

23 November 2022

Sunway Construction Group

Eyeing Sizeable Industrial Building Jobs

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SUNCON's 9MFY22 results met expectations. YTD, it has secured RM882m worth of new jobs and it is tendering for sizeable building jobs for data centres/semiconductor factories which could be worth as much as RM1-1.5b each. Meanwhile, its labour issue has eased with the arrival of 342 workers. Following the recent weakness in its share price, we upgrade SUNCON to OUTPERFORM (from MARKET PERFORM) with an unchanged SoP-based TP of RM1.60.

Within expectations. 9MFY22 core net profit of RM91m came within expectations at 71% and 69% of our full-year forecast and the full-year consensus estimates, respectively.

9MFY22 revenue rose 50% YoY while core net profit gained 90% from a low base during the pandemic-stricken period a year ago.

Outlook. YTD, Suncon has replenished RM882m 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 that could fetch contract values of RM1.0b-1.5b per job (active tenders stood at RM17.7b as of 3QFY22). Thus, we keep our RM1.5b replenishment target unchanged.

In terms of labour requirements, SUNCON has managed to secure a quota to bring in 400 Indonesian workers back in June 2022 which would increase their total labour count to c.600 workers. Thus far, 342 workers have arrived which would enable SUNCON to execute its outstanding order book of RM4.0b smoothly.

Meanwhile, its Singapore Integrated Construction and Prefab Hub (ICPH) is expected to be commissioned in Dec 2022. We expect the depreciation of this plant to weigh 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 before the plant contribute meaningfully.

Forecasts. Keep FY22-23F earnings unchanged post results.

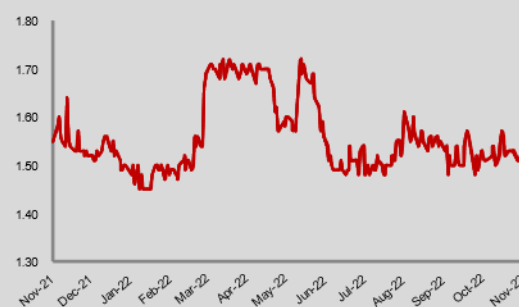
In view of the recent weakness in share price, we upgrade SUNCON to OUTPERFORM (from MARKET PERFORM) with an unchanged SoP-derived TP of RM1.60 based on 16x PER for its construction segment. We like SUNCON for: (i) its strong replenishment pipeline from parent SUNWAY, (ii) its dominant position in the local construction space with extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works, and (iii) its strong balance sheet that allows them to participate in deferred payment model projects. We accord a 5% premium to its TP given a 4-star ESG rating as appraised by us (see Page 5).

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

OUTPERFORM ↑

Price : **RM1.55**
Target Price : **RM1.60** ↔

Share Price Performance



KLCI 1,441.29
YTD KLCI chg -8.1%
YTD stock price chg -8.3%

Stock Information

| | |
|----------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | SCGB MK EQUITY |
| Market Cap (RM m) | 1,843.8 |
| Shares Outstanding | 1,289.4 |
| 52-week range (H) | 1.74 |
| 52-week range (L) | 1.41 |
| 3-mth avg daily vol: | 138,652 |
| Free Float | 14% |
| Beta | 0.8 |

Major Shareholders

| | |
|--------------------------------|-------|
| Sunway Holdings Sdn Bhd | 54.6% |
| Sungei Way Corp Sdn Bhd | 10.1% |
| Employees Provident Fund Board | 9.3% |

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. | 132.6 | 145.2 |
| 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) | 2.6 | 2.4 | 2.2 |
| PER (x) | 16.5 | 14.4 | 14.6 |
| Net Gearing (x) | -0.7 | -0.5 | 0.1 |
| Return on Equity (%) | 16 | 17 | 15 |
| Net Div. Yield (%) | 3.7 | 3.5 | 3.5 |

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| Results Highlight | | | | | | | | |
|-------------------------|-------------|-------------|-------------|-------------|------------|--------------|-------------|-------------|
| FYE Dec (RM m) | 3Q22 | 2Q22 | QoQ | 3Q21 | YoY | 9M22 | 9M21 | YoY |
| Revenue | 469.3 | 557.9 | -16% | 272.1 | 72% | 1,651.8 | 1,102.5 | 50% |
| Operating Expenses | -440.8 | -517.6 | -15% | -253.8 | 74% | -1,541.5 | -1,056.2 | 46% |
| Other Operating Income | 8.5 | 2.1 | 311% | 3.8 | 123% | 11.9 | 8.2 | 45% |
| Operating Profit | 36.9 | 42.4 | -13% | 22.1 | 67% | 122.2 | 54.5 | 124% |
| Finance Income | 4.1 | 3.2 | 28% | 1.0 | 316% | 9.5 | 3.1 | 205% |
| Finance costs | -3.2 | -3.2 | 1% | -0.9 | 249% | -7.6 | -3.5 | 116% |
| Associates | -0.1 | 0.6 | -121% | 2.4 | -105% | 3.7 | 7.1 | -48% |
| JV | 0.0 | 0.0 | n.a. | 0.0 | n.a. | 0.0 | 0.0 | n.a. |
| PBT | 37.6 | 43.0 | -13% | 24.5 | 54% | 127.8 | 61.2 | 109% |
| Tax | -13.6 | -9.3 | 46% | -5.0 | 175% | -34.5 | -15.5 | 123% |
| PAT | 24.0 | 33.6 | -29% | 19.5 | 23% | 93.2 | 45.8 | 104% |
| MI | 1.2 | 1.3 | -6% | 0.2 | 458% | 3.7 | -2.1 | n.a. |
| PATAMI | 22.7 | 32.3 | -30% | 19.3 | 18% | 89.5 | 47.9 | 87% |
| Exceptionals | -2.1 | 1.0 | -310% | -0.4 | 425% | -1.5 | 0.0 | n.m. |
| CNP | 24.8 | 31.3 | -21% | 19.7 | 26% | 91.0 | 47.9 | 90% |
| DPS | 0.0 | 3.0 | -100% | 0.0 | n.a. | 3.0 | 1.3 | 140% |
| EBIT margin | 7.9% | 7.6% | | 8% | | 7.4% | 5% | |
| Pretax margin | 8% | 8% | | 9% | | 8% | 6% | |
| NP margin | 5% | 6% | | 7% | | 6% | 4% | |
| CNP margin | 5% | 6% | | 7% | | 6% | 4% | |
| Net gearing (x) | -0.1 | -0.5 | | -0.6 | | -0.1 | -0.6 | |
| Effective tax | 36% | 22% | | 20% | | 27% | 25% | |

Source: Company, Kenanga Research

| Segmental Breakdown | | | | | | | | |
|-----------------------------|--------------|--------------|-------------|--------------|------------|----------------|----------------|-------------|
| External Revenue | 3Q22 | 2Q22 | QoQ | 3Q21 | YoY | 9M22 | 9M21 | YoY |
| Construction | 418.9 | 523.0 | -20% | 255.8 | 64% | 1,529.7 | 1,026.3 | 49% |
| Precast Concrete | 50.3 | 34.9 | 44% | 16.3 | 210% | 122.1 | 76.2 | 60% |
| Total Revenue | 469.3 | 557.9 | -16% | 272.1 | 72% | 1,651.8 | 1,102.5 | 50% |
| Pre-tax Segmentation | | | | | | | | |
| Construction | 35.1 | 41.1 | -15% | 26.9 | 30% | 122.3 | 60.1 | 104% |
| Precast Concrete | 2.5 | 1.9 | 35% | -2.4 | n.a. | 5.4 | 1.2 | 358% |
| Total PBT | 37.6 | 43.0 | -13% | 24.5 | 54% | 127.8 | 61.2 | 109% |
| PAT Segmentation | | | | | | | | |
| Construction | 21.7 | 32.2 | -32% | 23.7 | -8% | 88.8 | 46.9 | 89% |
| Precast Concrete | 2.2 | 1.4 | 54% | -2.1 | n.a. | 4.4 | 1.0 | 348% |
| Total PAT | 24.0 | 33.6 | -29% | 21.6 | 11% | 93.2 | 47.9 | 95% |
| PATAMI Segmentation | | | | | | | | |
| Construction | 20.5 | 30.9 | -34% | 21.4 | -4% | 85.1 | 46.9 | 82% |
| Precast Concrete | 2.2 | 1.4 | 54% | -2.1 | n.a. | 4.4 | 1.0 | 348% |
| Total PATAMI | 22.7 | 32.3 | -30% | 19.3 | 18% | 89.5 | 47.9 | 87% |
| PBT margins | | | | | | | | |
| Construction | 8% | 8% | | 11% | | 8% | 6% | |
| Precast Concrete | 5% | 5% | | -15% | | 4% | 2% | |
| Total | 8% | 8% | | 9% | | 8% | 6% | |

Source: Company, Kenanga Research

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Sum of Parts Target Price

| Segment | 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 | 3.68 | 5.15 | 39.95% | 9,535.1 | Y | 07/2023 | 35.0 | 43.6 | 7.4% | 24.7% | 10.1 | 8.1 | 1.1 | 10.4% | 50.0 | 13.6% |
| IJM CORP BHD | MP | 1.48 | 1.68 | 13.51% | 5,200.9 | Y | 03/2023 | 8.6 | 9.2 | 26.2% | 6.9% | 17.4 | 16.2 | 0.5 | 3.8% | 6.0 | 4.1% |
| KERJAYA PROSPEK GROUP BHD | OP | 1.15 | 1.50 | 30.43% | 1,450.2 | Y | 12/2022 | 9.3 | 12.2 | 19.1% | 30.9% | 10.5 | 9.4 | 1.3 | 11.2% | 4.5 | 3.9% |
| KIMLUN CORP BHD | OP | 0.655 | 1.10 | 67.94% | 231.5 | Y | 12/2022 | 7.9 | 12.7 | 2600.0% | 59.3% | 8.5 | 5.3 | 0.3 | 4.0% | 1.5 | 2.3% |
| SUNWAY CONSTRUCTION GROUP BHD | OP | 1.43 | 1.60 | 11.89% | 1,843.8 | Y | 12/2022 | 9.8 | 9.8 | 0.4% | -0.8% | 14.5 | 14.6 | 2.7 | 19.4% | 5.0 | 3.5% |
| WCT HOLDINGS BHD | MP | 0.390 | 0.430 | 10.26% | 552.7 | Y | 12/2022 | 6.3 | 5.0 | 214.3% | -20.5% | 6.2 | 7.9 | 0.2 | 4.4% | 0.0 | 0.0% |
| Simple Average | | | | | | | | 12.8 | 15.4 | 477.9% | 16.8% | 11.2 | 10.3 | 1.0 | 8.9% | | 4.6% |

Source: Bloomberg, Kenanga Research

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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