

2Q22 in-line; margin pressure manageable so far

Quick Note

Results snapshot: SunCon reported 2Q22 net income of MYR32mn, down 6% q-q but up 288% y-y. The uptick y-y was due to lockdown in the same period last year. Therefore, a q-q comparison is more relevant for 2Q22. 1H22 net income of MYR67mn formed 57%/50% of our/Bloomberg consensus FY22F estimates. The company reported operating cash flows (OCF) of MYR48mn in 2Q22, vs negative OCF of MYR55mn in 1Q22. SunCon declared an interim dividend of 3sen per share (~1.9% yield).

Construction segment review: Construction revenue/PBT for 2Q22 were MYR523mn/MYR41mn, both down 11% q-q. New orderbook replenishment for 1H22 was MYR563mn (31%/ 28% of our/ management's full-year target). The company's outstanding orderbook currently stands at MYR4.2bn while active tender-book stands at MYR17.4bn. Construction segment PBT margins remain flat q-q at 7.9% and management expects margins to remain steady at these levels for the rest of 2022 if raw material prices continue to weaken following recent trends.

Pre-cast segment review: Precast revenue/PBT for 2Q22 came in at MYR35mn/MYR2mn (-5%/ +87% q-q). Singapore pre-cast plant is likely to commence production by end-Sep'22.

Outlook: Management maintained its orderbook replenishment target at MYR2bn for 2022. Apart from precast and internal projects by parent co Sunway Bhd (SWB MK, not rated), SunCon is targeting the soon-closing MRT3 tenders for CMC01 and CMC02 packages, and select data centre and semiconductor factory jobs to meet its orderbook targets for 2022. The tenders for MRT3 were out on 8 June 2022 and SunCon will be submitting tenders for 2 packages – CMC01 and CMC02 (CMC: Civil Main Contractor); each bidder can work on at most one package. For CMC01, SunCon is part of a three-member consortium, and for CMC02, it is part of a two-member consortium. The submission deadline for CMC01/ 02 is 30 August 2022/ 30 September 2022, respectively. As per management, the data centre and semiconductor factory job which SunCon is targeting are worth ~MYR1-1.5bn each. SunCon has also been approached for the construction of some Klang valley highways, but as these projects require financing, SunCon is currently weighing its options. The *power purchase agreement* (PPA) for large-scale solar awards (LSS4) has been extended by 4 years to 25 years to make the projects financially viable. On labour shortage, SunCon managed to obtain a quota for 400 Indonesian workers from the Ministry of Human Resources in Jun'22 and expects about 100 workers to arrive in Malaysia by early Sep'22 which should ease some pressure due to labour shortage. Management mentioned that the visa approval time in Malaysia remains a bottleneck.

Reiterate Buy: We reiterate our Buy rating on SunCon, as: 1) we think a visible pipeline of projects from the parentco and India should help with orderbook replenishment and provide better earnings visibility; additionally, the sentiment on Malaysia jobs turned positive after the government *approvals* of projects such as MRT3; 2) we believe SunCon is the best pure-play exposure within our construction sector coverage universe in Malaysia, with strong earnings to cash flow conversion, a liquid balance sheet, and high ROEs (FY22F/23F: 17%/ 19%); and 3) we expect its precast orderbook to grow again with the opening of a new precast plant in Singapore. We value SunCon at an unchanged FY23F P/E of 18x (premium valuation for an asset-light cash generative business) to arrive at our TP of MYR2.00, implying ~27% upside. The stock is currently trading at 14.1x FY23F EPS of 11sen.

Rating Remains	Buy
Target price Remains	MYR 2.00
Closing price 23 August 2022	MYR 1.55

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Fig. 1: SunCon – 1H22 results snapshot

MYR mn	1H22	NMR FY22F	as % of NMR	Cons FY22F	as % of cons
Revenue	1,183	2,392	49%	2,384	50%
Adj PBT	90	161	56%	175	52%
Adj NPATAMI	67	118	57%	132	50%
Reported NPATAMI	67	118	57%	133	50%

Source: Company data, Bloomberg Finance L.P. consensus, Nomura estimates

Fig. 2: SunCon – 2Q22 results review

MYR mn	2Q22	2Q21	% chg y-y	1Q22	% chg q-q	1H22	1H21	% chg y-y	FY22F	as % of FY22F
Revenues	558	375	49%	625	(11%)	1,183	830	42%	2,392	49%
Construction	523	349	50%	588	(11%)	1,111	771	44%	2,063	54%
Precast concrete	35	26	34%	37	(5%)	72	60	20%	329	22%
Operating profit	42	6	564%	43	(1%)	85	32	163%	150	57%
Construction	40	6	546%	42	(4%)	81	29	186%		
Precast concrete	2	0	1088%	1	73%	4	4	(3%)		
Adjusted Pretax profit	43	10	352%	47	(9%)	90	37	145%	161	56%
Construction	41	10	331%	46	(11%)	87	33	163%	155	56%
Precast concrete	2	(0)	NM	1	87%	3	4	(20%)	7	44%
Core PAT	34	6	467%	36	(6%)	69	26	164%	123	56%
Core PAT - equityholders	32	8	288%	35	(6%)	67	29	134%	118	57%
Other one-off charges	0	0	NM	0	NM	0	0	NM	0	NM
Headline NPAT - equityholders	32	8	288%	35	(6%)	67	29	134%	118	57%
Adj Pretax margins	7.7%	2.5%	5 ppt	7.6%	0 ppt	7.6%	4.4%	3 ppt	6.7%	
Construction	7.9%	2.7%	5 ppt	7.9%	0 ppt	7.9%	4.3%	4 ppt	7.5%	
Precast concrete	5.4%	(0.1%)	5 ppt	2.7%	3 ppt	4.0%	6.0%	-2 ppt	2.0%	

Source: Company data, Nomura estimates

Fig. 3: SunCon's outstanding orderbook

As of end-2Q22

MYR mn	Contract Sum		Outstanding order book	
Infrastructure/Piling				
LRT3: Package GS07-08	2,178	1,295	1,589	87
Sentual West Station		57		3
Chan Sow Lin KVMRT UG St (MEP)		54		2
Jalan Tambun		14		12
Bangsar Rising - Piling		5		4
Tasco		9		0
RTS Link Package P2A		112		104
LRT: GS06 (Piling)		1		0
KB - Kuala Krai BR1-BR7 (Piling)		2		2
LRT3: GS06		191		191
Building				
Putrajaya Parcel F		1,610		5
TNB HQ Campus		781		116
Petronas Leadership Center		305		25
Oxley Tower		68		7
IOI Mall		68		52
PNB118 PKG A&B (MEP)		8		6
Renewable energy		452		430
India				
Thorapalli Agraharam - Jittandahalli		508		458
Meensurutti - Chidambarm 32km		315		228
Internal				
Sunway Medical Centre Phase 4 + VO		612		205
Sunway Serene - Serviced Residences		413		41
Velo 2		352		51
3C4		100		55
SMC IPOH + VO		217		203
Carnival Mall Ext		286		23
SMC Seberang Jaya + VO		196		9
South Quay CP2 - Piling		198		19
SIS + VO		140		20
CP2 + CP2 (VO)		557		551
Belfield residential condo		403		332
Sunway Velocity TWO		253		208
Sunway resort hotel & Spa renovation		81		11
BKE (Seberang Jaya)		4		2
Big Box Office		51		14
SMC Damansara		240		213
Drainage works		1		1
Wellness Road & Drain		1		1
Renewable energy		8		8
Singapore				
Precast		531		402
External - New order 2022		128		128
Total		10,628		4,229
Orderbook burn rate (FY21, including internal)				2,249
Implied earnings visibility (years)				1.9

Source: Company data, Nomura research

Fig. 4: YTD 2022 orderbook replenishment

Project	Duration	Contract Sum (MYR mn)
Hougang N1C14 - PPSC project (390DU)	Feb 23-April 24	81
Fit-out works for Menara Merdeka 118 (Electrical) - Pkg A	Dec21-Aug22	4
Fit-out works for Menara Merdeka 118 (Electrical) - Pkg B	Dec21-Aug22	4
TASCO (Piling)	Jan22-May22	9
Roof top Solar	Oct-22	8
RTS Link Package P2A (ICQ Complex) - Piling	Jan 22-June 25	112
LRT3 GS06 (piling)	Mar-22	1
Yishun N3C27 - PPVC	Dec 22 - Dec 24	47
Wellness Road & Drain	Mar 22 - Jun22	1
SMC Ipoh VO	Oct-21 - Jan 24	67
Solar	Various	3
CP2 District cooling system	May 22 - Apr 25	35
KB - Kuala Krai BR1-BR7 (Piling)	Aug 22 - Nov 22	2
LRT3 GS06	Aug 22 - Sep 22	191
Total		563

Source: Company data, Nomura research

Appendix A-1

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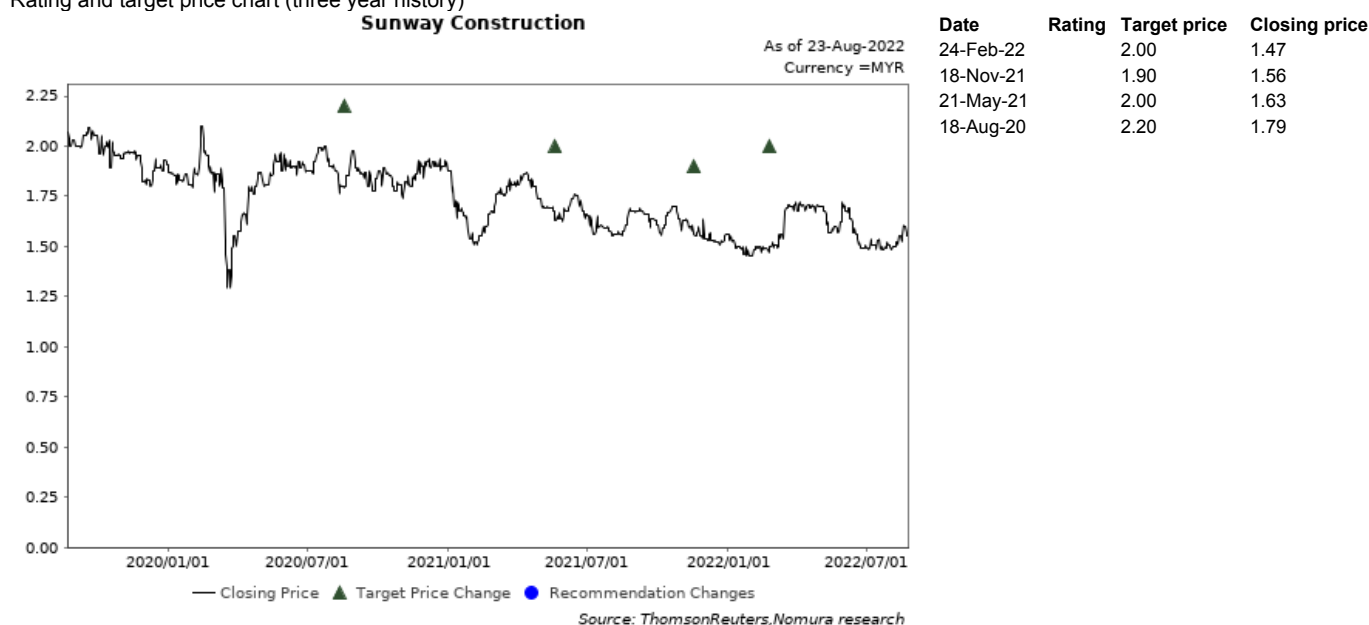
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 1.55	23-Aug-2022	Buy	N/A	

Sunway Construction (SCGB MK)

MYR 1.55 (23-Aug-2022) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value SunCon at a target P/E of 18x on FY23F earnings estimate of MYR144mn for FY23F. We arrive at our TP of MYR2.00. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

Risks that may impede the achievement of the target price Downside risks include: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

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