

24 August 2022

Sunway Construction Group

Gunning for Big Jobs

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SUNCON's 1HFY22 results met expectations. YTD, it has secured RM563m worth of new jobs. It is tendering for sizeable data centres/semiconductor factory jobs which could fetch replenishment of RM1-1.5b per contract. Meanwhile, the labour issue is easing with the arrival of 400 workers by year end to cope with their RM4.2b order book. Increase TP by 5% to RM1.60 (from RM1.52) to reflect a 4-star ESG rating. Maintain MARKET PERFORM.

Within expectations. 1HFY22 CNP came in within expectations at 52% and 49% of our and consensus full-year forecast respectively.

1HFY22 revenue rose 42% YoY while CNP more than doubled from a low base during the pandemic-stricken same period a year ago.

Outlook. YTD, Suncon has replenished RM563m worth jobs against our full-year assumption of RM1.5b and the company's internal FY22 target of RM2.0b. While the company appears to be trailing our assumption and its own target, we are not perturbed as it is currently tendering for a number of data centre/semiconductor factory jobs by MNC clients which could fetch contract values of RM1.0b-1.5b per job. For these data centre/semiconductor jobs which have better margins compared to conventional construction contracts, SUNCON is entering these tenders with international JV partners in which SUNCON intends to hold 70-80% stake within the consortium. Thus, we keep our RM1.5b replenishment target unchanged.

In terms of labour, SUNCON has managed to secure a quota to bring in 400 Indonesian workers which would increase their total labour count to c.600 workers. These 400 workers are expected to come in throughout the remainder of the year with the first 100 workers to join by early September. Consequent to the additional labour, SUNCON would be able to execute its existing outstanding orderbook of RM4.2b smoothly.

Meanwhile, its Singapore Integrated Construction and Prefab Hub (ICPH) will commence operations soon. Nonetheless, expect the depreciation of this plant to weight on precast division's earnings up until end-FY23 as the group would need to sort out the teething issues before it can ramp up utilisation to have the plant contribute meaningfully.

Forecast. Keep FY22/23F earnings unchanged post results.

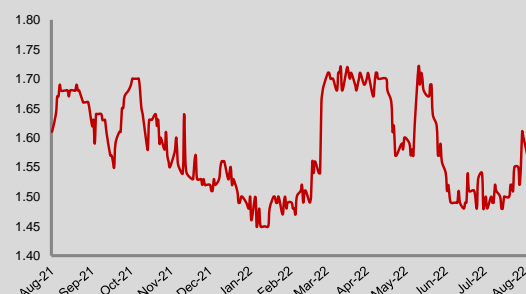
Maintain MP with higher SoP-derived TP of RM1.60 (from RM1.52) after adjusting TP by +5% on a 4-star ESG rating as appraised by us. We ascribed a construction PER of 16x to SUNCON – at the upper range of our coverages ascribed 9 to 18x PER for contractors' given SUNCON's strong backing from parent SUNWAY and its dominant position within the local construction space with extensive capabilities and track record in building, infrastructure, solar and mechanical, electrical and plumbing (MEP) works.

Risks to our call include: (i) sustained weak flows of construction jobs from both the public and private sectors; (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD); and (iii) rising cost of building materials.

MARKET PERFORM ↔

Price : RM1.55
Target Price : RM1.60 ↑

Share Price Performance



KLCI	1,482.57
YTD KLCI chg	-5.4%
YTD stock price chg	-0.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	1,998.5
Shares Outstanding	1,289.4
52-week range (H)	1.74
52-week range (L)	1.44
3-mth avg daily vol:	106,311
Free Float	15%
Beta	0.7

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	1729.2	2146.0	2257.0
EBIT	152.7	168.8	170.6
PBT	152.2	167.8	165.1
Net Profit	112.6	127.7	126.7
Core PATAMI	111.9	127.7	126.7
Consensus (NP)	n.a.	135.4	146.5
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	8.7	9.9	9.8
Core EPS growth (%)	59%	14%	-1%
NDPS (sen)	5.3	5.0	5.0
NTA per Share (RM)	0.54	0.59	0.64
Price to NTA (x)	2.9	2.6	2.4
PER (x)	17.9	15.6	15.8
Net Gearing (x)	-0.7	-0.5	0.1
Return on Equity (%)	16%	17%	15%
Net Div. Yield (%)	3.4%	3.2%	3.2%

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Results Highlight								
FYE Dec (RM'm)	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Revenue	557.9	624.7	-11%	375.3	49%	1,182.5	830.5	42%
Operating Expenses	-517.6	-583.1	-11%	-370.1	40%	-1,100.7	-802.4	37%
Other Operating Income	2.1	1.4	49%	1.2	66%	3.4	4.4	-22%
Operating Profit	42.4	42.9	-1%	6.4	564%	85.3	32.5	163%
Finance Income	3.2	2.2	43%	1.4	131%	5.4	2.1	153%
Finance costs	-3.2	-1.2	176%	-1.0	220%	-4.3	-2.6	68%
Associates	0.6	3.2	-80%	2.8	-77%	3.8	4.7	-20%
JV	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
PBT	43.0	47.2	-9%	9.5	352%	90.1	36.8	145%
Tax	-9.3	-11.5	-19%	-3.6	160%	-20.9	-10.5	98%
PAT	33.6	35.6	-6%	5.9	467%	69.3	26.2	164%
MI	1.3	1.1	19%	-2.4	n.a.	2.5	-2.3	n.a.
PATAMI	32.3	34.5	-6%	8.3	288%	66.8	28.6	134%
Exceptionals	1.0	-0.4	n.a.	0.5	100%	0.6	0.4	50%
CNP	31.3	34.9	-10%	7.8	300%	66.2	28.2	135%
DPS	3.0	0.0	n.a.	1.3	140%	3.0	1.3	140%
EBIT margin	8%	7%		2%		7%	4%	
Pretax margin	8%	8%		3%		8%	4%	
NP margin	6%	6%		2%		6%	3%	
CNP margin	6%	6%		2%		6%	3%	
Net gearing (x)	-0.5	-0.5		-0.3		-0.5	-0.3	
Effective tax	22%	24%		38%		23%	29%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Construction	523.0	587.8	-11%	349.2	50%	1,110.7	770.5	44%
Precast Concrete	34.9	36.9	-5%	26.1	34%	71.8	59.9	20%
Total Revenue	557.9	624.7	-11%	375.3	49%	1,182.5	830.5	42%
Pre-tax Segmentation								
Construction	41.1	46.2	-11%	9.6	330%	87.3	33.2	163%
Precast Concrete	1.9	1.0	87%	0.0	n.a.	2.9	3.6	-20%
Total PBT	43.0	47.2	-9%	9.5	351%	90.1	36.8	145%
PAT Segmentation								
Construction	32.2	34.9	-8%	5.8	460%	67.1	23.2	189%
Precast Concrete	1.4	0.8	91%	0.2	722%	2.2	3.1	-28%
Total PAT	33.6	35.6	-6%	5.9	467%	69.3	26.2	164%
PATAMI Segmentation								
Construction	30.9	33.8	-9%	8.1	279%	64.6	25.5	153%
Precast Concrete	1.4	0.8	91%	0.2	722%	2.2	3.1	-28%
Total PATAMI	32.3	34.5	-6%	8.3	288%	66.8	28.6	134%
PBT margins								
Construction	8%	8%		3%		8%	4%	
Precast Concrete	5%	3%		0%		4%	6%	
Total	8%	8%		3%		8%	4%	

Source: Company, Kenanga Research

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Sum of Parts Target Price		
Items	Value (RM m)	Remarks
Construction	1,909	Apply 16x PE
Precast concrete	73	Apply 10x PE
Equity value	1,983	
No. of shares (m)	1,290	
Equity value per share (RM)	1.52	
4-star ESG Premium (+5%)	+0.08	
Target Price	1.60	

Source: Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div.Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
GAMUDA BHD	OP	3.75	4.20	12.00%	9,577.2	Y	07/2022	30.5	24.7	28.0%	-19.2%	12.3	15.1	1.1	8.7%	12.0	3.2%
IJM CORP BHD	MP	1.73	1.90	9.83%	6,098.4	Y	03/2023	8.6	9.2	26.2%	6.9%	20.3	19.0	0.6	3.8%	6.0	3.5%
KERJAYA PROSPEK GROUP BHD	OP	1.16	1.42	22.41%	1,462.8	Y	12/2022	9.3	12.2	19.1%	30.9%	10.6	9.5	1.3	11.2%	4.5	3.9%
KIMLUN CORP BHD	OP	0.710	1.10	54.93%	250.9	Y	12/2022	7.9	12.7	2600.0%	59.3%	9.2	5.8	0.3	4.0%	1.5	2.1%
MUHIBBAH ENGINEERING (M) BHD	MP	0.425	0.535	25.88%	309.0	Y	12/2022	0.3	3.5	-90.2%	1226.3%	106.3	8.2	0.3	0.2%	0.0	0.0%
SUNWAY CONSTRUCTION GROUP BHD	MP	1.55	1.60	3.23%	1,998.5	Y	12/2022	9.8	9.8	0.4%	-0.8%	15.7	15.8	3.0	19.4%	5.0	3.2%
WCT HOLDINGS BHD	OP	0.440	0.620	40.91%	623.6	Y	12/2022	6.3	5.0	214.3%	-20.5%	7.0	8.9	0.2	4.4%	0.0	0.0%
Simple Average								10.4	11.0	399.7%	183.3%	25.9	11.8	1.0	7.4%		2.3%

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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