

COMPANY RESULTS

Sunway Construction (SCGB MK)

1Q24: Within Expectations

Suncon's 1Q24 earnings came in within expectations, despite accounting for just 16-18% of our and consensus estimates. We foresee higher earnings in the coming quarters on the back of accelerated progress billings as well as better profit margins. We remain upbeat on Suncon's near-term earnings, underpinned by its outstanding orderbook of RM6.3b as of 1Q24 and potentially higher replenishment in 2024. Downgrade to HOLD due to limited upside. Target price: RM3.33.

1Q24 RESULTS

Year to 31 Dec (RMm)	1Q24	4Q23	qoq % chg	yoy % chg	Comments
Revenue	604.8	871.5	<i>(30.6)</i>	<i>15.8</i>	Lower progress billing
- Construction	543.6	785.8	<i>(30.8)</i>	<i>15.9</i>	
- Precast Concrete	61.2	85.7	<i>(28.6)</i>	<i>15.5</i>	
Operating profit	53.1	81.8	<i>(35.1)</i>	<i>27.4</i>	Lower EBIT margins
- Construction	46.4	56.5	<i>(17.9)</i>	<i>23.3</i>	
- Precast Concrete	6.7	25.3	<i>(73.4)</i>	<i>65.3</i>	
Pre-tax Profit	41.6	60.8	<i>(31.5)</i>	<i>11.0</i>	Higher effective tax rate
PATAMI	32.4	49.3	<i>(34.2)</i>	<i>16.4</i>	
Core PATAMI	32.3	74.1	<i>(56.4)</i>	<i>25.2</i>	
Margins	%	%	+/-ppt	+/-ppt	
EBIT:	8.8	9.4	<i>(0.6)</i>	<i>0.8</i>	
- Construction	8.5	7.2	<i>1.3</i>	<i>0.5</i>	
- Precast Concrete	11.0	29.5	<i>(18.5)</i>	<i>3.3</i>	
PBT	6.9	7.0	<i>(0.1)</i>	<i>(0.3)</i>	
Core PATMI	5.3	8.5	<i>(3.2)</i>	<i>0.4</i>	

Source: Sunway Construction, UOB Kay Hian

RESULTS

• **Within expectations.** Sunway Construction's (Suncon) 1Q24 core net profit came in lower at RM32.3m (-56.4% qoq, +25.2% yoy) on a revenue of RM604.8m (-30.6% qoq, +15.8% yoy). This accounts for only 16% of our forecasts and 18% of consensus estimates. However, we deem 1Q24 earnings within expectations as we foresee higher earnings in the coming quarters on the back of accelerated progress billings as well as better profit margins. We note that the qoq weakness mainly stemmed from the decline in profits from both construction and precast divisions, given the high base effect in 4Q23.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,155	2,671	3,233	3,529	3,727
EBITDA	163	203	259	288	313
Operating profit	187	224	277	308	336
Net profit (rep./act.)	135	145	199	226	251
Net profit (adj.)	144	170	199	226	251
EPS (sen)	11.2	13.2	15.4	17.5	19.4
PE (x)	30.0	25.4	21.8	19.1	17.2
P/B (x)	5.9	5.3	4.8	4.4	4.0
EV/EBITDA (x)	32.1	25.7	20.2	18.2	16.7
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	6.3	5.4	6.1	6.4	6.7
Net debt/(cash) to equity (%)	9.9	66.1	93.1	78.7	62.7
Interest cover (x)	39.2	9.5	12.6	17.7	26.3
Consensus net profit	-	-	182	213	233
UOBKH/Consensus (x)	-	-	1.09	1.06	1.08

Source: Sunway Construction, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

HOLD

(Downgraded)

Share Price	RM3.35
Target Price	RM3.33
Upside	-0.6%

COMPANY DESCRIPTION

A leading construction company in Malaysia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,289.4
Market cap (RMm):	4,319.4
Market cap (US\$m):	921.7
3-mth avg daily t'over (US\$m):	2.5

Price Performance (%)

52-week high/low RM3.35/RM1.53

1mth	3mth	6mth	1yr	YTD
21.4	28.4	74.5	94.8	72.7

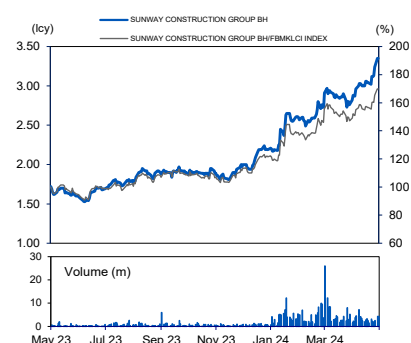
Major Shareholders

	%
Sunway Holdings Sdn Bhd	54.6
Sungei Way Corp Sdn Bhd	10.1
Employees Provident Fund Board	6.2

FY24 NAV/Share (RM) 0.70

FY24 Net Debt/Share (RM) 0.65

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Construction segment: Normalised progress billing.** The construction division's operating profit (EBIT) dropped to RM46.4m (-17.9% qoq, +23.3% yoy) on lower revenue of RM543.6m (-30.8% qoq, +15.9% yoy) in 1Q24. The qoq decrease in revenue was mainly attributed to the high base effect in 4Q23. Recall that the division recorded the highest-ever quarterly revenue in 4Q23 from the accelerated progress in building and sustainable energy projects, as well as a ramp-up in progress to achieve scheduled milestones for certain projects. Despite the lower revenue, EBIT margin was higher qoq, likely due to better margins from newer projects.
- Precast segment: Remains resilient.** The precast segment also recorded a lower EBIT of RM6.7m (-73.4% qoq, +65.3% yoy) on a lower revenue of RM61.2m (-28.6% qoq, +15.5% yoy). We believe the lower EBIT was largely due to contracted contributions from Integrated Construction & Prefabrication Hub (ICPH) projects. In Feb 24, Singapore's Housing and Development Board (HDB) launched 5,714 Build-To-Order (BTO) flats for sale out of the 2024 launch target of 19,600 flats. This should sequentially help Suncon lift ICPH's utilisation rate while resulting in a sustainable price outlook for its precast concrete products. Recall that HDB flats typically contribute >90% of precast sales.
- On track to meet replenishment target.** We remain upbeat on Suncon's near-term earnings underpinned by its outstanding orderbook of RM6.3b as of 1Q24 (2.6x cover ratio of its 2023 construction revenue). Meanwhile, the group is right on track to meet its 2024 replenishment target of RM3.0b, having already secured nine new contracts collectively worth RM1.72b. Its active tenderbook was lower qoq at RM9.4b (vs RM26.0b in 4Q23) mainly due to the exclusion of Mass Rapid Transit 3 (MRT3) following the lapse of the tender validity in Mar 24. However, we understand the group remains keen on MRT3 contracts and is awaiting further clarity on the mega railway project.

We also believe Suncon will continue to benefit from the resilient internal job flows from its parent company, Sunway Berhad (Sunway). We foresee sustainable internal project flows supported by: a) Sunway's new property launches of RM2b-3b p.a. in the coming years, b) multiple capacity expansions of medical centres which are guided to cost around RM2b, and c) potential renovation and refurbishment works for Sunway's existing hotels and malls.

EARNINGS REVISION/RISK

- Earnings revision: None.**

VALUATION/RECOMMENDATION

- Downgrade to HOLD with an unchanged target price of RM3.33,** as we believe the current share has already priced in most positives at this juncture. Our target PE is based on 0.5SD above its five-year mean of 17x. However, we do not rule out the possibility of a further rally in the share price amid the bullish market currently. We highlight that the share price can rally to as high as RM5.26-5.43 if the valuation reverts to the peak of 30-31x back in Apr-May 19. The group's fundamentals remain robust, supported by its proven capability to clinch a balanced mix of external and internal projects which will ultimately lead to decent earnings visibility for the next two to three years.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

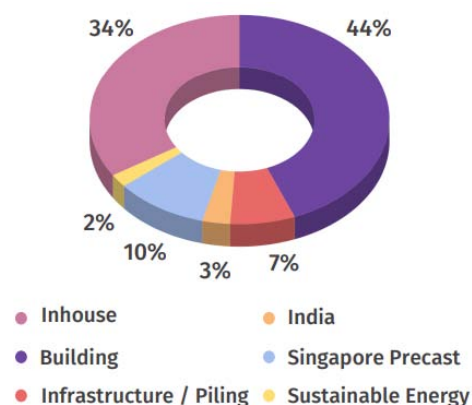
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - Mitigate emissions, biodiversity impact, waste disposal and pollution. Social <ul style="list-style-type: none"> - Work with local authorities and communities to ensure projects' success. Governance <ul style="list-style-type: none"> - Independent directors (four out of seven) comprise the majority of the board.
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OUTSTANDING ORDERBOOK AS OF END-4Q23

Projects	(RMm)
STeP Data Centre	1,453
PSR - MNC	748
RTS Link Package 1B & 5	417
K2 Data Centre	197
Daiso Warehouse	282
India Highways	190
Solar Projects	98
Others	106
Total External (A)	3,491
South Quay Superstructure	744
Sunway Ipoh Mall	719
SW Flora	217
Sunway Carnival Mall Refurbishment	154
Others	347
Total Internal (B)	2,181
Precast Concrete (C)	630
Grand Total (A+B+C)	6,303

Source: Suncon

ORDERBOOK BREAKDOWN



Source: Suncon

SEGMENTAL FORECASTS

(RMm)	2024F	2025F	2026F
Revenue	3,233	3,529	3,727
- Construction	2,887	3,061	3,239
- Precast Concrete	346	468	488
Operating profit	277	308	336
- Construction	239	257	282
- Precast Concrete	38	52	54
Orderbok replenishment assumptions			
- Construction	3,000	3,000	3,000
- Precast Concrete	400	400	400

Source: Suncon, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	2,671	3,233	3,529	3,727
EBITDA	203	259	288	313
Deprec. & amort.	(21)	(19)	(21)	(23)
EBIT	224	277	308	336
Associate contributions	(14)	2	2	2
Net interest income/(expense)	(21)	(21)	(16)	(12)
Pre-tax profit	189	258	294	326
Tax	(43)	(57)	(65)	(72)
Minorities	(1)	(3)	(3)	(4)
Net profit	145	199	226	251
Net profit (adj.)	170	199	226	251

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	(286)	(141)	233	285
Pre-tax profit	189	258	294	326
Tax	(33)	(57)	(65)	(72)
Deprec. & amort.	21	19	21	23
Associates	14	(2)	(2)	(2)
Working capital changes	(498)	(359)	(15)	11
Other operating cashflows	21	0	0	0
Investing	(88)	(32)	(35)	(37)
Capex (growth)	(18)	(32)	(35)	(37)
Proceeds from sale of assets	2	0	0	0
Others	(73)	0	0	0
Financing	349	(171)	(188)	(203)
Dividend payments	(71)	(121)	(138)	(153)
Proceeds from borrowings	421	(50)	(50)	(50)
Others/interest paid	(1)	0	0	0
Net cash inflow (outflow)	(25)	(344)	10	46
Beginning cash & cash equivalent	408	384	40	50
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	384	40	50	96

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	99	112	127	142
Other LT assets	745	747	749	751
Cash/ST investment	384	40	50	96
Other current assets	1,855	2,147	2,267	2,324
Total assets	3,083	3,046	3,193	3,312
ST debt	438	350	330	310
Other current liabilities	1,264	1,196	1,301	1,368
LT debt	488	526	496	466
Other LT liabilities	1	1	1	1
Shareholders' equity	820	898	986	1,084
Minority interest	72	75	78	82
Total liabilities & equity	3,083	3,046	3,193	3,312

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	7.6	8.0	8.2	8.4
Pre-tax margin	7.1	8.0	8.3	8.8
Net margin	5.4	6.1	6.4	6.7
Net profit (adj.)	18.3	16.7	13.8	11.0
Leverage				
Debt to total capital	50.9	47.4	43.7	40.0
Debt to equity	112.9	97.6	83.8	71.6
Net debt/(cash) to equity	66.1	93.1	78.7	62.7
Interest cover (x)	9.5	12.6	17.7	26.3

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