

Malaysia

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**ADD** (no change)

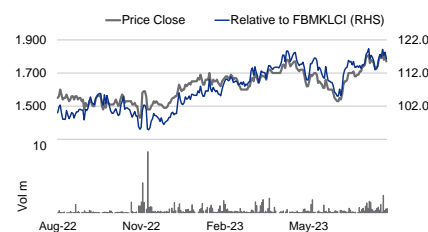
Consensus ratings\*: Buy 10 Hold 3 Sell 0

Current price:	RM1.77
Target price:	RM2.14
Previous target:	RM2.14
Up/downside:	20.8%
CGS-CIMB / Consensus:	9.3%
Reuters:	SCOG.KL
Bloomberg:	SCGB MK
Market cap:	US\$491.0m
	RM2,282m
Average daily turnover:	US\$0.16m
	RM0.75m
Current shares o/s	1,293m
Free float:	28.9%

\*Source: Bloomberg

Key financial forecasts

	Dec-23F	Dec-24F	Dec-25F
Net Profit (RMm)	141.0	167.5	195.2
Core EPS (RM)	0.11	0.13	0.15
Core EPS Growth	(1.6%)	18.8%	16.5%
FD Core P/E (x)	16.23	13.67	11.73
Recurring ROE	18.3%	19.7%	20.8%
P/BV (x)	2.83	2.57	2.31
DPS (RM)	0.055	0.065	0.075
Dividend Yield	3.11%	3.66%	4.26%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.7	2.9	12.7
Relative (%)	2	0.6	15.1

Major shareholders	% held
Sunway Berhad	54.4
EPF	9.4
Amanah Saham	7.3

Analyst(s)

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# Sunway Construction Group Bhd

## New order wins likely to surpass guidance

- 2QFY23 net profit improved 25% qoq; we expect a stronger 2H23F as newer projects will contribute more significantly then.
- YTD order wins reached RM1.6bn as at Jun 2023, on track to beat its FY23 guidance of RM2bn.
- Reiterate Add, with an unchanged SOP-based TP of RM2.14.

### 2QFY23 results in line

- Sunway Construction's (Suncon) 2QFY23 core net profit of RM32m (-14% yoy, +25% qoq) brought 1HFY23 to RM57m (-20% yoy), at 41% of our full-year forecast and 39% of Bloomberg consensus'. We deem the results to be in line as we expect earnings to pick up in 2H23F when its more recent contract wins start to contribute. We note that its FY22 core net profit was also lifted by the final certification of accounts for some construction projects and we currently assume a 3% core net profit decline in FY23F.
- A first interim dividend of 3 sen was declared and its DPS is on track to meet our FY23F DPS forecast of 5.5 sen.
- The key highlight for 2Q23 was the 29% qoq increase in precast revenue to RM69m with improvement in pretax margins to 4.7% vs. 2.5% in 1Q23. The higher revenue was due to improving productivity at its Integrated Concrete and Prefabrication Hub (ICPH) plant. Its construction division showed a 2% yoy and 14% qoq increase in construction revenue to RM536m with pretax margin stable in the 7% range.

### Strong YTD order wins; likely to beat its RM2bn guidance

- Suncon's new order wins target for FY23F is RM2bn (FY22: RM2.6bn), and it has achieved RM1.6bn as at end-June 2023. Its orderbook as at end-Jun 2023 was RM5.8bn. We believe its orderbook could reach RM12bn by end-2023F, assuming its JV company Sunway-PECC2 Consortium clinches a US\$2.4bn Vietnam power plant project, where its 55% stake would be worth RM6bn. Suncon is also a frontrunner for two civil main contractor (CMC) packages for the MRT 3 project, in our view.
- Suncon was one of 22 most recent winners of the Corporate Green Power Programme (CGPP) announced by the Energy Commission (EC) on 7 Aug. It will also be the engineering, procurement, construction and commissioning (EPCC) contractor (estimated contract size of RM130m-150m) for its CGPP project, while there will be ready offtakers from the Sunway Group of companies. It currently also has two projects under the large-scale solar bidding cycle 4 (LSS 4) where it is EPCC contractor, but may apply to be the project's asset owner at a later stage. We understand that project IRRs for the CGPP are higher than LSS 4.
- Over the past five years (FY18-FY22), Suncon had average new order wins of RM2bn p.a. and kept an orderbook of above RM5bn. This has given it 2-3 years of revenue visibility, making it less susceptible to be pressured to bid for margin-dilutive projects.
- Suncon is also trying to make inroads into the data centre and semiconductor factory space and become less reliant on traditional building projects. In FY22, Suncon clinched a RM1.7bn industrial project to build a data centre in Sedenak Tech Park, Johor, which was its largest project clinched for FY22.

### Reiterate Add and TP of RM2.14

- We reiterate our Add rating and SOP-based TP of RM2.14, equivalent to 16.5x FY24F P/E (0.5 s.d. below its mean since 2015). We like Suncon for its strong execution track record, ready pipeline from Sunway Berhad (SWB, Add, CP: RM1.90), balance sheet strength, and market-leading ROEs of 18-20% and decent dividend yields of 3-4% for FY23F-FY24F, in our view. Key downside risks are increased raw material costs and labour shortages, though these appear more contained now. Re-rating catalysts are a faster rollout of the MRT 3 and revival of the KL-Singapore high-speed rail (HSR) project.

**Figure 1: 2QFY23 results comparison and segmental breakdown yoy and qoq**

	2QFY23	2QFY22	% change yoy	1QFY23	% change qoq
	RMm	RMm		RMm	
<b>Revenue</b>	<b>604.1</b>	<b>557.9</b>	<b>8%</b>	<b>522.1</b>	<b>16%</b>
Other operating income	5.0	2.1	144%	4.9	3%
Other operating expense	-562.5	-517.6	9%	-485.3	16%
EBIT	46.7	42.4	10%	41.7	12%
Finance income	6.7	3.2	112%	4.1	64%
Finance cost	-11.5	-3.2	260%	-8.3	39%
Share of JV profits	0.3	0.6	-50%	0.0	nm
Profit before taxation	42.3	43.0	-2%	37.5	13%
Taxation	-9.0	-9.3	-4%	-8.9	1%
Net income	33.3	33.6	-1%	28.6	16%
Minority interest	-0.3	-1.3	-80%	-0.8	-67%
Attributed to shareholders	33.0	32.3	2%	27.8	19%
EI	0.7	-5.3		1.9	
Core net profit	32.3	37.6		25.9	
	2QFY23	2QFY22	% change yoy	1QFY23	% change qoq
	RMm	RMm		RMm	
Construction	535.6	523.0	2%	469.1	14%
Precast Concrete	68.5	34.9	96%	53.0	29%
Revenue	604.1	557.9	8%	522.1	16%
Construction	39.0	41.1	-5%	36.2	8%
Precast Concrete	3.2	1.9	71%	1.3	149%
Profit before taxation	42.3	43.0	-2%	37.5	13%
Construction pretax margins	7%	8%	-7%	8%	-6%
Precast concrete pretax margins	5%	5%	-13%	2%	93%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Peer Comparison (data as at 23 Aug 2023)**

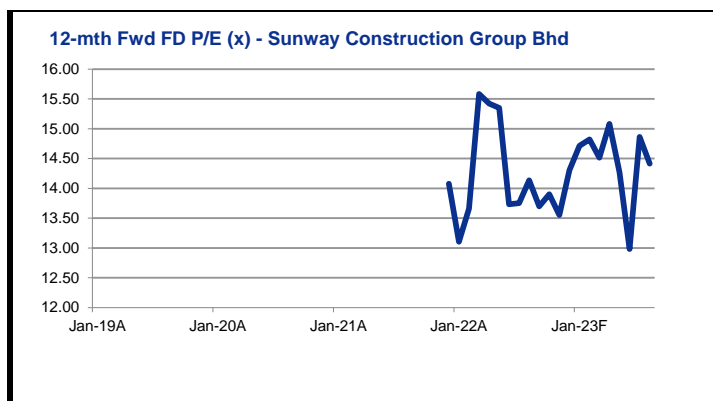
Company	Bbg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY23F	P/E (x) CY24F	P/E (x) CY25F	2-year EPS CAGR (%)	P/BV (x) CY23F	P/BV (x) CY24F	Recurring ROE (%) CY23F	Dividend Yield (%) CY23F
Gamuda	GAM MK	Add	4.48	5.58	2,567	14.8	13.8	12.5	3.8%	1.25	1.18	8.3%	7.6%
IJM Corp Bhd	IJM MK	Add	1.64	2.15	1,237	16.3	13.4	11.7	18.7%	0.57	0.56	3.6%	2.2%
WCT Holdings	WCTHG MK	Add	0.47	0.71	142	8.8	7.2	6.5	4.7%	0.16	0.16	1.9%	1.6%
Sunway Construction Group Bhd	SCGB MK	Add	1.77	2.14	491	16.2	13.7	11.7	7.4%	2.83	2.57	18.4%	3.1%
Muhibbah Engineering	MUHI MK	Add	0.74	0.90	115	22.8	10.8	8.5	na	0.40	0.39	1.8%	1.3%
HSS Engineers	HSS MK	Add	0.61	0.81	65	11.3	8.8	7.5	30.2%	1.12	0.99	10.5%	0.0%
YTL Corporation	YTL MK	Add	1.36	1.28	3,208	18.0	17.6	17.0	52.4%	1.10	1.08	6.2%	3.3%
Malayan Cement Bhd	LMC MK	Add	3.84	5.55	1,082	26.3	19.5	16.1	51.9%	0.84	0.82	3.3%	1.2%
<b>Malaysia average</b>						<b>15.8</b>	<b>11.8</b>	<b>10.2</b>	<b>8.6%</b>	<b>1.04</b>	<b>0.97</b>	<b>6.8%</b>	<b>3.2%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

## BY THE NUMBERS

Profit & Loss				
(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>2,177</b>	<b>2,553</b>	<b>2,943</b>	<b>3,333</b>
<b>Gross Profit</b>	<b>475</b>	<b>474</b>	<b>518</b>	<b>562</b>
<b>Operating EBITDA</b>	<b>221</b>	<b>218</b>	<b>259</b>	<b>301</b>
Depreciation And Amortisation	-24	-23	-28	-33
<b>Operating EBIT</b>	<b>197</b>	<b>195</b>	<b>231</b>	<b>268</b>
Financial Income/(Expense)	-4	-6	-6	-6
Pretax Income/(Loss) from Assoc.	2	2	2	2
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>195</b>	<b>191</b>	<b>226</b>	<b>264</b>
Exceptional Items	-11	0	0	0
<b>Pre-tax Profit</b>	<b>184</b>	<b>191</b>	<b>226</b>	<b>264</b>
Taxation	-45	-50	-59	-69
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>139</b>	<b>141</b>	<b>167</b>	<b>195</b>
Minority Interests	-4	0	0	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>135</b>	<b>141</b>	<b>167</b>	<b>195</b>
Recurring Net Profit	143	141	167	195
<b>Fully Diluted Recurring Net Profit</b>	<b>143</b>	<b>141</b>	<b>167</b>	<b>195</b>

Cash Flow				
(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>221.0</b>	<b>217.7</b>	<b>259.2</b>	<b>300.8</b>
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(120.5)	(67.4)	(32.4)	(33.0)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(16.3)	(17.5)	(19.5)	(21.5)
Other Operating Cashflow	(249.6)	0.0	0.0	0.0
Net Interest (Paid)/Received	(4.2)	(6.3)	(6.3)	(5.9)
Tax Paid	(45.3)	(49.5)	(58.8)	(68.6)
<b>Cashflow From Operations</b>	<b>(215.0)</b>	<b>77.0</b>	<b>142.2</b>	<b>171.8</b>
Capex	(27.1)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	450.8	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>423.7</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(50.0)</b>
Debt Raised/(repaid)	242.8	50.0	50.0	50.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid	(90.3)	(70.5)	(83.7)	(97.6)
Preferred Dividends				
Other Financing Cashflow	31.5	19.2	21.2	23.2
<b>Cash Flow From Financing</b>	<b>184.0</b>	<b>(1.3)</b>	<b>(12.5)</b>	<b>(24.3)</b>
Total Cash Generated	392.8	25.7	79.7	97.5
<b>Free Cashflow To Equity</b>	<b>451.6</b>	<b>77.0</b>	<b>142.2</b>	<b>171.8</b>
<b>Free Cashflow To Firm</b>	<b>226.8</b>	<b>46.2</b>	<b>113.4</b>	<b>145.0</b>



Balance Sheet				
(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	492	517	597	694
Total Debtors	989	1,322	1,525	1,728
Inventories	53	27	31	35
Total Other Current Assets	104	104	104	104
<b>Total Current Assets</b>	<b>1,637</b>	<b>1,969</b>	<b>2,256</b>	<b>2,561</b>
Fixed Assets	108	135	157	174
Total Investments	223	223	223	223
Intangible Assets	264	264	264	264
Total Other Non-Current Assets	3	3	3	3
<b>Total Non-current Assets</b>	<b>599</b>	<b>626</b>	<b>648</b>	<b>665</b>
Short-term Debt	172	172	172	172
Current Portion of Long-Term Debt				
Total Creditors	917	1,156	1,331	1,505
Other Current Liabilities	14	14	14	14
<b>Total Current Liabilities</b>	<b>1,103</b>	<b>1,342</b>	<b>1,517</b>	<b>1,691</b>
Total Long-term Debt	309	359	409	459
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>309</b>	<b>359</b>	<b>409</b>	<b>459</b>
Total Provisions	3	3	3	3
<b>Total Liabilities</b>	<b>1,415</b>	<b>1,704</b>	<b>1,929</b>	<b>2,153</b>
Shareholders' Equity	737	808	891	989
Minority Interests	84	84	84	84
<b>Total Equity</b>	<b>821</b>	<b>891</b>	<b>975</b>	<b>1,073</b>

Key Ratios				
	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	24.6%	17.8%	15.4%	13.3%
Operating EBITDA Growth	22.6%	(1.5%)	19.1%	16.0%
Operating EBITDA Margin	10.3%	8.6%	8.9%	9.1%
Net Cash Per Share (RM)	0.01	-0.01	0.01	0.05
BVPS (RM)	0.57	0.62	0.69	0.76
Gross Interest Cover	10.94	10.15	10.88	11.53
Effective Tax Rate	24.6%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	61.9%	50.0%	50.0%	50.0%
Accounts Receivables Days	155.7	166.1	177.8	178.8
Inventory Days	10.68	7.06	4.38	4.36
Accounts Payables Days	193.9	182.0	187.7	186.7
ROIC (%)	139%	33%	34%	36%
ROCE (%)	18.6%	15.2%	16.5%	17.5%
Return On Average Assets	7.49%	6.10%	6.32%	6.56%

Key Drivers				
	Dec-22A	Dec-23F	Dec-24F	Dec-25F
New order wins	150.0	974.0	2,180.0	2,180.0
Construction revenue	1,973.6	2,357.3	2,742.9	3,139.4
Precast revenue	181.6	181.5	186.0	180.0
Construction EBIT margins	8.5	7.5	7.7	7.9
Precast EBIT margins	9.9	10.5	10.8	11.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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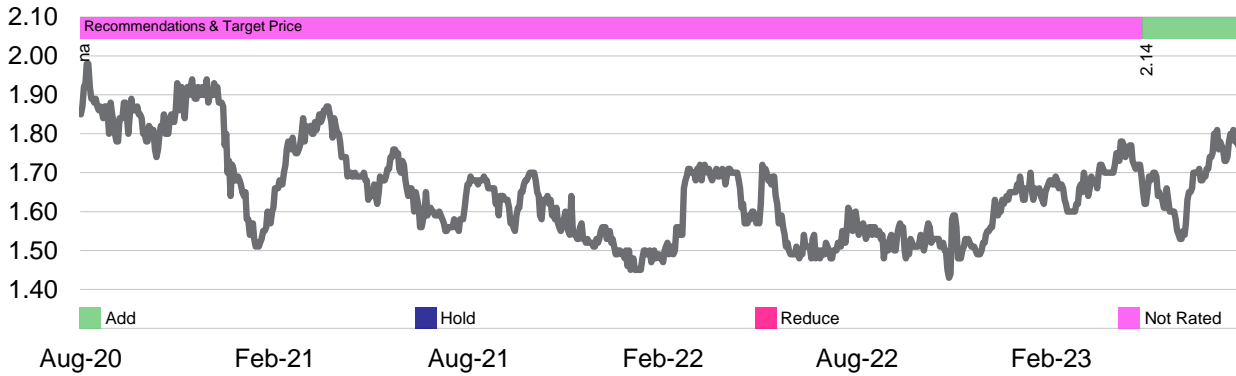
Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2023		
632 companies under coverage for quarter ended on 30 June 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.3%	0.9%
Hold	25.8%	0.3%
Reduce	8.9%	0.0%



Spitzer Chart for stock being researched ( 2 year data )

Sunway Construction Group Bhd (SCGB MK)

— Price Close



**Recommendation Framework**

**Stock Ratings**

Definition:

Add

The stock's total return is expected to exceed 10% over the next 12 months.

Hold

The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce

The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

Overweight

An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

Neutral

A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight

An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Overweight

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Neutral

A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight

An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.