

3Q22 weaker q-q, projects to ramp up in 2023

Quick Note

Results snapshot: SunCon reported 3Q22 net income of MYR23mn, down 30% q-q but up 18% y-y (note: 3Q21 was a COVID-impacted quarter). The q-q decline in earnings was due to lower revenue recognized, as a backlog of projects was cleared earlier in 1H22. 9M22 net income of MYR90mn formed 76%/68% of our/Bloomberg consensus FY22F estimates. The company reported negative operating cash flows (OCF) of MYR101mn in 3Q22, vs positive OCF of MYR48mn in 2Q22.

Construction segment review: Construction revenue/PBT for 3Q22 were MYR419mn/MYR35mn, down 20%/15% q-q due to lower work in progress from new projects. However, PBT margins were up 0.5pp q-q to 8.4%, which suggests margins are still holding up despite the earlier rise in commodity costs. New orderbook replenishment for 9M22 only stands at MYR882mn (49%/44% of our/ management's full-year target), with just one month to year-end. The company's outstanding orderbook currently stands at MYR4bn while active tender-book stands at MYR17.7bn.

Pre-cast segment review: Precast revenue/PBT for 3Q22 came in at MYR50mn/MYR3mn (+44%/ +35% q-q). SunCon recently received temporary occupation permit for its Singapore pre-cast plant, which is likely to commence production in 1Q23, as per management.

Outlook: Management expects 4Q earnings levels to be similar to 3Q, which may indicate some potential consensus earnings cuts for FY22F. However, management expects revenue run-rate to pick up from 2H23 as new projects ramp-up. Although orderbook replenishment till YTD November is still well below management's 2022 target of MYR2bn, the company is optimistic of awards of lumpy jobs in coming months. On MRT3, SunCon submitted tenders for 2 packages – CMC01 and CMC02 (CMC: Civil Main Contractor), but due to political uncertainty in the country following the general elections, management is not clear when the results of tenders be announced. For now, SunCon does not seem keen on India highway projects, which require financing (hybrid annuity model), as it wants to conserve cash for MRT3. Regarding the labour shortage, recall that SunCon obtained a quota for 400 Indonesian workers from the Ministry of Human Resources in Jun'22, of which 280-290 workers have already come to the country.

Reiterate Buy: We reiterate our Buy rating on SunCon, as: 1) we think a visible pipeline of projects from the parentco and Malaysia/India jobs should help with orderbook replenishment and provide better earnings visibility; 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 ~40% upside. The stock is currently trading at 12.8x FY23F EPS of 11sen.

Rating Remains	Buy
Target price Remains	MYR 2.00
Closing price 22 November 2022	MYR 1.43

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Fig. 1: SunCon – 1H22 results snapshot

MYR mn	9M22	NMR FY22F	as % of NMR	Cons FY22F	as % of cons
Revenue	1,652	2,392	69%	2,370	70%
Adj PBT	128	161	79%	175	73%
Adj NPATAMI	90	118	76%	133	68%
Reported NPATAMI	90	118	76%	133	68%

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

Fig. 2: SunCon – 2Q22 results review

MYR mn	3Q22	3Q21	% chg y-y	2Q22	% chg q-q	9M22	9M21	% chg y-y	FY22F	as % of FY22F
Revenues	469	272	72%	558	(16%)	1,652	1,103	50%	2,392	69%
Construction	419	256	64%	523	(20%)	1,530	1,026	49%	2,063	74%
Precast concrete	50	16	210%	35	44%	122	76	60%	329	37%
Operating profit	37	22	67%	42	(13%)	122	55	124%	150	82%
Construction	33	24	37%	40	(17%)	115	53	117%		
Precast concrete	4	(2)	NM	2	53%	8	2	320%		
Adjusted Pretax profit	38	24	54%	43	(13%)	128	61	109%	161	79%
Construction	35	27	30%	41	(15%)	122	60	104%	155	79%
Precast concrete	3	(2)	NM	2	35%	5	1	358%	7	82%
Core PAT	24	20	23%	34	(29%)	93	46	104%	123	76%
Core PAT - equityholders	23	19	18%	32	(30%)	90	48	87%	118	76%
Other one-off charges	0	0	NM	0	NM	0	0	NM	0	NM
Headline NPAT - equityholders	23	19	18%	32	(30%)	90	48	87%	118	76%
Adj Pretax margins	8.0%	9.0%	-1 ppt	7.7%	0 ppt	7.7%	5.6%	2 ppt	6.7%	
Construction	8.4%	10.5%	-2 ppt	7.9%	1 ppt	8.0%	5.9%	2 ppt	7.5%	
Precast concrete	5.0%	(14.9%)	20 ppt	5.4%	0 ppt	4.4%	1.6%	3 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	73
Sentual West Station		57		1
Chan Sow Lin KVMRT UG St (MEP)		54		0
Jalan Tambun		14		11
Bangsar Rising - Piling		5		1
Tasco		9		0
RTS Link Package P2A		112		104
LRT: GS06 (Piling)		1		0
KB - Kuala Krai BR1-BR7 (Piling)		2		1
LRT3: GS06		191		138
Building				
Putrajaya Parcel F		1,610		14
TNB HQ Campus		781		53
Petronas Leadership Center		305		23
Oxley Tower		68		4
IOI Mall		68		52
PNB118 PKG A&B (MEP)		8		2
Renewable energy		452		432
India				
Thorapalli Agraharam - Jittandahalli		508		429
Meensurutti - Chidambarm 32km		315		178
Internal				
Sunway Medical Centre Phase 4 + VO		612		175
Sunway Serene - Serviced Residences		413		14
Velo 2		352		34
3C4		100		40
SMC IPOH + VO		217		131
Carnival Mall Ext		286		6
SMC Seberang Jaya + VO		196		6
South Quay CP2 - Piling		198		2
SIS + VO		140		33
CP2 + CP2 (VO)		557		545
Belfield residential condo		403		311
Sunway Velocity TWO		253		196
Sunway resort hotel & Spa renovation		81		5
BKE (Seberang Jaya)		4		1
Big Box Office		51		8
SMC Damansara		240		202
Drainage works		1		1
Wellness Road & Drain		1		1
SW Flora		278		278
Renewable energy		8		6
Singapore				
Precast		512		367
External - New order 2022		168		168
Total		10,927		4,046
Orderbook burn rate (FY21, including internal)				2,249
Implied earnings visibility (years)				1.8

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
Term Contract for large Panel Slab (LPS) Batch 3	Sep 22 - Mar 25	41
2 blocks of 45/46 storey residential condominium	Nov 22 - Oct 25	278
Total		882

Source: Company data, Nomura research

Appendix A-1

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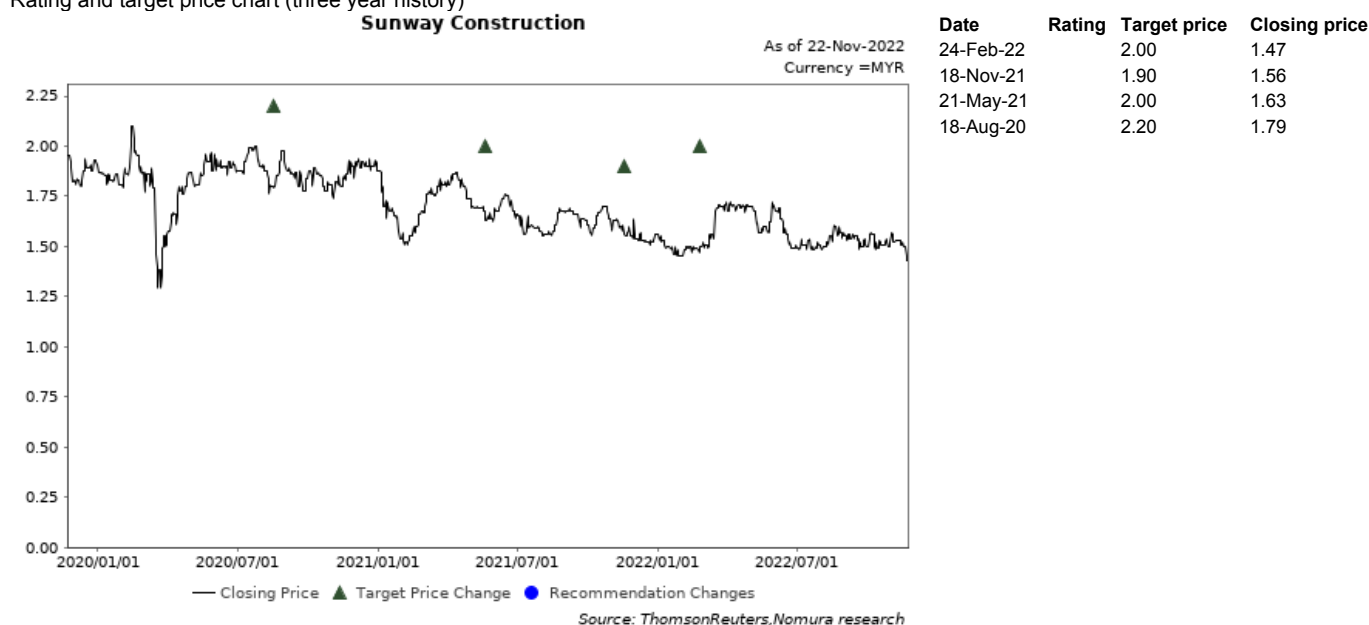
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 1.43	22-Nov-2022	Buy	N/A	

Sunway Construction (SCGB MK)

MYR 1.43 (22-Nov-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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As at 30 September 2022.

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