

09 May 2022

Sunway Construction Group

Bracing the Headwinds

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We held a virtual meeting with SUNCON recently and felt that many headwinds still persist for the group. The high inflationary environment coupled with shortage of labour would exert an undesirable impact towards ongoing and newly secured jobs. In addition, due to the lull of jobs during the pandemic period, replenishment has been tough given the current competitive landscape. That said, profitability for the group in FY22 should still be able to achieve management's 5-8% EBIT margin guidance as prudent recognition from jobs reaching completion should see upward revision upon accounts finalisation. Maintain MP with unchanged TP of RM1.52.

YTD replenishment of RM266m (of which RM128m is from precast and RM100m from RTS piling) is trailing behind out RM1.5b target and management's RM2.0b target. Management's RM2b target is divided evenly among: (i) precast, (ii) buildings, (iii) in-house works i.e. from SUNWAY, and (iv) Infra/India. Current key tenders include the RTS CIQ superstructure (c.RM400m value). Nonetheless, management reveals that tenders are extremely competitive for this package.

Keen to secure MRT3's elevated portions. This includes Civil package 1 (6km elevated section + main depot) and Civil package 2 (27km elevated + 1.2km on ground tunnel). We estimate that the Civil package 1 and 2 are worth c.RM2.5b and RM12b, respectively, based on contract costs extrapolated from MRT2. However, in order to participate, the tendering consortium must have 60% Bumiputera shareholding – hence, Suncon will require a JV partner for these jobs.

SUNCON's Singapore precast plant (ICPH) is on track to commence operations in Aug 2022 with 75k m3 capacity (currently at 125k m3). Management reveals that the plant would require RM300-500m/annum revenue for full utilisation.

Their two India projects (cumulatively worth RM818m) have commenced construction. Upon completion of these two contracts, we expect SUNCON's net cash position will swing into a net gearing of c.0.05x. SUNCON is internally comfortable with a net gearing of 0.5x.

Severe labour shortage. Currently SUNCON only has 260 direct workers (compared to 800 at the peak and 500 during the pandemic stage). Although execution progress for the group is not affected, it will require additional costs for additional subcontractors – translating to margin erosion. Suncon intends to secure another 700 direct workers but notes that it would be tough to get the quota.

Current high steel prices of RM3,400/t and cement prices of RM350/t will erode margins from ongoing construction projects and more so for its precast division.

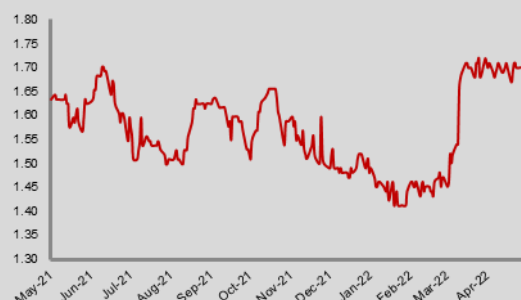
High solar panel costs have halted the progress of SUNCON's two existing solar contracts (worth c.RM300m). The concessionaires (which awarded Suncon the contracts) are trying to renegotiate with TENAGA for an extension of concession period to ride out this high price period and wait for panel prices to drop – so that the initial IRRs can be maintained.

Despite the challenges, SUNCON still guides 5-8% EBIT margins for FY22. The margin compression from high building material costs and labour shortages will be supplemented by upward margin adjustments for contracts completing this year (upon account finalisation) given that SUNCON has been prudent with margin recognition for ongoing projects all this while. **Keep earnings forecast unchanged and maintain our MP call with TP of RM1.52.**

MARKET PERFORM ↔

Price : RM1.68
Target Price : RM1.52 ↔

Share Price Performance



KLCI	1,564.34
YTD KLCI chg	-0.2%
YTD stock price chg	7.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,166.1
Shares Outstanding	1,289.4
52-week range (H)	1.76
52-week range (L)	1.44
3-mth avg daily vol:	463,249
Free Float	18%
Beta	0.6

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Empey Provident Fund Board	9.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022E	2023E
Turnover	1729.2	2146.3	2257.3
EBIT	154.0	165.0	168.5
PBT	152.2	162.8	161.5
Net Profit	112.6	127.7	126.7
Core PATAMI	127.2	127.7	126.7
Consensus (NP)	80.7	127.3	141.6
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	9.84	9.87	9.80
Core EPS growth (%)	54	0	-1
NDPS (sen)	5.3	5.0	6.0
NTA per Share (RM)	0.54	0.59	0.63
Price to NTA (x)	3.1	2.9	2.7
PER (x)	17.1	17.0	17.1
Net Gearing (x)	NC	NC	NC
Return on Equity (%)	18	17	16
Net Div. Yield (%)	3.1	3.0	3.6

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Risks include lower-than-expected margins, and delay in work progress.

Sum of Parts Target Price		
Items	Value (RM m)	Remarks
Construction	1,858	Apply 16x FY22F PE
Precast concrete	106	Apply 10x FY22F PE
Equity value	1,964	
No. of shares (m)	1,293	
Equity value per share (RM)	1.52	

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.62	9,245.2	Y	07/2022	15.1	13.1	17.4	1.1	1.0	7.9%	3.3%	4.00	OP	
IJM CORP BHD	1.73	6,108.8	Y	03/2022	17.1	32.0	20.4	0.6	0.6	10.0%	12.1%	1.90	OP	
KERJAYA PROSPEK GROUP BHD	1.16	1,434.6	Y	12/2022	15.3	9.1	9.0	1.5	1.3	15.3%	3.9%	1.50	OP	
KIMLUN CORP BHD	0.770	272.1	Y	12/2022	N.A.	6.9	5.7	0.4	0.4	5.7%	2.6%	1.00	OP	
MUHIBBAH ENGINEERING (M) BHD	0.570	414.4	Y	12/2022	N.A.	10.8	5.5	0.2	0.2	2.2%	0.0%	0.600	MP	
SUNWAY CONSTRUCTION GROUP BHD	1.68	2,166.1	Y	12/2022	17.1	17.0	17.1	3.4	3.2	19.4%	3.0%	1.52	MP	
WCT HOLDINGS BHD	0.525	744.0	Y	12/2022	N.A.	8.4	10.6	0.3	0.2	4.4%	0.0%	0.620	OP	
Simple Average					16.2	13.9	12.2	1.1	1.0	9.3%	3.6%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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