SunCon

RM1.89 - OUTPERFORM

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22 November 2023

Malaysia
Infrastructure

Reuters	SCOG.KL
Bloomberg	SCGB MK
Priced on 21 November 2023	
KLSE Comp @ 1,463.4	
12M hi/lo	RM1.97/1.43
12M price target	RM2.08
±% potential	+10%
Shares in issue	1,292.9m
Free float (est.)	45.6%
Market cap	US$522m
3M ADV	US$0.3m
Foreign s'holding	1.0%

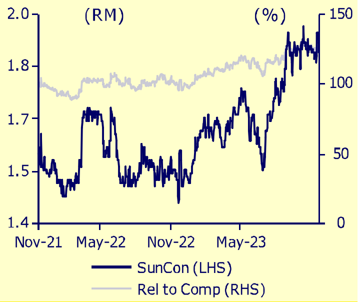
Major shareholders
Sunway Berhad 54.4%
Sungei Way Corp Sdn Bhd 10.1%

Blended ESG Score (%)*	
Overall	66.5
Country average	56.5
GEM sector average	58.5

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(0.5)	5.0	30.3
Relative	(1.8)	4.1	29.0
Abs (US$)	(1.7)	3.8	27.1



Source: Bloomberg

Results review

Steady top-line improvement

Revenue acceleration intact with margins stable overall

Adjusting mainly for a RM2.8m impairment, core PATMI for 3Q23 came in at RM37.9m. On a core basis, 9M23 was a mild 2% lower YoY, at RM96.1m, forming 68%/69% of CLSA/Consensus forecasts. We consider this to be in line. Having already met this year's job win target, SunCon can focus on execution and, in the past, it has been adept at catching up in the final quarter of the year. Over the past five years, the 4th quarter has produced 30% of work done, on average. We maintain our target price of RM2.08 and our O-PF rating.

- **Construction revenues momentum intact.** We note that 3Q23 construction revenue rose 41% YoY due to accelerated progress in newer projects, marking a fourth straight quarter of rising revenue.
- **Comparable margins local and abroad.** The construction segment margin in Malaysia and India is fairly comparable for 9M23, at 7.4% and 7.3%.
- **Precast margins improved.** Operating leverage for the precast segment kicked in, with pre-tax margin expanding to 7.8% in 3Q23 (2Q23: 4.7%). We understand this reflects margins of pre-cast products sold in the phase of less price competition, ie, better ASPs. Although we gather that performance was also boosted by a reversal of provisions on completed projects.
- **Order book stable QoQ.** The outstanding order book of RM5.8bn was essentially unchanged QoQ, as 3Q saw several job replenishments (see this *note*). The active tender book also saw few changes, standing at RM26.4bn. On the precast segment, we noted new wins picked up in 3Q23 of cRM100m.
- **This year's guidance already exceeded.** SunCon pencilled in YTD RM2.2bn of order book wins, which we have previously said met our expectation. Company guidance of RM2bn this year is unchanged while guidance for 2024 has not yet been unveiled (we have RM2.2bn in 2024). SunCon has already delivered more than RM800m of internal jobs currently, explaining why the pipeline is less vibrant for now (although there are still opportunities ahead to participate in mall development).
- **Some risk on revenue from data centres.** Risks to our FY24 earnings, which are higher than consensus, include still-slow revenue billings in its largest data centre contract. Recall earlier that SunCon had announced that the project owner was given until end-December to negotiate specifications with the new end-user.
- **No new updates.** Separately, SunCon previously indicated that it may start work on the Vietnam power plant project, which may expose it to slight risk. There have been no new updates on this project, to our knowledge.
- **Dividends.** No dividends were declared this quarter.
- Our TP of RM2.08 is based on 14x PE multiple on FY25 earnings. We maintain O-PF.

Financials

Year to 31 December	21A	22A	23CL	24CL	25CL
Revenue (RMm)	1,729	2,155	2,562	2,888	2,776
Net profit (RMm)	113	142	142	178	188
EPS (sen)	8.7	11.0	11.0	13.7	14.5
CL/consensus (13) (EPS%)	-	-	100	110	107
EPS growth (% YoY)	54.7	26.4	(0.4)	25.2	5.8
PE (x)	21.7	17.2	17.2	13.8	13.0
Dividend yield (%)	2.8	2.9	3.5	4.0	4.2
FCF yield (%)	7.5	(14.4)	(4.5)	4.8	2.8
PB (x)	3.5	3.3	3.1	2.8	2.5
ROE (%)	16.9	19.8	18.5	21.2	20.4
Net debt/equity (%)	(63.9)	(1.3)	20.0	18.2	22.4

Source: www.clsa.com

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Great
Solid
Meh

 For important disclosures please refer to page 3.

Figure 1

SunCon: Financials

FYE 31 Dec (RMm)	3Q23	3Q22	YoY % Chg	2Q23	QoQ % Chg	9M23	9M22	YoY % Chg
Revenue	673.5	469.3	44%	604.1	11%	1,799.7	1,651.8	9%
Operating expenses	(622.8)	(440.8)	41%	(562.5)	11%	(1,670.5)	(1,541.5)	8%
Other income	3.4	8.5	(60%)	5.0	(33%)	13.3	11.9	12%
EBITDA	59.3	42.7	39%	52.0	14%	158.2	140.4	13%
Depreciation	(5.2)	(5.8)	(11%)	(5.3)	(2%)	(15.7)	(18.2)	(14%)
EBIT	54.1	36.9	n.m.	46.7	16%	142.5	122.2	17%
Interest income	7.0	4.1	73%	6.7	4%	17.8	9.5	89%
Interest expense	(13.0)	(3.2)	304%	(11.5)	14%	(32.7)	(7.6)	334%
JV/Associate	-	(0.1)	n.m.	0.3	(100%)	0.3	3.7	(91%)
Pre-tax profit	48.1	37.6	28%	42.3	14%	127.9	127.8	0%
Tax	(12.6)	(13.6)	(8%)	(9.0)	40%	(30.5)	(34.5)	(12%)
Effective tax rate	26.2%	36.3%	n.m.	21.3%	n.m.	23.8%	27.0%	(12%)
Minority interest	(0.50)	(1.24)	(60%)	(0.3)	88%	(1.6)	(3.7)	(57%)
Net profit	35.0	22.7	54%	33.0	6%	95.8	89.5	7%
EPS (sen)	2.72	1.76	55%	2.56	6%	7.4	7.0	7%
EBIT margin	8.0%	7.9%		7.7%		7.9%	7.4%	
PBT margin	7.1%	8.0%		7.0%		7.1%	7.7%	

Source: CLSA

Figure 2

SunCon valuations

PE method of valuation	Current
Earnings (25CL)	188
Multiple applied	14
(a) Total for construction + precast	2,630
(b) Solar*	64
(c) Total	2,694
Number of shares (unit million)	1,293
Value per share/TP (RM)	2.08

Source: CLSA

Valuation details

Our target price is derived from 14.0x 24CL earnings, one standard deviation above the 10-year mean PE for the KL Construction index. We accord an above-sector average PE, given the company's flow of internal jobs and strong balance sheet. We also include solar segment valuations based on 21 year concession and a WACC of 7%.

Investment risks

The main concern is construction risk. Specific risks include lower-than-expected margins (below 5-8%) or if the amount of projects secured falls below our expectation, either due to an inability to secure projects or project rollout delays. Higher-than-expected steel price increases could cut into margins as SunCon hedges steel needs for a future six-month period. On the precast segment, another risk is margin recovery timing, currently in the doldrums due to competition. Prolonged Covid-19 could also reduce operating efficiency.

Companies mentioned

SunCon (SCGB MK - RM1.89 - OUTPERFORM)

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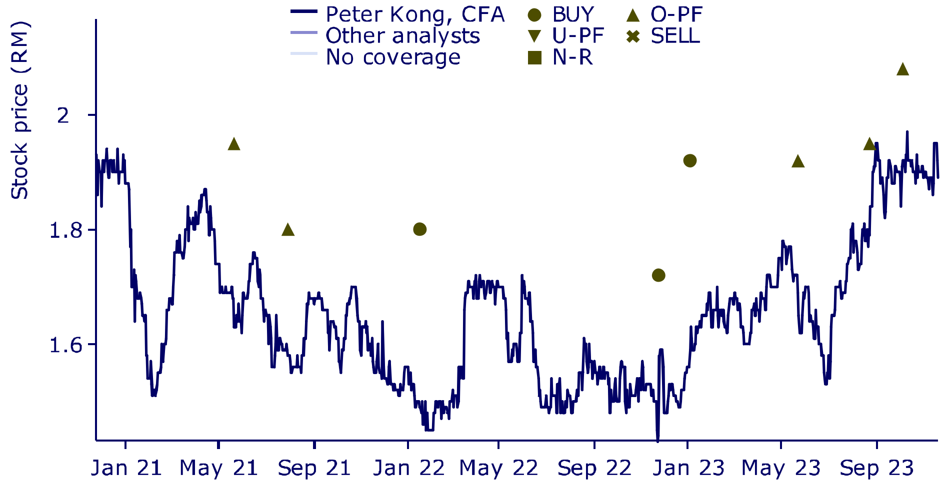

Date	Rec	Target	Date	Rec	Target
06 Oct 2023	O-PF	2.08	23 Nov 2022	BUY	1.72
24 Aug 2023	O-PF	1.95	17 Jan 2022	BUY	1.80
23 May 2023	O-PF	1.92	30 Jul 2021	O-PF	1.80
03 Jan 2023	BUY	1.92	21 May 2021	O-PF	1.95

Source: CLSA

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