RM1.7bn of new contracts in IQ24 and is aiming to replenish its order book by RM2.5bn to RM3.0bn this year.

Impact

- After performing some housekeeping on our earnings model, we tweak our FY24/25/26F earnings forecasts upward by 0.2%/2.0%/3.7%, respectively.

Outlook

- As of the end-March 2024, the group's outstanding order book stood at RM6.3bn, translating to 2.4x FY23 revenue. The group's growth trajectory is expected to remain robust, supported by a strong outlook in advanced technology projects (ATP) such as data centres, semiconductor factories, renewable energy projects, and warehouses, along with the potential rollout of domestic mega infrastructure projects.
- Additionally, we believe SUNCON could benefit from the Johor government's initiative to implement an autonomous rapid transit (ART) system in Johor Bahru to alleviate traffic congestion. This new project is estimated to cost RM7bn, which is 58% lower than the cost of building a light rail transit (LRT) line. SUNCON is a strong contender for this ART project, leveraging its proven track record with the construction of the elevated Bus Rapid Transit Sunway Line completed in 2015 with a project value of RM452mn.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	4,319.4
52-wk Hi/Lo (RM)	3.35/1.53
12-mth Avg Daily Vol ('000 shrs)	1631.4
Estimated Free Float (%)	20.5
Beta	0.9

Major Shareholders (%)

Sunholdings - 54.6
Sungei Way Corp Sdn Bhd - 10.1
Employee Provident Fund - 6.2
Amanah Saham Nasional Bhd - 3.3

Forecast Revision

	FY24	FY25
Forecast Revision (%)	0.2	2.0
Net profit (RMmn)	190.0	221.0
Consensus	181.6	213.4
TA's / Consensus (%)	104.6	103.6
Previous Rating	Buy (Maintained)	
Consensus Target Price	3.04	

Financial Indicators

	FY24	FY25
Net Debt / Equity (%)	33.2	32.1
CFPS (sen)	11.7	(1.9)
Price / CFPS (x)	28.7	(179.1)
ROA (%)	5.7	5.9
NTA/Share (sen)	71.8	80.0
Price/NTA (x)	4.7	4.2

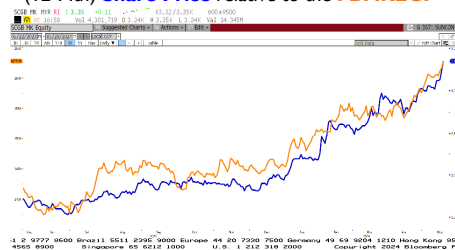
Scorecard

	% of FY	
vs. TA	17.0	Within
vs. Consensus	17.8	Within

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	21.4	5.0
3 mth	28.4	4.5
6 mth	74.5	11.5
12 mth	94.8	13.8

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation

- Following the earnings revision, we arrive at a new TP of **RM3.79**, based on a higher target PER of 22x CY25 EPS (from 19x previously). This adjustment reflects a reduced discount of 10% from 15% to the average target PER of 24x of the big cap construction players under our universe coverage. That said, we believe that the valuation is fair given the following factors: (i) SUNCON's strong position as a contender for mega infrastructure projects, namely MRT3, Johor ART and Penang LRT, (ii) strong earnings visibility on the back of a robust outstanding order book, (iii) potential new earnings driver from power plant project in Vietnam, and (iv) its leading position in securing more jobs in the thriving ATP industry. Maintain **Buy** call on the stock.

Table I: Earnings Summary (RM mn)

FYE Dec (RMmn)	2022	2023	2024F	2025F	2026F
Revenue	2,155.2	2,671.2	3,079.5	3,541.5	3,826.7
Gross profit	365.8	400.7	477.3	548.9	612.3
EBITDA	210.3	245.3	291.2	330.7	358.7
EBITDA margin (%)	9.8	9.2	9.5	9.3	9.4
EBIT	186.5	224.3	269.4	307.6	334.4
PBT	184.1	188.6	251.2	292.2	321.2
PAT	135.2	145.1	190.0	221.0	243.0
Core net profit	147.1	169.8	190.0	221.0	243.0
Core EPS (sen)	11.5	13.2	14.8	17.2	18.9
PER (x)	29.2	25.3	22.6	19.4	17.7
Gross dividend (sen)	5.5	6.0	7.0	9.0	9.0
Dividend yield (%)	1.6	1.8	2.1	2.7	2.7
ROE (%)	18.8	18.6	21.8	22.7	22.3

Table 2: IQFY24 Results Analysis (RMmn)

FYE Dec	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
Revenue	522.1	871.5	604.8	(30.6)	15.8
- Construction	469.1	785.8	543.6	(30.8)	15.9
- Precast	53.0	85.7	61.2	(28.6)	15.5
Operating profit	41.7	81.8	53.1	(35.1)	27.4
Finance income	4.1	8.6	4.7	(44.9)	15.4
Finance costs	(8.3)	(15.2)	(16.2)	(6.7)	(95.7)
Profit before taxation	37.5	60.8	41.6	(31.5)	11.0
- Construction	36.2	53.0	37.9	(28.6)	4.6
- Precast	1.3	7.7	3.8	(51.3)	191.1
Income tax expense	(8.9)	(12.3)	(8.9)	27.6	(0.7)
Non-controlling interests	0.8	(0.8)	0.3	136.6	(61.9)
Net profit	27.8	49.3	32.4	(34.2)	16.4
- Construction	27.5	44.6	30.1	(32.5)	9.6
- Precast	0.4	4.7	2.3	(51.1)	N.M.
Core net profit	25.8	73.7	32.3	(56.2)	25.2
Reported EPS (sen)	2.2	3.8	2.5	(34.2)	16.4
Core EPS (sen)	2.0	5.7	2.5	(56.2)	25.2
Dividend (sen)	0.0	3.0	0.0	(100.0)	N.M.
Margin (%):				% pts	% pts
- Operating	8.0	9.4	8.8	(0.6)	0.8
- Construction	8.0	7.2	8.5	1.3	0.5
- Precast	7.7	29.5	11.0	(18.5)	3.3
- PBT	7.2	7.0	6.9	(0.1)	(0.3)
- PAT	5.5	5.6	5.4	(0.2)	(0.1)
- Effective tax rate	23.7	20.3	21.5	1.2	(2.2)

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★★★★★	★★★★
Remark	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build A Home, which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management, and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management, and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Tuesday, May 21, 2024, the analyst, Raymond Ng Ing Yeow, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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